Chapter 2

Background

2.1 This chapter provides an overview of the Commonwealth's ambition to establish an indigenous naval shipbuilding enterprise in Australia and outlines some major developments following the tabling of the committee's third report in July 2015.

2.2 Since the committee's last report, the government has made a series of announcements supporting the implementation of a continuous Australian naval shipbuilding industry worth $89 billion. These announcements, which were formalised in the government's Naval Shipbuilding Plan (NSP) published in May 2017, commit to the construction of naval vessels in Australia, as well as infrastructure upgrades and governance matters.

2.3 The government's commitment to a continuous shipbuilding program is based on three build programs for submarines, major surface combatants (frigates and destroyers) and minor naval vessels, including:

- A rolling acquisition of submarines, commencing with the Future Submarine Program (SEA 1000)—a rolling acquisition program of 12 future submarines worth up to $50 billion, with construction commencing from 2022 to 2023 at the Osborne Naval Shipyard;

- A continuous build program for major surface combatants, commencing with the Future Frigate Program (SEA 5000)—a continuous build of nine major surface combatants, with construction also at Osborne Naval Shipyard commencing from 2020 worth up to $35 billion; and

- A continuous build program for minor vessels, commencing with the Pacific Patrol Boat Replacement Program (SEA 3036) in 2017 and the Offshore Patrol Vessel Program (SEA 1180) from 2018. The construction of 21 Pacific patrol boats will take place at Austal's facility at the Henderson Maritime Precinct in Western Australia, and construction of the first two offshore patrol vessels will be at the Osborne Naval Shipyard before transferring to the Henderson Maritime Precinct for the build of the remaining 10 vessels in 2020. The Pacific Patrol Vessel Replacement program has been costed at $280 million\(^1\) and the Offshore Patrol Vessel Program at up to four billion dollars.

2.4 A detailed study of key documents, including the NSP and related documents, is provided in Chapter 3.

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1 Department of Defence, *Answers to question on notice*, Question reference no. 6, 20 June 2017 hearing (received 25 October 2017).
The naval shipbuilding plan's program

2.5 These three major naval shipbuilding programs will co-exist with three significant current naval programs: the Hobart Class Destroyer (also known as the Air Warfare Destroyer or AWD) and the continuing sustainment of the Collins Class submarines and ANZAC Class frigates.²

Future Submarine Program (SEA 1000)

2.6 The Future Submarine Program (FSP) involves the construction of 12 military-off-the-shelf design diesel-electric submarines at the cost of $50 billion. The cost of sustainment for the fleet was estimated to be in the order of another $50 billion.³ The submarines will be constructed at the Osborne Naval Shipyard in South Australia, commencing from 2022 to 2023, with the first submarine expected to enter service in the early 2030s. The last is expected to be constructed sometime in the late 2040s and sustainment to the end of the 2080s.⁴ These submarines will replace the existing diesel-electric Collins Class submarines.⁵

2.7 The selection of Naval Group of France (formerly Direction des Constructions Navales or DCNS) as the preferred international partner for the submarine's design on 26 April 2016⁶ involved a competitive evaluation process.⁷ As part of the process, participants provided an Australian Industry Plan that identified how Australian industry involvement could be maximised during the program.⁸ The other two invited

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³ Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, p. 32. Rear Admiral Sammut, Head Future Submarine Program, placed a caveat on the information he provided by adding that Defence was 'still in the design process for the future submarine and that many of the detailed costs of acquisition and sustainment will be determined during the design process through the choices made'.

⁴ Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9; Department of Defence, Naval Shipbuilding Plan, 16 May 2017, p. 26.


⁶ Senator the Hon Marise Payne, Minister for Defence, 'Prime Minister, Minister for Defence – Future submarine program', Media release, 26 April 2016.


international participants were ThyssenKrupp Marine Systems (TKMS) of Germany, and the Government of Japan.

2.8 The selection of Lockheed Martin Australia as the preferred combat system integrator for the submarines, also through a competitive evaluation process, occurred in parallel with the selection of a partner for building the new submarines.9

2.9 The acquisition and procurement process for the submarine program was the subject of the committee's second report. Due to Australia's unique requirements, there is no military-off-the-shelf (MOTS) option that exists to replace Australia's submarine fleet.10 As a result, and reflecting the government's policy, the FSP is not subject to MOTS design constraints and will be a developmental acquisition.11 Despite criticism about the procurement process, the Australian National Audit Office (ANAO) found Defence had 'effectively designed and implemented a competitive evaluation process to select an international partner for the Future Submarine program'.12 However, in the most recent ANAO report Naval Construction Programs—Mobilisation, the Auditor General had concerns relating to issues of governance, program costs, and risk management.13 These issues are examined in detail below.

2.10 On 20 December 2016, the governments of Australia and France signed an agreement on the Future Submarine Program to establish a framework between the two nations for the development of the Australian navy's new fleet of submarines.14

2.11 The framework was the subject of an inquiry by the Joint Standing Committee on Treaties (JSCOT) and a report was tabled on 13 April 2017.15 The report noted that

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9 Subject to further discussion on commercial matters, on 30 September 2016, the Minister for Defence and Minister for Defence Industry announced that Lockheed Martin Australia had been selected. The Hon Christopher Pyne MP, Minister for Defence Industry, 'Combat System Integrator for Future Submarines', Media release, 30 September 2016.

10 Senate Economics References Committee, Part II: Future of Australia's naval shipbuilding industry – Future submarines, November 2014, pp. 37-43. Evidence before the committee indicated that there was not anything available that had the range and mobility to match Australia's needs. Any modification to an existing submarine is not a simple exercise and would mean a complete redesign with the accompanying time, costs and risks. Furthermore, there is a reluctance of overseas countries to relinquish their most advanced technology and this means in some instances that a submarine sold by a company resident in a country is not the same submarine exported overseas.


14 Senator the Hon Marise Payne, Minister for Defence, 'Australia and France sign Future Submarine Inter-Governmental Agreement', Media release, 20 December 2016. This treaty was tabled in Parliament on 7 February 2017.
the agreement was not an agreement to design or build the submarines, rather, it was an agreement to establish a framework for cooperation to support the delivery of the submarine program.\footnote{Joint Standing Committee on Treaties, \textit{Report 169–Future Submarine program – France, Classified Information Exchange – France}, April 2017, also available at \url{http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Treaties/FutureSubmarine-France/Report_169}} The report recommended that the Department of Defence learn the 'full lessons' from the Collins submarine shipbuilding experience, including:

- how to appropriately manage the FSP's associated intellectual property;
- that future submarine agreements must allow Australian companies to bid for work; and
- that binding treaty action must be taken.\footnote{Joint Standing Committee on Treaties, \textit{Report 169}, April 2017, pp. xvii-xviii.}

2.12 In the government's response on 20 November 2017, it agreed with four of the five recommendations contained in the report, one of which was in-principle, and noted the remaining recommendation. In relation to the recommendation that the government bring forward its work program to connect state and federal law enforcement and judicial information systems with the personnel security clearance systems, the government noted that work was underway to 'improve the use and access to relevant information to improve vetting decision making'. Full recommendations are available in Appendix 8.


2.14 As CEO, Mr Davis will lead Naval Group Australia through the design and building of the submarines and the design of a new submarine shipyard at the Osborne
Mr Billig, as executive vice president of the future submarine project for Naval Group is responsible to the parent company's CEO (Naval Group) for the program. The board of the Naval Group France has the ultimate authority to approve the Strategic Partnership Agreement (SPA), although most negotiations will be undertaken between the Commonwealth government and the executive vice president of the Australian Future Submarine Program for Naval Group. Defence has advised that the CEO of Naval Group Australia (currently Mr Billig as acting CEO) also participates in these negotiations. The CEO of Naval Group only gets involved when matters escalate.

2.15 At the committee's most recent hearing on 7 June 2018, Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, provided an update on the work the company was undertaking since it was confirmed as the successful tenderer. Mr Clark informed the committee the program was currently progressing through concept design on schedule, which involved establishing the initial length, diameter and displacement of the submarine ahead of the submarine design phases.

2.16 Mr Clark added:

We are working with the Commonwealth on the components and systems that will be required for the submarine. The first stage of the submarine design, known as the functional analysis, was completed on schedule in October 2017, culminating in a successful preliminary system requirements review. We have finalised our Australian Industry Capability Plan, which will detail our early work to honour our commitments to maximise Australian industry involvement, particularly including SMEs [small and medium-sized enterprises].

2.17 The committee was disappointed to hear that Strategic Partnership Agreement (SPA) is still under negotiation, placing enormous cost and scheduling


22 See also Rear Admiral Gregory Sammut, Head Future Submarine Program, Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, p. 56.

23 The Commonwealth is represented by Rear Admiral Sammut, the lead negotiator, and his team in the Department of Defence's Capability, Acquisition and Sustainment Group (CASG). See Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, p. 56.

24 Rear Admiral Gregory Sammut, Head Future Submarine Program, Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, p. 56. See also Senate Foreign Affairs, Defence and Trade Legislation Committee, Committee Hansard (Additional Estimates), 28 February 2018, p. 40.

25 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9.

26 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9.
pressures on work programs reliant on a completed SPA. The SPA is the head contract that sets out the terms and conditions that will endure for the life of the FSP's acquisition, and covers matters that go into more detailed design of the submarine which will take place in the future as well as the production of the submarines.

2.18 Vice Admiral Ray Griggs, Vice Chief of the Defence Force, explained the contract's architecture and complexity, stating that:

[The SPA is] an overarching contract, under which there will be program contracts that cover various phases of the program. And given the complexity and length of this program, we do want the flexibility to make sure that we structure our contracts for various phases most appropriately so that we can properly manage risk and exposure of the Commonwealth as we proceed forward. That means that with the strategic partner agreement, the first program contract that will sit under that, will be the design contract, which will help us complete the basic design of the submarine. We then envisage that, after that, we'll be able to place a program contract, again sitting underneath the strategic partner agreement, under which the overarching terms and conditions have already been negotiated before we enter all of these contracts, a program contract following design for detailed design and production of the first boat. And then we have the option, of course, of placing further contracts for additional submarines that we can price accordingly and manage risk with the right pricing mechanisms and the right contract structure to best deliver those programs in a value-for-money way.

2.19 The committee heard on 7 June 2018 that Defence has been in negotiations with Naval Group on the agreement since November 2017 and anticipates that those negotiations will conclude before the middle of 2018. 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. This was confirmed by Mr Clark's evidence before the committee where he acknowledged the lack of a completed SPA will delay the transfer of background intellectual property and information between the Commonwealth, Naval Group Australia and Lockheed Martin. Mr Clark noted that although parties can continue to transfer information to

27 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 13.
29 Vice Admiral Ray Griggs, Senate Foreign Affairs, Defence and Trade Legislation Committee, Committee Hansard (Additional Estimates), 28 February 2018, p. 41.
31 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 16.
themselves, they cannot do this between each other. Ultimately, Mr Clark advised, the absence of a SPA 'would slow the program down'.

2.20 The committee's concern about the lack of an SPA is heightened by the news that Naval Group Australia has appointed its third CEO in 18 months, which could cause further delay and disruption to the SPA negotiations.

2.21 In response to questions in relation to whether the FSP's $50 billion cost was referenced in constant or out-turned prices, Defence clarified that the acquisition cost as quoted in the Integrated Investment Program was $50 billion on a constant price basis. The constant cost does not take into account the rate of inflation. If the figure was out-turned at 2.5 per cent inflation, the total cost according to independent analysis, would be $79 billion. The sustainment cost would also be higher than the $50 billion figure provided—rising to approximately $124 billion out-turned cost at a 2.5 per cent inflation rate. The total cost of the continuous shipbuilding program could also jump from $89 billion dollars to around $200 billion in out-turned dollars.

2.22 The committee heard that over the next four years, Lockheed Martin, which is working in partnership with Naval Group, 'will establish the combat system testing and integration facility to test the capabilities that will contribute to the submarines' lethality and regional superiority'. In conjunction to this, Naval Group will 'build a land based propulsion and testing facility to derisk the submarine's propulsion system, which is a sophisticated piece of engineering that attempts to reduce the noise signature of the diesel-electric propulsion system'.

32 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 16.

33 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 16.


38 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 9.

39 Mr Brent Clark, Senior Advisor to the Chairman, Naval Group Australia, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 10-11.
Concerns have been raised by some witnesses regarding the viability of using pump-jet propulsion on a conventional electric-diesel powered submarine. Naval Group and Defence officials dismiss these concerns. Naval Group's Chairman Hervé Guillou stated that pump-jet propulsion means the submarine can 'move more quietly than those with obsolete propeller technology'. Similarly, the Head of the Future Submarine Program, Rear Admiral Greg Sammut commented that pump-jet propulsion 'can be efficient across the entire speed range, taking account of submarine's size, the speed required and stealth'.

The Department of Defence has responded to these concerns in answers to written questions on notice and at the most recent committee hearing on 7 June 2018. Defence has agreed to provide the committee a response to Mr Aidan Morrison's evidence critical of Defence's choice of pump-jet propulsion for a conventionally-powered submarine.

**Future Frigate Program (SEA 5000)**

The Future Frigate Program involves building nine frigates locally at the Osborne (south) shipyard in South Australia at a cost of $35 billion. The program, which will incorporate anti-submarine warfare and air warfare capabilities, will contribute to border control and anti-piracy patrols. The government brought forward the future frigate program to replace the existing eight ANZAC Class frigates.
with a continuous onshore build program that commences in 2020 instead of 2023\textsuperscript{45}, with the delivery of the ninth future frigate in 2038.\textsuperscript{46} The earlier start date was to help address the capability gap between the construction of three Air Warfare Destroyers (AWDs) and nine future frigates.\textsuperscript{47}

2.26 The procurement process for the future frigate program is based on the selection of an existing frigate design following a competitive evaluation process. This is in contrast to the procurement process for the FSP, which involved a new off-the-shelf design to meet Australia's unique submarine capability requirements. Accordingly, while the design of the future submarine is expected to continue until 2026 (with build starting in 2022–23 once 85 per cent of the design is completed), the construction of the future frigate is expected to commence in 2020.\textsuperscript{48}

2.27 The announcement of the successful designer for the future frigate program is due by the end of June 2018. The committee has serious concerns that there will be minimal participation from the Australian shipbuilding industry. These concerns follow the government's release of the program's request for tender documents which do not require the three shortlisted foreign designers (BAE, Fincantieri and Navantia)\textsuperscript{49} to subcontract Australian businesses in their proposals.\textsuperscript{50}


\textsuperscript{46} Department of Defence, \textit{Naval Shipbuilding Plan}, 16 May 2017, pp. 16 and 110.

\textsuperscript{47} The Hon Kevin Andrews MP, then Minister for Defence, 'The Government's plan for a strong and sustainable naval shipbuilding industry', media release, 4 August 2015. The earlier start date is also in line with the recommendation of the RAND Corporation's 2015 report \textit{Australia's Naval Shipbuilding Enterprise Preparing for the 21st Century}.


\textsuperscript{49} On 18 April 2016, the Minister for Defence announced the three designers BAE, Fincantieri and Navantia had been shortlisted. On 31 March 2017, the Hon Christopher Pyne MP, Minister for Defence Industry, announced that the request for tender for the future frigates program had been released to three designers shortlisted. See Senator the Hon Marise Payne, Minister for Defence, 'Continuous Naval Shipbuilding', \textit{Media release}, 18 April 2016; The Hon Christopher Pyne MP, Minister for Defence Industry, '$35 billion Future Frigate Tender', \textit{Media release}, 31 March 2017. For a discussion on the merits of each of the three tenderers, see Ben Packham, 'The fight for our frigate', \textit{The Australian}, 11 May 2018, p. 15; Andrew Tillett, 'Austral, ASC tipped to be thrown lifeline for $35 billion frigate build', \textit{Australian Financial Review}, 19 June 2018, https://www.afr.com/news/austral-asc-tipped-to-be-thrown-lifeline-for-35b-frigate-build-20180619-h11kr0 (accessed on 22 June 2018).

Evidence presented before the committee and reported in the media indicated that the absence of a requirement to use Australian businesses has already had an adverse effect on local shipbuilders Austal and the ASC. Both these shipbuilders have entered a partnership arrangement with each other to lobby for a major share of the future frigate project. Prior to the release of the tender documents, Austal reported a strong interest from the three tenderers for the company, in partnership with the ASC, to be involved in the project. However, these companies lost interest when it became clear they were not required to include local industry involvement.51

Mr Singleton stated that prior to the release of the tender documents the company was 'heavily involved with the bidders in developing an Australian shipbuilding solution for the project'.52 The attitude from these companies towards Austal changed when the documents became public. Mr Singleton added:

When the [Request for Tender] came out, that was really the end of that engagement between us and those companies. ....There was something about the RFT that seemed to draw the foreign shipbuilders away from continuing the dialogue with ourselves.53

This belief was supported by Mr Bruce Carter, Chairman, ASC Pty Ltd and ASC Shipbuilding Pty Ltd:

We had strong engagement with the three potential designers. I visited each of the yards. We had management working with them. We approached them in the same manner that we approached the three potential designers for the submarines, in an equal manner and very observant of the appropriate protocols and probity. Once the RFT went out, the request the tender, the level of inquiry with those three reduced significantly.

...In terms of what was in the tender documents, the companies got the tender documents, we sought to engage and they said, 'If we want to engage with you, we will,' and the engagement slowed down.54

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54 Senate Economics References Committee, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 13 October 2017 2018, p. 25.
Participation by Australian shipbuilders in the frigate program was further undermined by evidence that Defence had contacted the shortlisted tenderers to advise them to disregard ASC and Austal's teaming arrangements. Contact between Defence and each of the designers was acknowledged by Mr Gillis:

I actually called in the three tenderers...What I did was reiterate a letter that we had sent them which was that the tender requirements are extant, they haven't changed and that's all we said to them.

The committee heard from witnesses that the government's intervention via Defence disadvantaged both Australian shipbuilders' engagement with the three shortlisted tenderers.

The government's decision not to require participation from Australian shipbuilders in the future frigates' construction undermines the government's publicly stated commitment to the local shipbuilding industry and its workforce. This decision by the government runs counter to the development of domestic and sovereign capability.

The committee heard that Defence remained committed to the future frigates program running on schedule at its Canberra public hearing on 20 June 2017. Rear Admiral Jonathan Mead, Head, Naval Capability, stated that Defence were seeking to minimise changes to the future frigate design to stay on schedule. He noted that consistent with the RAND report, it was important to limit any risk to the project by having both the designer and builder working together with any design changes and to minimise any design changes.

The procurement of a designer for the future frigates is taking place concurrently with sustainment work on the existing fleet of ANZAC frigates over the next eight years. The sustainment work, to be undertaken in Henderson, Western Australia, is worth $2 billion. The work will be conducted by BAE Systems Australia Defence Pty Limited, Saab Australia Pty Ltd, Naval Ship Management Australia Pty Ltd (a joint venture between UGL and Babcock), and the Commonwealth. According

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56 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 13 October 2017, p. 43.
58 Rear Admiral Jonathan Mead, Head, Navy Capability, Department of Defence, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, pp. 23–24.
59 On the 29 April 2016, the government announced that they had signed a contract for the sustainment of the existing ANZAC Class Frigates. See Senator the Hon Marise Payne, Minister for Defence, 'ANZAC Class Frigate sustainment', *Media release*, 29 April 2016.
to the Defence Minister, this partnership will streamline a number of existing contracts for the whole-of-life sustainment for the ANZAC Class frigates.  

2.36 The committee believes that it is not too late to include a mandatory requirement that Australian businesses be involved in the future frigate program. The committee heard that involving an Australian subcontractor would not slow down the development of the frigate program, indeed it would accelerate the development of the frigate program. Mr Singleton, Austal, told the committee that:

> If there is a requirement to use Australian shipbuilding capability in these programs, I would imagine that would be highly beneficial to the program both in its cost and in its speed of execution.

2.37 Due to the compressed schedule for the build of the future frigates, concerns were raised in the ANAO's recent report about the program's ability to meet its schedules and the delivery of the program's expected capability within budget, especially in the absence of a detailed risk management plan. This is discussed further in Chapter 3.

**Pacific Patrol Boat Replacement Program - Pacific Maritime Security Program (SEA 3036)**

2.38 The Pacific Patrol Boat Replacement Program, valued at more than $500 million, involves the construction of 21 steel-hulled Pacific Patrol Boats (PPB) at the Austal shipyard in Henderson, Western Australia. Of the 21 boats, 19 will replace the existing fleet of PPB as part of Australia's new Pacific Maritime Security Program. All 19 boats will be gifted to 12 Pacific Island countries as part of Australia's commitment to strengthening the capabilities of Pacific Island countries to protect their national sovereignty and resources and act in support of regional security. These boats will be used to conduct maritime surveillance and enforcement operations, such as combating illegal fishing. The remaining two vessels were offered to Timor-Leste as part of the new Pacific Maritime Security Program.

2.39 On 4 May 2016, the government signed a contract with Austal to design and construct the first 19 vessels. In addition, Austal was also awarded a $24 million

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60 Senator the Hon Marise Payne, Minister for Defence, 'ANZAC Class Frigate sustainment', Media release, 29 April 2016.

61 Senate Economics References Committee, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 27.


contract to provide support services to the replacement vessels for an initial seven-year period.65

2.40 On 24 February 2017, Austal advised that the Detailed Design Review for the PPB had been successfully completed on time and in accordance with the contracted schedule. Construction commenced in Western Australia in April 2017, with deliveries scheduled from 2018 to 2023. On 26 April 2017, the Australian company contracted by Austal, HD Plasma and Laser Cutting Services, commenced cutting steel for the first boat.66 Sustainment of the new fleet of vessels will occur at Austal's facility in Cairns, Queensland.67

2.41 The first of the 21 new boats, named Guardian Class, was launched on 30 May 2018 at Henderson in Western Australia. According to Austal, the Guardian Class PPB project supports around 400 jobs either directly or indirectly or through the supply chain. According to the Minister for Defence industry's media release, construction of the second and third vessels is underway and scheduled for delivery at approximately three-month intervals from late 2018 until 2023.68 This timeline is ahead of the schedule in Naval Shipbuilding Plan — which anticipated the delivery of the first PPB to occur in 2019 and the final boat expected in 2025.

**Offshore Patrol Vessel Program (SEA 1180)**

2.42 The Offshore Patrol Vessel Program involves the construction of 12 offshore patrol vessels (OPVs) to replace the current fleet of 13 Armidale Class patrol boats. The OPV program, which is worth up to $4 billion, will provide greater range and endurance than the existing Armidale Class fleet. These vessels will be capable of undertaking several different roles, including enhanced border protection and patrol missions over greater distances than is currently possible.69

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2.43 The prime contractor Luerssen\(^{70}\) of Germany was selected to design and build the vessels following a competitive evaluation process with two other contenders (Damen and Fassmer).\(^{71}\) The first two OPVs to be built in Adelaide will utilise the ASC’s existing AWD workforce and the remaining 10 OPVs will be built with Civmec (Forgacs Marine and Defence Pty Ltd). The government also identified work for Austal, following its unsuccessful bid with Fassmer. Austal’s inclusion was 'subject to commercial negotiations'.\(^{72}\) On 11 May 2018, Luerssen announced that following negotiations between the parties since December 2017, it had not been able to reach a viable commercial agreement and will revert to the original intent of the contract with Defence,\(^{73}\) which was to work with Forgacs (a wholly owned subsidiary of Civmec) to build the 10 offshore patrol vessels at the Henderson precinct.\(^{74}\) Defence has advised that Civmec will be publicly listed in Australia and will have Australian leadership, with the former Chief of Navy as the CEO of the new joint venture.\(^{75}\)

2.44 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. Even the use of a facilitator, Mr John Grill, was to no avail.

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70 There is an inconsistent approach to the spelling of the German shipbuilder Luerssen, also spelt Lurssen. Except where direct quotations have been used, for consistency, this report uses the former spelling.

71 ABC website, 'Navy Offshore Patrol Vessels to be built in WA and SA by German company Luerssen', 24 November 2017, [http://www.abc.net.au/news/2017-11-24/offshore-patrol-vessel-contract-awarded-to-german-firm-luerssen/9188426?utm_source=smc&utm_medium=email&utm_campaign=%3a8935&user_id=1e67a2b6f5429422d42e42ce0ca232a7f33aa375eae12c67ee403c72a5935a9&WT.tsrc=email&WT_mc_id=Email%7c%7c8935&utm_content=ABCNewsmail_topstories_articlelink](http://www.abc.net.au/news/2017-11-24/offshore-patrol-vessel-contract-awarded-to-german-firm-luerssen/9188426?utm_source=smc&utm_medium=email&utm_campaign=%3a8935&user_id=1e67a2b6f5429422d42e42ce0ca232a7f33aa375eae12c67ee403c72a5935a9&WT.tsrc=email&WT_mc_id=Email%7c%7c8935&utm_content=ABCNewsmail_topstories_articlelink) (accessed 19 January 2018).


73 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates), 29 May 2018, p. 34.


75 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 48. It was noted that Civmec was started by Australians who could not find appropriate funding so went to Singapore to get the capital to start the company.
2.45 Mr Singleton, Austal, attributed the failure to reach a commercially viable agreement between the parties to the inequity in the balance of power between the two negotiating sides. During the committee's hearing in Canberra on 7 June 2018, Mr Singleton made the following observation:

[I]f you have some points of leverage or some points of power in a negotiation, then you can come out with an equitable solution. The reality of the situation was that the Lurssen company had been awarded and had signed, only a few weeks before, a $2 billion program for the build of the vessels. We didn't have anything at all. And I don't know that they necessarily felt a keen need for our support. They were confident in their own ability, so they didn't feel they needed to make any significant compromises. For our part, we felt that the work that was offered to us was minor. It was of very low quality in terms of the sophistication of it. It was the sort of work that a metal fabricator could do quite easily, and we felt we could make a much more significant contribution than was being put forward. And we made that statement to them, but we weren't in a position to twist anybody's arm or force anybody into an agreement. We tried to see whether there was some common ground in the middle, but that didn't happen.  

76 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 25.

2.46 Furthermore, Austal was only notified about the negotiation's breakdown 'about half an hour before a public announcement was made' through a letter from Luerssen to Austal's office informing that it would no longer be discussing contracting arrangements with Austal. Prior to the announcement, the committee heard Austal was 'still waiting for what [it] thought was going to be a mediated suggestion on an alternative outcome'.  

The committee heard that during the negotiation process, both parties had one face-to-face meeting with Mr Grill in Singapore where both parties stated their positions. Mr Singleton stated:

There was a statement at that meeting of our position. There was a statement by Lurssen of their position. We understood that Mr Grill would take back what he believed would be a compromise solution, but we saw no more of that compromise…  

78 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 25.

2.47 Construction on the first two vessels at the Osborne Naval Shipyard in Adelaide will commence from 2018, before relocating to the Henderson Maritime Precinct, Western Australia prior to the future frigates' construction in Adelaide from 2020. The delivery of the final vessel is expected to occur in 2030. 

77 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 26. See also, Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, pp. 34-36.

in the Navy's capability, two leased Cape Class patrol boats will supplement the Armidale fleet and support its remediation program prior to the OPVs' commencement.  

2.48 The decision to have a split location for the construction of the OPV program was made to provide enough work to sustain a core naval shipbuilding workforce in Adelaide following the completion of the third AWD and in the lead up to the first frigate's construction. Further, not building all the OPVs in South Australia would avoid any delays to the $35 billion future frigate program. The Minister for Defence stated that any delay to the future frigate program would not only put at risk about 2000 jobs to South Australia, but also place at risk the country's naval capability. The Department of Defence confirmed its intention to maintain jobs in South Australia and to mitigate risks to the future frigate program on 30 March 2017.

2.49 However, the timeline for the construction of these vessels (building OPVs in 2018 and future frigates in 2020) has attracted criticism. Mr Graeme Dunk, Executive Manager, Australian Business Defence Industry argued that it prevents Australian industry content from being maximised in these projects. He claimed that as a result, these dates will likely cause 'an entrenchment of offshore supply chains, rather than the development of Australian alternatives, and a reduction in associated maritime-related research and development'. This is due to the limited opportunity for Australian companies to participate in any design changes and consequently supply chains prior to the construction of the vessels.

2.50 The decision to split the vessel's construction sites has attracted criticism that the decision was not made in the national interest. For instance, Western Australia was also facing its own 'valley of death' following the state's resources boom and would have benefitted from building the two OPVs scheduled for South Australia. Some critics argued that splitting the construction of the vessels between different sites and using separate workforces introduced unnecessary risk and inefficiency to the program. Instead, the government of Western Australia submitted, a fourth AWD should have been built.

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80 Department of Defence, Naval Shipbuilding Plan, 16 May 2017, p. 36.
82 Senate Foreign Affairs, Defence and Trade Legislation Committee, Committee Hansard (Additional Estimates), 30 March 2017, pp. 45-46.
83 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, Committee Hansard (Additional Estimates) 30 March 2017, p. 34.
84 Mr Graeme Dunk, Executive Manager, Australian Business Defence Industry Committee Hansard (Additional Estimates), 3 April 2017, p. 27.
85 Western Australian government, Submission 56.2, pp. 7 and 8.
2.51 The ANAO in its audit *Naval Construction Programs—Mobilisation* expressed concern that the OPV had progressed through second gate approval without detailed sustainment costs and finalised commercial arrangements.86

**Hobart Class Guided Missile Destroyer (SEA 4000)**

2.52 The Hobart Class Destroyers Program (also known as the Air Warfare Destroyers or AWD) involves of AWD Alliance at the Osborne (south) shipyard constructing three vessels.87 The AWD program, worth a total value of $9 billion, is on schedule to deliver the second ship *Brisbane* to the Commonwealth this year, with the final vessel *Sydney* expected to be delivered in 2019.88

2.53 The intellectual property for these warships was recently transferred to Navantia Australia, which according to the Minister for Defence Industry, will ensure Australia has sovereign control over the AWD's capability.89

2.54 These vessels replace the navy's six Adelaide Class guided missile frigates. Two were withdrawn from service in 2005 and 2008 and the remaining four are scheduled for withdrawal by June 2019.90

2.55 According to the Minister for Defence Industry, there was a 60 per cent productivity improvement for the second AWD ship over the first AWD ship. This improvement was attributed to the skilled workers from the AWD Alliance: ASC, Raytheon Australia, Navantia Australia and Defence. More than 5,000 people have worked directly on the program along with 1,500 suppliers to build and integrate what the Minister for Defence Industry described as 'three of the most capable and potent warships the Royal Australian Navy has ever possessed'.91

2.56 To support continuous shipbuilding at the Osborne shipyard, the Department of Defence has retained a core of skilled workers to work on new shipbuilding and sustainment activities (construction on two OPVs and sustainment work on the Collins Class submarines) when the final AWD vessel is completed. This decision also helps


87  For more on the AWD Alliance, refer to chapter 3 in the Australian National Audit Office's report *Air Warfare Destroyer5 Program*, Audit Report No. 22 2013–14.


to minimise the costs for ramping up a large number of skilled workers at short notice and saves time training up people for the next shipbuilding project.\(^9\)

**Other naval vessels**

**Collins Class Submarines**

2.57 The Collins Class Submarines program was established in 1982 to provide the navy with six new Australian built submarines. The Collins Class submarines program has been a subject of several reviews and ANAO reports.\(^9\) The navy will continue with capability enhancements and sustainment of these submarines into the 2040s until the future submarines replace them.\(^4\) The sustainment work for the submarines is currently undertaken by the ASC at the Osborne (north) shipyard (full-cycle sustainment work) and at the Henderson shipyard (shorter duration sustainment activities).\(^5\) ASC’s contract has recently been renewed, allowing this sustainment work to continue for another five years.\(^6\)

**ANZAC Class Frigates Program**

2.58 The ANZAC Class Frigate Program was developed in the mid-1980s to replace the RAN's River Class frigates. The fleet is made up of 12 ANZAC frigates constructed by the Tenix and Blohm+Voss team at Tenix's facility in Williamston, South Australia.\(^7\) Ten of these frigates were built for the Royal Australian Navy, with the remaining two built for the Royal New Zealand Navy. The total cost of the frigate program was $7 billion, the largest spend on any defence project at the time.\(^8\) The

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93 The Australian National Audit Office noted that there has been five reviews conducted since 2012. The first was *Study into the Business of Sustaining Australia’s Strategic Collins Class Capability*, November 2012, pp. 57–58; and the most recent was *Study into the Business of Sustaining Australia’s Strategic Collins Class Capability, Beyond Benchmark*, May 2016, p. 2. See Australian National Audit Office, Audit Report No. 39 2017–18, *Naval Construction Programs—Mobilisation*, p. 21.


97 In 1989, AMEC changed to Australian Marine Engineering Consolidated Limited (AMECON) and in 1993, to Transfield Shipbuilding Ltd. In 1997, following a reorganisation of the Transfield Group, the ownership of the dockyard and the frigate project was in the name of Tenix Defence Marine Division. Senate Foreign Affairs Defence and Trade References Committee, *Blue water ships: consolidating past achievements*, 7 December 2006, p. 61.

98 Senate Foreign Affairs Defence and Trade References Committee, *Blue water ships: consolidating past achievements*, 7 December 2006, pp. 60-61.
Foreign Affairs Trade and Defence Committee's report *Blue water ships: consolidating past achievements* stated that all 10 vessels for the RAN were delivered on time and on budget. Some were even delivered ahead of schedule.99

2.59 In parallel to the process to secure a designer of the future frigates, on 29 April 2016, the government announced it had signed a contract for the sustainment of the existing ANZAC Class Frigates over the next eight years. The sustainment would take place in Henderson, Western Australia and is valued at $2 billion.

2.60 The Minister for Defence noted that the strategic partnership between BAE Systems Australia Pty Limited, Saab Australia Pty Ltd, Naval Ship Management Australia Pty Ltd (a joint venture between UGL and Babcock) and the Commonwealth, will streamline a number of existing contracts for the whole-of-life sustainment for the ANZAC Class Frigates.100

**Royal Australian Navy Supply Ship Program (SEA 1654)**

2.61 The Royal Australian Navy Supply Ship Program consists of two replacement auxiliary oiler replenishment ships (AORs) to the cost of $640 million. These ships will replace existing HMAS *Success* and HMAS *Sirius* vessels.101

2.62 Of the $640 million, more than $130 million was directed towards Australian industry for Combat and Communication Systems integration, Integrated Logistics Support, and elements of the on-board cranes. The government and Navantia also signed a five-year sustainment contract, to be undertaken in Australia, worth $250 million.102

2.63 Navantia was selected as the prime contractor to build the two ships in Spain.103 The handover of the first ship will occur in August 2019 and the second in May 2020.104 The Department of Defence reported that European steel will be used for the first ship and Bluescope Steel, an Australian company, will supply four and a

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101 For more information on the tender process of the supply ships, see Senate Economics References Committee, *Part I: Future of Australia's naval shipbuilding industry – Tender process for the new supply ships*, August 2014.


103 On 6 May 2016, the government announced that a contract had been signed with Navantia of Spain. This tender process was the subject of this inquiry's first report *Part I: Future of Australia's naval shipbuilding industry – Tender process for the new supply ships*, August 2014.

half thousand tonnes of Australian steel in raw form for the second replenishment ship.105

2.64 The supply ship program was not included in the government's Naval Shipbuilding Plan. The Minister for Defence explained that this exclusion was due to Australian shipyards not having the capacity to complete the replenishment vessels in the required time and a local build would risk jobs and capability by delaying the OPVs, Future Frigates and Future Submarines.106

2.65 This claim has been contested by testimony presented before the committee's public hearing in April 2017. The committee understands a number of shipbuilders had shown interest in a hybrid build involving domestic and international construction with a partner country. Rather than sending the work overseas, the committee heard that there was local capacity for these supply vessels to be built in Australian shipyards by local workers in such arrangements.107

2.66 The government's rationale for a limited tender process that excludes Australian shipyards also reminded the committee of its previous findings in its earlier reports. Specifically, in the committee's first report, the committee noted that:

[T]he relatively small upfront costs for the improvements should not be considered in isolation but with a view to the long term benefits, especially when such infrastructure is regarded as a fundamental input to capability. The committee has heard that such an investment would support the construction in Australia of large vessels, including the supply ships, and that long term dividends would result from such investment. By excluding Australian companies from the tender, the government has not allowed these matters, including the amount of investment required to upgrade current facilities and the long-term benefits of this investment, to be fully explored and contested.108

105 Senate Foreign Affairs, Trade and Defence Legislation Committee, Committee Hansard (Budget estimates), 29 May 2017, p. 118.

106 Senator the Hon Marise Payne, Minister for Defence, 'Replacement replenishment vessels', Media release, 6 May 2016.


Other recent developments

ASC review and structural separation

2.67 Following the government's commissioned strategic review of the Australian Submarine Corporation's (ASC) long-term arrangements and capacity, the government announced on 11 October 2016 the separation of the ASC into three separate government-owned companies to support the key capabilities of shipbuilding, submarine sustainment and infrastructure. Following the government's commissioned strategic review of the Australian Submarine Corporation's (ASC) long-term arrangements and capacity, the government announced on 11 October 2016 the separation of the ASC into three separate government-owned companies to support the key capabilities of shipbuilding, submarine sustainment and infrastructure.

2.68 The ASC's structural separation, which was operational from 1 July 2017, resulted in all infrastructure assets previously held by the ASC transferred to the new infrastructure company Australian Naval Infrastructure Pty Ltd (ANI). Following the Commonwealth government's agreement with the South Australian government to purchase what was previously the state owned common user facility, the ANI owns the shipbuilding and submarine sustainment land and critical infrastructure at Osborne. Although funds for ANI's development of the shipyard infrastructure are provided by the federal government, the ANI will 'primarily' funded from lease revenue from shipbuilders once shipbuilding construction begins. This ownership allows ANI to support the implementation of the government's $90 billion Naval Shipbuilding Plan. A five member interim board was established in June 2017.

2.69 The ANI's main functions are to support the Commonwealth's continuous shipbuilding policy. It does this through work on the shipbuilding and submarine programs with activities covering: landlord and asset management; developer of


program, infrastructure; provider of precinct services; and common user facilities management.  

2.70 The committee heard that phase two of the separation, which involves the splitting the shipbuilding and submarine business into individual entities is currently on hold until the outcome of the Future Frigate decision. The two divisions currently operate as two discrete business units within the organisation.

2.71 The committee examines the impact these changes will have on the future of the ASC in Chapter 4 of this report.

Naval Shipbuilding Advisory Board

2.72 On 22 October 2016, the government established the Naval Shipbuilding Advisory Board (the board), appointing Professor Don Winter, former Secretary of the United States Navy, as Chair on 22 October 2016. Further appointments to the board were announced by the Minister for Defence Industry on 17 December 2016, with all board members appointed on recommendations of the Minister for Defence Industry and the Minister for Defence.

2.73 The committee is concerned about the lack of Australian representation on the board. The majority of board members are based in the United States and only two board members are Australian.

2.74 The committee heard from Defence that the board's establishment was 'predicated on the four key enablers that were outlined in the Naval Shipbuilding Plan'—a modern and secure shipbuilding infrastructure; a highly capable, productive


116 Senate Economics References Committee, Proof Committee Hansard (Future into Australia's naval shipbuilding industry), 7 June 2018, p. 43.

117 The development of the Naval Shipbuilding Advisory Board (NASB) was first announced by the Government in December 2016 and the Cabinet decided on its establishment on 27 September 2016.

118 Department of Defence, Response to QON portfolio question number 117, Supplementary Budget Estimates 2017-18, Foreign Affairs, Defence and Trade Committee.

119 Ten board members were initially appointed. The majority of members are based overseas (the United States), with two Australians. The board chaired by Professor Don Winter (Chair), include the following members: Hon Ms Emily DeRocco; RADM Tom Eccles, USN (retired); Mr Irwin Edenzon; Mr Ron Finlay, AM; VADM William Hilarides, USN (retired); Ms Lisa Paul, AO, PSM; Ms Becky Stewart. Mr Mike Burgess, who was previously a board member, left following his appointment to the Australian Signals Directorate and no-one has replaced him on the board. Refer to Department of Defence, Response to QON portfolio question number 115, Supplementary Budget Estimates 2017-18, Senate Foreign Affairs, Defence and Trade Committee. See Mr Daniel Fankhauser, Secretariat, Naval Shipbuilding Advisory Board, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 47.
and skilled workforce, an innovative, cost competitive and sustainable industrial base and a national approach to delivering the shipbuilding plan.  

2.75 The board reports to the Minister for Defence Industry and its role is to ‘provide expert, independent advice to Government on all aspects of naval shipbuilding as plans are finalised for establishing and sustaining a viable, continuous naval shipbuilding capability in Australia’. The first sitting of the board was convened by the Minister for Defence Industry on 23 January 2017. The board has met in person on ten occasions in Australia and the United States, with the last meeting in April 2018. Meetings were typically three days in duration, with additional teleconferences.

2.76 Board members are remunerated according to expertise in their respective fields and commensurate with their private and commercial rate, with five members paid a consultancy rate above AUD $4,500 per day. From December 2016 through to 9 March 2018, board members were paid $2.4 million in remuneration, including for costs of specialised tasks undertaken by individual members. With travel and allowances factored in, this figure increased to approximately $2.8 million as of 31 October 2017. The Department did not provide the committee with an update on these figures at the public hearing on 7 June 2018.

2.77 During these meetings the board has provided advice to individual members of government and received briefings from a range of senior executives across the Department of Defence, Department of Finance, the Department of Prime Minister

120 Mr Daniel Fankhauser, Secretariat, Naval Shipbuilding Advisory Board, Proof Committee Hansard (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 49.

121 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Chair of the Naval Shipbuilding Advisory Board appointed', Media release, 22 October 2016.

122 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Address to the Naval Shipbuilding Advisory Board', Transcript, 24 January 2017.

123 Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, p. 64.

124 Defence also noted its contracted engagement with members varies, with some engaged directly and others through corporate consultancy firms. Senate Foreign Affairs, Defence and Trade Committee, Additional Estimates 2017-18, Question on notice no. 25 (Portfolio question no. 26).

125 Senate Foreign Affairs and Trade Legislation Committee, Additional Estimates 2017-18, 28 February 2018, Question taken on notice no. 24 (portfolio question no. 25).


127 Defence took on notice to provide the committee with up-to-date figures at the May 2018 Budget Estimates. Senate Foreign Affairs, Defence and Trade Legislation Committee, Proof Committee Hansard (Budget Estimates), 29 May 2018, pp. 65-66.
and Cabinet and other Commonwealth agencies. The Department of Defence has also claimed that the board's advice to members of the National Security Committee, which forms part of the deliberative Cabinet processes, is confidential.

2.78 On 19 April 2018 the Australian Industry and Skills Committee (AISC) established a Naval Shipbuilding Industry Reference Committee (IRC). The purpose of this specialist IRC is to, among other things, identify skills gaps in the naval shipbuilding and sustainment industry. The committee was surprised that board members could not identify what specialist skills or requirements of shipbuilding were not already covered by existing industry reference bodies for manufacturing skills. Further, the committee is also concerned that board members did not appear to have been consulted about the establishment of this IRC body.

2.79 When questioned on what skills gap was not currently covered by existing IRC bodies, Ms Lisa Paul, a board member, replied:

I can't answer the question. I'm happy to look at it. We met with the college in April, and it had just been stood up, as you are probably aware.

2.80 Unfortunately, the committee's public hearing scheduled for 2 May 2018 was postponed to 7 June 2018, due to difficulties confirming the availability of the Naval Shipbuilding Advisory Board to appear and give evidence. In the first instance the Department of Defence refused the committee's invitation on behalf of the board. The committee postponed the hearing and considered issuing a formal summons. Before doing so, Defence advised the committee that representatives from the board would

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128 Defence also noted its contracted engagement with members varies, with some engaged directly and others through corporate consultancy firms. Refer to the Senate Foreign Affairs, Defence and Trade Committee, Additional Estimates 2017-18, Question on notice no 25 (Portfolio question no. 26).

129 Senate Economics References Committee (Inquiry into Australia's Naval Shipbuilding Industry), Correspondence from Department of Defence regarding Senate Economics References Committee's invitation to attend a public hearing, received on 12 April 2018.

130 The Australian Industry and Skills Committee (AISC) was established by the COAG Industry and Skills Council in May 2015 to give industry a formal role in approving vocational education and training (VET) training packages for implementation. Members include industry leaders nominated by Commonwealth and state and territory ministers responsible for skills and training, a peak body representative (rotating between the Australian Chamber of Commerce and Industry, the Business Council of Australia and the Australian Industry Group), and two ex-officio members (senior government officials). Australian Industry and Skills Committee, 'About the AISC', https://www.aisc.net.au/content/about-aisc (accessed 23 June 2018).


appear before the committee, and two board members subsequently appeared at the public hearing on 7 June 2018.133

**Infrastructure upgrades**

2.81 Following the Department of Defence's assessment in 2016 that the Osborne and Henderson shipyards didn't have the capabilities required for a modern shipyard, the government announced an investment of $775 million to fund the development of a common user shipbuilding facility, the purchase of additional land, and develop surface ship infrastructure.134 This need to substantially upgrade shipyard facilities at Osborne (south) was previously noted in the Naval Shipbuilding Plan. The plan also provided an outline of schedules which needed to occur prior to the future frigates' construction in 2020.135 A memorandum of understanding was signed between the Commonwealth and South Australian government for the transfer of land and operation assets from the South Australian government to the Commonwealth.136

2.82 On 20 February 2017, the government announced that between 2017 and 2020, $100 million would be invested in Navy-related industrial infrastructure and sustainment in Western Australia. The government stated that the investment would go towards improving shipbuilding production lines and facilities, such as wharves, jetties and cranes at HMAS Stirling (Fleet Base West) and at the Henderson industrial precinct.137

2.83 However, further details about what the $100 million would fund were not available. At the committee's public hearing in Perth on 3 April 2017, the Hon Paul Papalia CSC, MLA, Western Australian Minister for Defence Issues, explained that he had little understanding of what the announcement included. He indicated his suspicion that it could be a re-announcement of part of a $370 million 2015 announcement as it had 'very similar objectives' and 'identical time frames'.138

133 See, Senate Economics References Committee (Inquiry into Australia's Naval Shipbuilding Industry), Correspondence between the Department of Defence and the Committee, 28 March 2018, 12 April 2018, 16 April 2018 and 2 May 2018.


135 Department of Defence, Naval Shipbuilding Plan, 16 May 2017, p. 52.


138 Hon. Paul Papalia, Minister for Defence Issues, Western Australian Government, Committee Hansard, 3 April 2017, p. 2. At the 30 May 2017 Senate Foreign Affairs, Defence and Trade Legislation Committee Estimates hearing, Mr Mark Ablong, then First Assistant Secretary, Naval Shipbuilding Taskforce, Department of Defence provided an overview of the procurement process for the college. Senate Foreign Affairs, Defence and Trade Legislation Committee, Committee Hansard (Budget estimates), 30 May 2017, p. 39.
Similarly, Mr David Singleton, Chief Executive Officer, Austal Limited, understood the funding was related to infrastructure upgrades but indicated he was not sure whether the funding was new money or old money.  

2.84 The Department of Defence took on notice a request to provide a list of projects that the $100 million would go towards. At the end of June 2018, 18 months after the initial announcement, no clarification has been provided on how these funds will be spent.

**Maritime technical college (Naval Shipbuilding College) Adelaide**

2.85 On 24 March 2017, the government announced that it would establish a Maritime Technical College to identify, train or retrain Australian workers for the shipbuilding program, investing an initial $25 million into the college. This figure, which the Department of Defence explained was an initial estimate, has since increased to $62 million following more information from tenderers. Referred to as the 'Naval Shipbuilding College' in the Naval Shipbuilding Plan, the college will 'ensure a coordinated, national approach to workforce development and skilling across the naval shipbuilding enterprise'.

2.86 The college will work collaboratively with providers across the country to train and educate people for employment opportunities in the shipbuilding industry. The college will be established progressively to meet the evolving skills needs of shipbuilders.

2.87 The college, which will be established and managed by the Naval Shipbuilding Institute, will be based at Osborne. More recently, the ANAO has reported its concerns that the cost for the college has risen from $25 million to

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139 Mr David Singleton, Chief Executive Officer, Austal Limited, *Committee Hansard* (Future of Australia’s naval shipbuilding industry), 3 April 2017, pp. 9 & 10.

140 A response to this question on notice as at 23 June 2018 remains outstanding.


142 Senate Foreign Affairs, Defence and Trade Legislation Committee, Mr Peter Chesworth, First Assistant Secretary Naval Shipbuilding Taskforce, *Committee Hansard* (Budget Estimates), 29 May 2018, p. 38.


$62 million (approximately 2.5 times the original cost estimate) even before the college's ongoing costs have been considered.\textsuperscript{146}

\textit{Naval Shipbuilding Industry References Committee}

2.88 As mentioned above, on 19 April 2018 the Australian Industry and Skills Committee (AISC) established a Naval Shipbuilding Industry Reference Committee (IRC).\textsuperscript{147} The AISC states that the new committee will:

- work with the Naval Shipbuilding College to understand workforce requirements for the naval shipbuilding and sustainment industry;
- examine relevant competencies, skillsets and national training package qualifications to address any gaps to support the specific needs of the naval shipbuilding and sustainment industry;
- examine new approaches to career structuring, progression and transition in the sector, and the education pathways needed to support these; and
- scope opportunities for collaboration across VET [vocational education and training], higher education and industry sectors to take advantage of opportunities presented by naval shipbuilding.\textsuperscript{148}

2.89 The establishment of this new committee adds unnecessary complexity and appears to duplicate the work of separate IRCs already working on occupational standards for shipbuilding in the vocational education and training sector. These concerns are discussed in more detail in Chapter 4.

\textit{Defence Export Advocate}

2.90 On 9 April 2018, the government announced that former Defence Minister David Johnston (from September 2013 until late December 2014) had been appointed the first 'Australian defence export advocate' as part of the government's plan to increase the nation's defence exports.\textsuperscript{149} Australian media expressed surprise at this appointment given Mr Johnston's comment in relation to the ASC that:

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\textsuperscript{146} Australian National Audit Office, Audit Report No. 39 2017–18, Naval Construction Programs—Mobilisation, p. 10.


\textsuperscript{149} Amelia McMahon, 'A former defence minister has been appointed as Australia's first defence export advocate', Defence Connect, 9 April 2018, \url{https://www.defenceconnect.com.au/key-enablers/2129-inaugural-defence-export-advocate-revealed} (accessed 26 April 2018).
…I wouldn't trust them to build a canoe.150

2.91 The Australian media also queried whether Mr Johnston held a potential conflict of interest, given his position on the board of Saab Technologies, an Australian subsidiary of the Swedish company. The company has contracts to sustain the ANZAC frigates, provide systems for the Collins Class submarines, the offshore patrol vessels and the Future Frigates.151

2.92 The role was first mentioned in the Defence Export Strategy released in January 2018. As the first Australian defence export advocate, Mr Johnston will also work closely with the Australian Defence Export Office, which opened on 23 April 2018, to provide senior advocacy.152

2.93 The Minister stated that the Australian Defence Export office will deliver a range of initiatives to assist and support Australian defence industry, including producing market intelligence, partnering with industry in multi-year campaigns, and leading the Australian Military Sales and Team Defence Australia initiatives.153

2.94 Committee members, through this committee and also through Senate Estimates have sought information on Mr Johnston's remuneration. Requests for information remain outstanding.154

Committee comment

2.95 While the committee welcomes the government's naval announcements during 2015 and 2018, it is disappointed that such limited information was available for each announcement, and that the government's Naval Shipbuilding Plan, which brought all these announcements together, failed to provide further information. For example, little information is still available regarding a $100 million naval infrastructure investment in Western Australia, despite repeated questions for further information at hearings by the committee and Senate Estimates hearings.


151 'Exclusive payments to former minister concealed', The Saturday Paper, 9 June 2018.


2.96 Upgrades to construction and sustainment shipyards around the country were announced, but again little detail was provided for public scrutiny. The late release of information in June 2017 relating to the ASC’s October 2016 structural separation and continued confusion caused from the lack of certainty regarding the separation of the remaining business units does not engender confidence that the work was undertaken in a transparent manner.

2.97 Other announcements have raised concerns that the committee will outline in more detail in later chapters. In the next chapter, the committee examines the current state of Australia's naval shipbuilding industry and the need for a national shipbuilding plan.