

Chapter 3

National long term planning

3.1 The importance of a long term national strategic plan for Australia's naval shipbuilding industry continued to be a focus during public hearings in the 45th Parliament. This followed similar discussion in the committee's third report, tabled during the 44th Parliament, which recommended the establishment of an ongoing shipbuilding industry advocate providing advice to the government during the development of the defence investment plan and naval shipbuilding plan. The third report emphasised that a national strategic naval shipbuilding plan was central to achieving the goal of maintaining a continuous stream of work for Australian shipyards.

3.2 During the course of the 45th Parliament inquiry, evidence presented to the committee indicated that a naval shipbuilding plan would perform an integral role in assisting small and medium enterprises (SMEs) to identify and plan for opportunities to become involved in the Australian naval shipbuilding industry. A plan would also provide an assurance to the industry that there would be continuous work into the future – enabling economic and employment benefits gained through securing the permanency and longevity of an Australian naval shipbuilding sovereign capability. Witnesses also suggested that a naval shipbuilding plan should go beyond a focus on Australian industry supporting Australian customers, and move towards building an internationally competitive Australian shipbuilding industry which includes non-navy vessels, such as research vessels, police vessels and ferries.

3.3 This chapter examines the current state of the Australian naval shipbuilding industry, key defence-focused industry planning documents, the government's naval shipbuilding plan, economic benefits derived from the industry, and the potential for a national exports industry. The committee then assesses this material against progress made towards implementing a continuous shipbuilding program that would support an indigenous defence industry. Insights from the ANAO's recent report *Naval Construction Programs—Mobilisation* are also considered.

Overview of the Australian naval shipbuilding industry

3.4 Australia's naval shipbuilding industry includes:

- The government owned ASC Pty Ltd, which was supposed to have been separated into three independent companies from July 2017: ASC Shipbuilding, ASC Submarine Sustainment (maintenance and support), and Australian Naval Infrastructure (ANI);
- Australian and international defence prime companies servicing both commercial and defence production lines; and
- SMEs contracted to these primes.

3.5 The Australian government, through the Department of Defence, is the major procurer of ships from the industry. In its Defence Industry Policy Statement, the Department of Defence stated that:

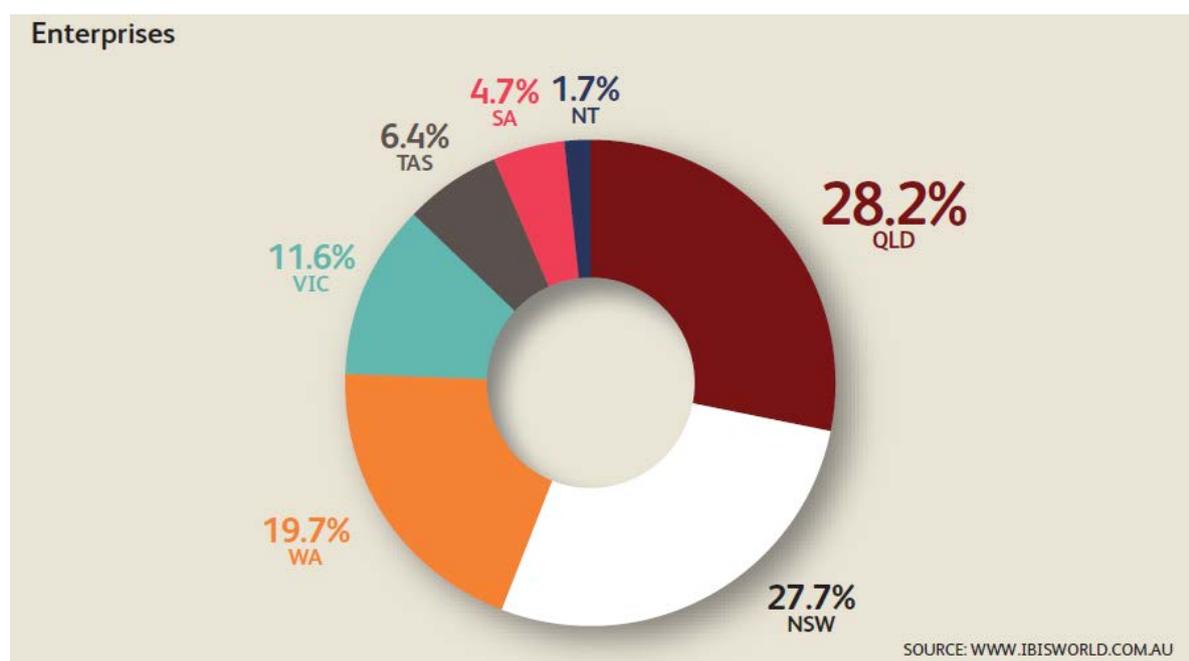
A robust partnership between Defence and industry and a highly skilled Australian workforce will be critical if we are to deliver shipbuilding and submarine programs of such national significance.¹

3.6 Australia's shipbuilding and repair services industry consists of 448 businesses in both defence-related and commercial industries.² A snapshot of market share by major players in the Australian industry is below, followed by a breakdown by state and territory of business locations.

3.7 **Figure 3.1: Snapshot of market share by major players in the industry**³



3.8 **Figure 3.2: Breakdown by state and territory of business locations**⁴



1 Department of Defence, *2016 Defence Industry Policy Statement*, February 2016, p. 8.

2 IBISWorld, *Industry Report C2391 Shipbuilding and Repair Services in Australia*, February 2018, p. 3.

3 IBISWorld, *Industry Report C2391 Shipbuilding and Repair Services in Australia*, February 2018, p. 22.

4 IBISWorld, *Industry Report C2391 Shipbuilding and Repair Services in Australia*, February 2018, p. 3.

3.9 The Department of Defence Industry Policy Statement states that 25,000 people are employed by the Australian defence industry, with prime companies accounting for 50 per cent of employment in the industry. Approximately 3000 SMEs operate in Australia as subcontractors to prime companies.⁵

Key planning documents

3.10 Prior to the release of the government's naval shipbuilding plan and subsequent planning documents from May 2017 and onwards into 2018, the 2015 RAND report and the *2016 Defence White Paper* provided insight into the government's strategic direction for the shipbuilding industry in Australia. The content of these reports, along with the announcements outlined in Chapter two, culminated in the eventual publication of the government's naval shipbuilding plan, which is discussed further below.

2015 RAND Corporation report

3.11 In September 2014, the Department of Defence commissioned the RAND Corporation to undertake a series of material studies and analysis activities to inform the development of an enterprise-level naval shipbuilding plan for consideration by the government.⁶

3.12 On 16 April 2015, the government released the RAND report titled *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*.⁷ The report explored the question of whether Australia should support a domestic naval shipbuilding industry or buy ships from foreign shipbuilders. The report found that:

1. Production of naval warships in Australia involves a 30 per cent to 40 per cent price premium over the cost of comparable production at shipyards overseas. This premium could drop over time, however, with steady production drumbeats and mature designs.
2. The economic benefits of a domestic naval shipbuilding industry are unclear and depend on broader economic conditions. That said, the industry could potentially employ more than 2,000 people in long-term positions.
3. Controlling critical production offers wider strategic benefits and flexibility. It would avoid dependence on foreign sources; enable performance of ship alterations, modernisations, and life-of-class maintenance; and support in-country suppliers.

5 Department of Defence, *2016 Defence Industry Policy Statement*, 2016, p. 6.

6 RAND Corporation, *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*, 2015, p. iv.

7 The Hon Kevin Andrews MP, Minister for Defence, 'Release of the RAND Corporation report', *Media Release*, 16 April 2015.

4. Sustaining a naval shipbuilding industry will require specific steps. These include adopting a continuous build strategy starting with the Future Frigate and matching industrial base structure to demand.⁸

3.13 As part of implementing a continuous build strategy, the report proposed four strategies 'to close the short-term gap in demand for naval shipyard workers while retaining the ability to build all the planned warships domestically'. This included the option to commence construction of the Offshore Patrol Vessels by the end of 2017 and the Future Frigate class before 2020. This option, along with the recommendation to adopt a continuous build strategy, was adopted by the government.⁹

3.14 On 4 August 2015, the Hon Tony Abbott MP, Prime Minister, and the Hon Kevin Andrews MP, Minister for Defence announced that the government would implement a continuous build of surface warships in Australia. In addition, the government announced that it would bring forward the Future Frigate program (SEA 5000) to replace the ANZAC class frigates, and the construction of the Offshore Patrol Vessels (SEA 1180) to replace the Armidale class patrol boats.¹⁰

3.15 Some stakeholders, however, did not agree with this option proposed by RAND, arguing that it relied disproportionately on ship production in one state (South Australia) to the detriment of other states. For example, the Western Australian government submitted that the report contained limited content on the shipbuilding capabilities and capacities of Western Australia and other states.¹¹

3.16 The committee was informed a second RAND review was underway which focussed on workforce, basing and facilities.¹² Various stakeholders advised they had been contacted by people involved in the second RAND review. The Western Australian government indicated that the inquiry was likely to take into account the capability and capacity of Western Australia's infrastructure and industry to deliver naval shipbuilding programs beyond building minor vessels.¹³

8 RAND Corporation, *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*, 2015, p. xxxviii and xxxix.

9 RAND Corporation, *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*, 2015, p. xxix.

10 The Hon. Kevin Andrews MP, Minister for Defence, 'The Government's plan for a strong and sustainable naval shipbuilding industry', *Media release*, 4 August 2015.

11 Western Australian Government, *Submission 56.2*, p. 11. This assessment was also supported by Senator Linda Reynolds, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, pp. 6–7.

12 See, for example, Ms Deidre Willmott, Chief Executive Officer, Chamber of Commerce and Industry of Western Australia, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, p. 33.

13 To this point, they also noted that they were seeking clarity from the Commonwealth Government on how the RAND study, and other studies undertaken in the later half of 2017, would factor into the future infrastructure planning and investment in Western Australia. Refer to Western Australian Government, *Submission 56.2*, pp. 6–7.

3.17 The Department of Defence advised the second report's publication would likely occur during 2017–18.¹⁴ The second report has not yet been published.

2016 Defence White Paper

3.18 The government's *2016 Defence White Paper* (DWP), released on 25 February 2016, is the primary document that sets out Australia's defence policy and capability needs, based on its assessment of a more complex strategic environment that the country will face out to 2035.

3.19 The 2016 DWP stated that 'modernising our maritime capabilities will be a key focus for Defence over the next 20 to 30 years'.¹⁵ The DWP reiterated the government's policy announcement made on 4 August 2015 that it would implement a continuous build of surface ships that will transform the country's naval shipbuilding industry, generate significant economic growth, sustain local jobs for decades and provide a long-term future for this defence industry. These plans will commence with the build of offshore patrol vessels from 2018 and future frigates from 2020.¹⁶

3.20 Investments outlined in the DWP included the new generation of submarines, surface warships, surveillance aircraft and support vessels.¹⁷ In particular:

- the rolling acquisition of 12 future submarines to enter service from the early 2030s, and upgrades to wharves and port facilities, simulators, training and submarine rescue systems;
- the investments in the existing Collins Class fleet until the introduction of the future submarine fleet;
- the acquisition of 12 new major surface vessels: three *Hobart* Class Air Warfare Destroyers (AWDs) entering into service in 2020s, and nine new future frigates entering into service in the late 2020s to replace the existing fleet of ANZAC Class frigates;
- the acquisition of 12 new Offshore Patrol Vessels (OPVs), with construction to start in 2018 and delivery by 2030, and;
- updates to mine countermeasures and military hydrography capability.¹⁸

2016 Defence Industry Policy Statement

3.21 The Defence Industry Policy Statement (DIPS), released with the 2016 DWP, aligns defence capabilities with the DWP's strategy to establish an internationally competitive and innovative Australian defence industrial base. As industry has a 'fundamental input' to capability, the DIPS is an attempt to transform the Department

14 Department of Defence, *Answers to question on notice*, Question reference no. 1, 20 June 2017 hearing (received 18 July 2017).

15 Department of Defence, *2016 Defence White Paper*, 25 February 2016, p. 89.

16 Department of Defence, *2016 Defence White Paper*, 25 February 2016, p. 21.

17 Department of Defence, *2016 Defence White Paper*, 25 February 2016, p. 83.

18 Department of Defence, *2016 Defence White Paper*, 25 February 2016, pp. 90–93.

of Defence's relationship with industry.¹⁹ Over a ten year period, the government will invest in programs to: build industry skills, drive competitiveness and export potential; and harness Australia's innovation and expertise.

2016 Integrated Investment Program

3.22 The 2016 Integrated Investment Program (IIP), released alongside the DWP, brings together all capability-related investments including new weapons, platforms, infrastructure and science and technology over a ten-year period. The IIP provides guidance on the implementation of the DWP's policy goals and will be annually reviewed in response to the development of the budget and changes in capability priorities and the like. The IIP was developed through a comprehensive Force Structure Review that assessed the country's defence capability needs into the 2030s.²⁰

3.23 The IIP's capability stream for maritime and anti-submarine warfare attracted around 25 per cent of the IIP to enhance Australia's maritime and anti-submarine warfare capabilities. In addition to existing approved acquisitions, new investments included those listed in the shipbuilding program contained in the Naval Shipbuilding Plan.²¹

2017 Naval Shipbuilding Plan

3.24 On 16 May 2017, the Prime Minister, Minister for Defence and Minister for Defence Industry released the *Naval Shipbuilding Plan* (the Plan) in Adelaide, South Australia.²² This followed a lengthy delay from the government's original schedule that such a plan would accompany a *2015 Defence White paper*.²³ The Minister stated in February 2017 that its release was 'imminent', but the plan was not available until after the committee had held its two hearings for the re-referred inquiry in April 2017.

Background

3.25 Prior to the plan's release in 2017, the development of an enterprise-level naval shipbuilding plan to provide for the long-term future of Australia's naval shipbuilding

19 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 17.

20 Department of Defence, *2016 Defence Integrated Investment Program*, February 2016, pp. 7–8.

21 Department of Defence, *2016 Defence Integrated Investment Program*, February 2016, pp. 78–79.

22 The Naval Shipbuilding Plan was originally scheduled to be released in August 2015. The development of the Naval Shipbuilding Plan cost approximately \$3.1 million and involved work undertaken by a small team of up to eight personnel on a full-time basis. This was in addition to research, analytical support and advice from a number of organisations and individuals. See Senate Foreign Affairs, Defence and Trade Legislation Committee (Additional Estimates 2016-17), *Answer to question on notice*, Question reference no. 63.

23 On 24 March 2015, the then Defence Minister, the Hon Kevin Andrews MP, announced that the government was developing an enterprise-level naval shipbuilding plan to provide for the long-term future of the Australian naval shipbuilding industry. The government stated a naval shipbuilding plan was to accompany the *2015 Defence White Paper* but the DWP was not released until 25 February 2016, and did not include a shipbuilding plan. See also Department of Defence, *Budget 2015–16: Defending Australia and Its National Interests*, March 2015, p. 6.

industry was initially raised with the then Minister for Defence's announcement in 2015.²⁴ The *2016 Defence White Paper* was eventually released on 25 February 2016 (originally scheduled for 2015) without the promised accompanying naval shipbuilding plan.

3.26 In the intervening period, and in the absence of such a shipbuilding plan, the government made a series of announcements as part of its broader naval shipbuilding program. The government's subsequent advice that the plan's release was 'imminent' drew attention to its delayed publication at Senate estimates hearings and in the parliamentary chambers.²⁵ The delayed release also prompted discussion among industry stakeholders who were seeking certainty on the government's industry policy for the sector. At two April 2017 hearings in Perth and Adelaide, which predated the plan's eventual delayed release, the committee heard from multiple witnesses who emphasised the importance of a naval shipbuilding plan for the industry, and expressed concerns about the delayed release of the plan.²⁶

3.27 For example, Air Commodore Margot-Lee Forster (Retired), Chief Executive Officer, Defence Teaming Centre stated:

[A plan would give] Australian businesses confidence about what is going to happen so they can make the investments necessary to prepare themselves to be capable and accredited to be a part of the supply chains for all of the builds.²⁷

3.28 The committee heard that a plan would formalise the government's commitment to a continuous build and provide the industry with certainty. Mr Glenn Thompson, Assistant National Secretary, Australian Manufacturing

24 The Hon Kevin Andrews MP, Minister for Defence, *Speech to the RUSI Submarine Summit*, 24 March 2015.

25 The Hon Christopher Pyne MP, Minister for Defence Industry, *House of Representatives Hansard Ministerial Statements*, 9 February 2017, p. 503. On 9 February 2017, the Hon Christopher Pyne MP, Minister for Defence Industry, made a ministerial statement to the House of Representatives providing an update on defence industry activities since the 2016 federal election. The publication date of the shipbuilding plan was discussed at the Senate Foreign Affairs, Defence and Trade Legislation Committee's Estimates hearing on 30 March 2017: *Committee Hansard* (Additional estimates), 30 March 2017, pp. 43–45.

26 See, for example, Mr Graeme Andrew Dunk, Executive Manager, Australian Business Defence Industry, *Committee Hansard*, 3 April 2017, p. 27; Mr John O'Callaghan, Executive Director, Australian Industry Group Defence Council; Mr Andy Keough, Chief Executive, Defence SA; Mr Peter Horobin, Member, Submarine Institute of Australia Inc.; Dr Michael Green, Executive Director, Sector Development, Department of Economic Development, Jobs, Transport and Resources, Victoria; and Air Commodore Margot-Lee Forster (Retired), CSM, Chief Executive Officer, Defence Teaming Centre Inc., *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, pp. 16, 23, 24, 31, 34, 38.

27 Air Commodore Margot-Lee Forster (Retired), CSM, Chief Executive Officer, Defence Teaming Centre Inc., *Committee Hansard*, 4 April 2017, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 39.

Workers Union (AMWU) stated that without a plan and the industry policy contained within, little was known about how local content could be maximised.²⁸

3.29 In anticipation of the release of the Plan, Mr Andy Keough, Chief Executive of Defence SA, tabled a copy of the United States (US) 2016 fiscal year national shipbuilding plan prepared by the Office of Chief Naval Operations.²⁹ Mr Keough suggested that Australia should produce a similar document containing the level of detail that would be useful for industry. He explained that the US document:

...provides absolute clarity for the next 30 years on their best estimate of the number of ships they are going to have, how many aircraft carriers they will have in the mid 2040s and how many submarines et cetera. That is the sort of document we need, and that is the level of detail that industry needs in order to get clarity around some of these issues.³⁰

Overview

3.30 When the Plan was released on 16 May 2017, the Minister for Defence Industry emphasised the historical scale of the naval shipbuilding enterprise:

The [naval shipbuilding project is] largest project for any state, any territory, for the whole country, \$89 billion of naval shipbuilding, twice the size of the National Broadband Network, much, much bigger than the Snowy Hydro scheme...³¹

3.31 The Plan reiterated policy commitments previously announced regarding the acquisition and sustainment of naval ships, infrastructure upgrades, and workforce growth. It provides the policy and direction-setting architecture for the naval shipbuilding enterprise. The Plan does this by setting out the government's delivery strategy based on four key enablers:

- a modern, innovative, and secure naval shipbuilding and sustainment **infrastructure**;
- a highly capable, productive, and skilled naval shipbuilding and sustainment **workforce**;
- a motivated, innovative, cost-competitive, and sustainable Australian **industrial base**, underpinned initially by experienced international ship

28 Mr Glenn Thompson, Assistant National Secretary, Australian Manufacturing Workers Union, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 7.

29 See *Report to Congress on the Annual Long-Range Plan for Construction of Naval Vessels for Fiscal Year 2016*, tabled by Andy Keough, Defence SA at public hearing in Adelaide on 4 April 2017.

30 Mr Andy Keough, Chief Executive, Defence SA, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 23.

31 The Hon Malcolm Turnbull MP, Prime Minister, Senator the Hon Marise Payne, Minister for Defence, and The Hon Christopher Pyne MP, Minister for Defence Industry, *Doorstop Transcript*, 16 May 2017, Adelaide.

designers and builders who transfer these attributes to Australian industry; and

- a **national approach** to delivering the *Naval Shipbuilding Plan*.³²

3.32 These four enablers form the foundation for implementing the naval shipbuilding plan, which is based on the RAND Corporation's 2015 analysis for the Department of Defence. The RAND analysis outlined 'guiding principles' that drew from lessons learnt from previous shipbuilding programs, like the Collins Class submarine and Hobart Class Destroyer programs.³³

3.33 These 'guiding principles' include:

- establishing a consistent production and build demand;
- selecting a mature design at the start of the build and limiting the amount of changes once production starts;
- limiting the amount of unique Australian design changes;
- introducing a continuous build philosophy for naval combatants and a different in-service model based on retention of vessels for no more than 25–30 years;
- ensuring a well-integrated designer, builder and supplier team;
- ensuring there is visionary leadership provided by company management; and
- developing a productivity based culture of continuous improvement.³⁴

3.34 In a recent update, the ANAO's audit report *Naval Construction Programs—Mobilisation* reported that the Department of Defence's planning and mobilisation activities related to the four enablers 'remain a work in progress'.³⁵ The next four sections consider each enabler in more detail.

Infrastructure

3.35 The first enabler refers to investments in infrastructure following a strategic review of infrastructure needs at the two major shipyards in South Australia (Osborne Naval Shipyard) and Western Australia (Henderson Maritime Precinct) responsible for the delivery of Australia's continuous shipbuilding programs.³⁶

32 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 12.

33 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 103–104; Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, pp. 8 and 20–21.

34 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 103–104. Australian National Audit Office, *Naval Construction Programs—Mobilisation*, pp. 8 and 20–21.

35 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 8.

36 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 15.

3.36 The government made several announcements in support of infrastructure upgrades, including the redesign work of the Osborne South shipyard by Defence and Odense Maritime Technology (OMT), a Danish company. OMT will work with Defence, the South Australian Government and ASC to deliver a shipyard required to sustain the surface ships and then later the submarines. This investment is valued at up to \$535 million with commencement for the second half of 2017.³⁷ Another investment of \$100 million for sustainment and industrial infrastructure projects at the Henderson naval shipyard in Western Australia was announced in February 2017.³⁸ The Henderson investment was due to take place from 2017 to 2020, with costings approved in 2018, but has not yet commenced.³⁹

3.37 Recently, the ANAO reported that Defence has identified short term infrastructure requirements and has commenced construction. The longer term requirements remain under development.⁴⁰ These relate to the core physical infrastructure at the Osborne (south) shipyard required for the surface ship (OPV and future frigate) programs' construction. Shipyard upgrade at Osborne commenced in late 2017 and is expected to be ready for the future frigate program. Elements of the core IT infrastructure are still under determination. The Henderson shipyard infrastructure requirements for the OPV program are in the process of finalisation and the infrastructure requirements for the Future Submarine Program (FSP) at Osborne (north) shipyard are still in the early stages.⁴¹ As previously discussed in Chapter 2, the committee is concerned that the delay in finalising a strategic partnership agreement will have a flow on effect and cause further delays to programs, including work on the submarine program at the Osborne (north) shipyard.

3.38 Australian Naval Infrastructure has the responsibility of managing the infrastructure at the Osborne shipyard. This includes managing assets, developing program infrastructure, providing precinct services, and managing common user facilities.⁴²

37 Announcement was made by the Minister for Defence Industry, the Hon. Christopher Pyne Pyne MP, on 7 December 2016, <https://www.pyneonline.com.au/media-centre/media-releases/upgrade-of-the-osborne-south-naval-shipyard> (accessed 7 December 2016). See also transcript from interview on 891 ABC Adelaide Breakfast with Spence Denny on 'Infrastructure development at ASC's Osborne shipyard', 4 December 2016, <https://www.pyneonline.com.au/media-centre/transcripts/891-abc-breakfast> (31 May 2018).

38 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 15.

39 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 17 and 60.

40 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 8.

41 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, pp. 9–10.

42 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 10.

Workforce

3.39 The workforce enabler of the naval shipbuilding enterprise requires a highly capable, productive and skilled naval shipbuilding and sustainment workforce.⁴³

3.40 As the work on the third and final vessel nears completion, the naval shipbuilding workforce will shrink. According to the Naval Shipbuilding Plan, this period, also known as the 'valley of death', has resulted in the loss of thousands of employees with critical skills from the industry in recent years. The recruitment of these skilled workers and more will again be necessary when the new shipbuilding programs commence. When these new shipbuilding programs start, there may be difficulties in mobilising the necessary number of skilled workers to meet the industry's demand.⁴⁴ The Plan predicted that by 2026 the industry will need over 5,200 construction workers, and over 15,000 people directly and indirectly employed in the industry.⁴⁵

3.41 Recruitment, training and retention of highly skilled workers in the naval shipbuilding enterprise requires an investment over a lengthy period of time.⁴⁶ Mr Herve Guillou, CEO of Naval Group, recently commented in the media that the company was facing challenges in building an experienced local workforce to assist with the submarine build:

My worry is always that people confuse education with experience. These are very, very different.

...

Finding people with a diploma is not so difficult, finding people with experience and managerial skills is more difficult...it's nearly a one-by-one exercise.⁴⁷

3.42 A workforce plan for the whole of the naval shipbuilding programs remains under development. The Auditor General found that Defence had not considered cost-effectiveness when determining its approach to maintain a shipbuilding workforce between the Hobart Class destroyer's completion and the surface ship program's commencement.⁴⁸

43 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 15.

44 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 15–16.

45 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 15–16.

46 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 16.

47 David Wroe, '\$50 submarine project struggling to find qualified Australians: French shipbuilder', *Sydney Morning Herald*, 6 October 2017, <https://www.smh.com.au/politics/federal/50b-submarine-project-struggling-to-find-qualified-australians-french-shipbuilder-20171006-gyvxut.html> (accessed 30 April 2018).

48 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 8.

3.43 Chapter 4 discusses in more detail issues related to workforce planning and government investments related to workforce skilling for the naval construction programs, along with recent workforce developments at the ASC.

Industrial base

3.44 The third enabler of the naval shipbuilding enterprise is 'a motivated, innovative, cost-competitive and sustainable industry'.⁴⁹ Building an industrial base in Australia that is capable of implementing the naval shipbuilding plan is critical to securing a 'sustainable, long-term Australian naval shipbuilding industry with a sovereign capability to build and sustain its vessels'.⁵⁰

3.45 To establish a strong industrial base, underinvestment in the shipbuilding industry must be remedied. This means significant re-investments in Australia's heavy manufacturing and engineering capability and a closer partnership between Australian governments, industry, unions and the workforce.⁵¹

3.46 Reforms to address deficits in the country's industrial base are underway, with recent funds directed towards infrastructure modernisation and the establishment of training centres to broaden and deepen the skills required for a shipbuilding workforce for decades ahead.

3.47 The ANAO recently reported that broad areas of industrial reform required to achieve productive and cost-effective naval construction programs have been identified. However, no decision has been reached on how these reforms might take place.⁵²

3.48 An important aspect of establishing an industrial base is the requirement that when selecting an international ship designer to deliver any of the major shipbuilding programs, certain transfers of technology, intellectual property, business processes and workplace cultures to Australian industry should be mandated during the competitive evaluation process.⁵³ Chapter 5 discusses sovereign capability in greater details.

National approach

3.49 The fourth enabler of the naval shipbuilding enterprise involves a national approach to the shipbuilding plan's implementation. The committee agrees that a national approach is required to build an internationally competitive Australian industry. Such a historically large scaled project that is technologically challenging and complex requires a coordinated national approach. This means support and contributions from all state and territory governments, as well as from many sectors,

49 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 16.

50 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 15.

51 See also Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 16–17.

52 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 8.

53 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, p. 17.

will be required. The ANAO reported that 'initial activities have commenced towards adopting a national approach'.⁵⁴

3.50 In the absence of a national approach, state and territory governments as well as companies will likely expend their resources competing with one another.⁵⁵ During the course of the inquiry, the committee heard that discussion about the national naval shipbuilding industry was often premised as a competition between states about who would win defence contracts and the subsequent flow-on work. This discourse suggested that only one state could host Australia's naval shipbuilding industry. However, as demonstrated by the Offshore Patrol Vessels project which will take place in both Adelaide and Perth and the content of **Figure 3.2** in this chapter, Australia's naval shipbuilding industry is not limited to just one state but is rather a national industry located across Australia.

3.51 Evidence presented to the committee suggested that the Australian industry should redirect its focus from a state versus state debate towards providing an internationally competitive exports industry, servicing international customers, in addition to defence projects, other Commonwealth projects and commercial projects.⁵⁶

3.52 In an opinion article published after the release of the government's naval shipbuilding plan, Mr David Singleton, Chief Executive Officer, Austal, suggested that rather than a focus on unhelpful domestic competition between states on 'who gets what', attention should be directed towards competing for export contracts with foreign defence companies. Such an approach is necessary if the country is to expand its shipbuilding industry and create thousands of jobs across Australia.⁵⁷

3.53 At the committee's public hearings, several witnesses reiterated the national contribution to the shipbuilding programs. For example, at the committee's hearing on 4 April 2017, Mr John O'Callaghan, Executive Director, Australian Industry Group Defence Council, explained that shipbuilding is a national enterprise and there were many examples of where this national approach has proven successful, including supply of smart technology related to combat system activity from NSW and work undertaken by Victorian companies on the ANZAC frigates.⁵⁸

3.54 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, observed that although the future submarine's hull construction and assembly take

54 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 9.

55 Department of Defence, *Naval Shipbuilding Plan*, 16 May 2017, pp. 17–18.

56 For instance, at the Perth public hearing, Mr David Singleton, Chief Executive Officer, Austal Limited, argued in support of a shift in focus towards building a successful Australian exports industry. See Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, pp. 9, 11.

57 David Singleton, 'Come hull or high water', *Sunday Mail Adelaide*, 21 May 2017.

58 Mr John O'Callaghan, Executive Director, Australian Industry Group Defence Council, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 21.

place in Adelaide, the parts and component suppliers will come from across the country. He added that despite Queensland often being left out of the naval shipbuilding discourse, suppliers from Queensland have supplied parts that go into a warship—pumps, cables, componentry, and electrical equipment.⁵⁹

3.55 Similarly, the Hon Greg Combet, Victorian Defence Industry Advocate, explained that even though Victoria had not been awarded major contracts for defence builds, Victorian industry will still contribute to the nation's endeavours. He noted that Victoria's 'very significant' supply chain will be a large contributor to shipbuilding programs. Further, Victoria's capabilities in research and in engineering will play a large role in the delivery of these shipbuilding programs.⁶⁰

Defence Export Advocate

3.56 As noted in Chapter 2, the former Defence Minister David Johnston was appointed to the role of Australia's first Defence Export Advocate on 9 April 2018.⁶¹ The government advised Mr Johnston will provide international advocacy work on behalf of Australian defence industry to support Australian defence industry to secure export sales and contracts. This includes overseas travel to support defence export objectives, including assistance to government and Commonwealth officials as required. Mr Johnston will work closely with the Defence Export Office (via Team Defence Australia which sits within the office) as well as Austrade and the Centre for Defence Industry Capability. He will support the development and delivery of strategic export campaigns, including working with States and Territories to achieve this. In his role as Defence Export Advocate, he will also be the Chair of the Defence Export Forum—working closely with States, Territories and industry to provide a national approach to support the delivery of defence exports. The Defence Export

59 Mr Brent Clark, then interim Chief Executive Officer, Naval Group Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, pp. 1–2.

60 The Hon. Greg Combet, Victorian Defence Industry Advocate, Department of Economic Development, Jobs, Transport and Resources, Victoria, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 20 June 2017, p. 33.

61 At the Senate Foreign Affairs, Defence and Trade Legislation Committee estimates hearing on 29 May 2018, the Department of Defence advised the appointment was made on the Minister for Defence Industry's advice to Cabinet. Mr Scott Dewar, Acting Deputy Secretary Strategic Policy and Intelligence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget estimates), 29 May 2018, p. 10. See also Amelia McMahon, 'A former defence minister has been appointed as Australia's first defence export advocate', Defence Connect, 9 April 2018, <https://www.defenceconnect.com.au/key-enablers/2129-inaugural-defence-export-advocate-revealed> (accessed 26 April 2018); and Amy Remeikis, 'Abbott's defence minister the new face of export industry despite 'canoe' blunder', *The Guardian*, <https://www.theguardian.com/australia-news/2018/apr/09/abbotts-defence-minister-the-new-face-of-export-industry-despite-canoe-blunder> (accessed 9 April 2018).

Advocate reports to the Minister for Defence Industry and the Secretary of the Department of Defence.⁶²

3.57 At the Foreign Affairs Defence and Trade Legislation Committee's estimates hearing on 29 May 2018, the Department of Defence confirmed that the role was a paid position and refused to release further details on Mr Johnston's remuneration, noting only that the remuneration was commensurate with those for 'eminent persons' who are in similar advisory roles.⁶³ The department was queried on the Defence Minister's previous correspondence advising the President of Senate that the position's remuneration was nil.⁶⁴ The Department clarified that the advice referred to Mr Johnston's role as an unpaid member of the Centre for Defence Industry Capability Advisory Board rather than to his Defence Export Advocate role, which is a paid position.⁶⁵

2018 Defence Export Strategy

3.58 The government released its Defence Export Strategy on 29 January 2018. The strategy sets out an ambitious vision for the industry to become one of the top ten global defence exporters within the next decade. In launching the Strategy, the Minister for Defence Industry stated that it provides Australian companies the necessary support to grow, invest and to deliver defence capability.⁶⁶

3.59 The Australian Industry Group described the Strategy as a significant step in helping to build the capability of the defence industry to support the Australian

62 Senator Payne, Minister for Defence, Mr Scott Dewar, Acting Deputy Secretary Strategic Policy and Intelligence, and Dr Sheridan Kearnan, First Assistant Secretary Defence Industry Policy, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, pp. 10–11 and 52.

63 Defence claimed that Mr Johnston's remuneration was commercial in confidence. The Defence Minister took the question on notice. Senator Payne, Minister for Defence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, pp. 52–53.

64 As chair of the Defence Export forum, which is part of the Defence State and Territory Government Industry Advisory and Engagement Forum, the Defence Export Advocate (Mr Johnston) is a member of the CDIC Advisory Board. Dr Sheridan Kearnan, First Assistant Secretary Defence Industry Policy, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 11.

65 The Defence Export Advocate position is a part-time position. Mr Scott Dewar, Acting Deputy Secretary Strategic Policy and Intelligence, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget Estimates), 29 May 2018, p. 51.

66 The Hon. Christopher Pyne MP, Minister for Defence Industry, 'Launch of job-creating Defence Export Strategy', *Media release*, 29 January 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/launch-job-creating-defence-export-strategy> (accessed 29 May 2018).

Defence Force, grow the country's local industry, and promote Australia's economic goals.⁶⁷

3.60 The Minister listed several new initiatives and investments contained in the Defence Export Strategy, including:

- A new Australian Defence Export Office. The Office will work hand-in-hand with Austrade and the Centre for Defence Industry Capability to coordinate whole-of-government efforts, providing a focal point for defence exports.
- A new Australian Defence Export Advocate (discussed above).
- A \$3.8 billion Defence Export Facility administered by Efic, Australia's export credit agency. This will help Australian companies get the finance they need to underpin the sales of their equipment overseas. It will provide confidence to the Australian defence industry to identify and pursue new export opportunities, knowing Efic's support is available when there is a market gap for defence finance.
- \$20 million per year to implement the Defence Export Strategy and support defence industry exports, including \$6.35 million to develop and implement strategic multi-year export campaigns, an additional \$3.2 million to enhance and expand the Global Supply Chain program, and an additional \$4.1 million for grants to help build the capability of small and medium enterprises to compete internationally.⁶⁸

3.61 Some experts have commented on assumptions implicit in the Strategy that do not appear to be founded, pointing to the Strategy's optimistic estimates of current defence export activity, which lacks documentary and corroborating evidence.⁶⁹ For example, Mr Ron Burke in an article published in *The Strategist*, described the estimates of current defence export activity – between \$1.5 and \$2.5 billion – as 'unusually high'. Mr Burke explained:

Those figures appear optimistic for a number of reasons. To start, the exact origin of the figures is difficult to determine. Also, the strategy lacks corroborating evidence identifying the largest contributing companies and/or projects (even in an aggregate form to guard against the disclosure of confidential information). And the project at the vanguard of Australia's recent export success—JSF global supply chain participation—accounts for

67 AiGroup, 'Defence Export Strategy sets out ambitious vision for the industry', 29 January 2018. Available at <https://www.aigroup.com.au/policy-and-research/mediacentre/releases/Defence-Export-Strategy-29Jan/> (accessed 31 January 2018).

68 The Hon. Christopher Pyne MP, Minister for Defence Industry, 'Launch of job-creating Defence Export Strategy', *Media release*, 29 January 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/launch-job-creating-defence-export-strategy> (accessed 29 May 2018).

69 See, for example, Rob Burke, 'Exports and expectations: Aspects of the new Defence export strategy', Australian Strategic Policy Institute, *The Strategist*, 19 February 2018, <https://www.aspistrategist.org.au/exports-expectations-aspects-new-defence-export-strategy/> (accessed 29 May 2018).

only around 5 per cent of the \$2.5 billion figure. Further, the estimates seem to hinge on company predictions (possibly for export projects spanning many years) rather than actual, annual export outcomes. Finally, SIPRI data for Australia, based on actual rather than predicted values for major defence projects, show a great deal of volatility, with 2016 representing a peak that far exceeds anything achieved over the preceding five years.⁷⁰

3.62 Mr Burke observed that evidence from a departmental industry survey targeted at capturing export activity and Austrade data demonstrate that 'exports may equate to no more than 10 per cent of what the industry as a whole produced—or roughly one-third of what the strategy implies'.⁷¹

2018 Defence Industrial Capability Plan

3.63 On 23 April 2018, the Minister for Defence Industry released the Defence Industrial Capability Plan (the DICP). The DICP builds on the 2016 Industry Policy Statement. It also outlines Australia's long-term vision and objectives for the country's defence industry and how the government and Defence will partner with industry to achieve the government's ambition.⁷²

3.64 The Minister for Defence Industry stated that the DICP addresses defence and defence industry sovereignty and outlines the initial Sovereign Industrial Capability Priorities. The DICP makes it clear that simply having an ABN and an Australian shopfront is not enough to be considered an Australian defence company. The Minister stated that:

[W]e want to see Australian leadership, an Australian board, and an Australian workforce value-adding right here at home.⁷³

3.65 The DICP explained that:

The Government's investment in Australia's defence capability comes with an expectation that international companies wishing to work with Defence

70 See, for example, Rob Burke, 'Exports and expectations: Aspects of the new Defence export strategy', Australian Strategic Policy Institute, *The Strategist*, 19 February 2018, <https://www.aspistrategist.org.au/exports-expectations-aspects-new-defence-export-strategy/> (accessed 29 May 2018).

71 See, for example, Rob Burke, 'Exports and expectations: Aspects of the new Defence export strategy', Australian Strategic Policy Institute, *The Strategist*, 19 February 2018, <https://www.aspistrategist.org.au/exports-expectations-aspects-new-defence-export-strategy/> (accessed 29 May 2018).

72 The Hon. Christopher Pyne MP, Minister for Defence Industry, 'Defence Industrial Capability Plan', *Media release*, 23 April 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-industrial-capability-plan> (accessed 24 April 2018). See also Department of Defence, *Defence Industrial Capability Plan*, April 2018, www.defence.gov.au/SPI/Industry/CapabilityPlan/ (accessed 24 April 2018).

73 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Defence Industrial Capability Plan', *Media release*, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-industrial-capability-plan> (accessed 24 April 2018).

will invest in Australian defence industry and establish Australian subsidiaries. The Government has an expectation that those companies wishing to work with Defence will have an Australian presence and Australian leadership influence, including at the senior leadership and board level.⁷⁴

3.66 The Sovereign Industrial Capability Priorities are industrial capabilities critical to achieving the Australian Defence Force's operational mission and to the development of Australia's future force over the next few years.⁷⁵ Collins Class Submarine maintenance and technology upgrade and the continuous shipbuilding program (including rolling submarine acquisition) are included among the ten sovereign capability priorities.⁷⁶ They are assessed as:

- operationally critical to the Defence mission;
- priorities within the Integrated Investment Program over the next three to five years; or
- in need of dedicated monitoring, management, and support due to their industrial complexity, Government priority, or requirements across multiple capability programs.⁷⁷

74 Department of Defence, *Defence Industrial Capability Plan*, April 2018, p. 16.

75 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Defence Industrial Capability Plan', *Media release*, 23 April 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-industrial-capability-plan> (accessed 24 April 2018).

76 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Defence Industrial Capability Plan', *Media release*, 23 April 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-industrial-capability-plan> (accessed 24 April 2018). Department of Defence, *2018 Defence Industrial Capability Plan*, April 2018, p. 20

77 Department of Defence, *2018 Defence Industrial Capability Plan*, April 2018, p. 19.

Figure 3.3: Department of Defence's Industry Policy Agenda⁷⁸:



Source: 2018 Defence Industrial Capability Plan (DICP)

3.67 Support for the Defence Industrial Capability Plan's implementation will be provided by Australian industrial strategies for each of the six Integrated Investment Program capability streams and Implementation Plans for each Sovereign Industrial Capability Priority from 2019.⁷⁹

3.68 The DICP allocated up to \$17 million in annual funding from 2018–19 to support Sovereign Industrial Capability Priority grants. The grants will be delivered by the Centre for Defence Industry Capability.⁸⁰

3.69 ASPI has described key additions to the Naval Shipbuilding Plan as including:

- a tighter definition of Australian defence industry;
- a list of 10 'sovereign industry capability priorities', along with a framework to assist with force design and contracting; and
- more information on the capability streams that make up the \$200 billion Integrated Investment Program.⁸¹

78 Department of Defence, *2018 Defence Industrial Capability Plan*, April 2018, p. 14.

79 The Hon Christopher Pyne MP, Minister for Defence Industry, 'Defence Industrial Capability Plan', *Media release*, 23 April 2018, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-industrial-capability-plan> (accessed 24 April 2018).

80 Department of Defence, *Defence Industrial Capability Plan*, www.defence.gov.au/SPI/Industry/CapabilityPlan/ (accessed 24 April 2018).

Economic benefits

3.70 The government's naval shipbuilding plan stated that the establishment of a continuous naval shipbuilding industry will create 'economic growth through maximising Australian industry participation, and securing Australian jobs that will endure for decades to come'.⁸² The committee heard that by sustaining a long-term industry, families and their communities will be supported through secure, long-term careers. It was also noted that a strong domestic sovereign capability has the potential to become a competitive and thriving exports industry into the future, leading to further economic benefits and less reliance on Australian defence contracts to sustain the industry.

3.71 The long-term benefits of naval shipbuilding investments can be substantial. Although the shipbuilding and repairs services industry has grown slowly over the past five years, the industry is expected to experience 'robust' growth onwards. This is mostly due to the Commonwealth government's commitment to support the industry through the continuous naval shipbuilding program, which aims to stabilise revenue streams and shorten times between contracts.⁸³ It is anticipated that for the current 2017–18 period, industry revenue will reach 3.3 billion with \$397.2 million in expected profits. Industry revenue is forecast to grow at a compound annual rate of 4.4 per cent over the five years from 2018 to 2023, to reach \$4.1 billion.⁸⁴

3.72 Economic benefits extend to broader shipbuilding industry exports. Although international trade comprises a small part of the industry, only accounting for 1.6 per cent of industry revenue in 2017–18⁸⁵, there are opportunities for growth in niche product segments such as high-speed passenger catamarans, particularly in Southeast Asian markets.⁸⁶ These commercial exports will be an important driver of economic benefits going forward.

81 Michael Shoebriidge, 'The Defence Industrial Capability Plan—two steps forward', Australian Strategic Policy Institute, *The Strategist*, 23 April 2018, <https://www.aspistrategist.org.au/defence-industrial-capability-plan-two-steps-forward/> (accessed 27 May 2018).

82 Department of Defence, *Naval Shipbuilding Plan*, May 2017, p. 11.

83 IBISWorld, *Industry Report C2391: Shipbuilding and Repair Services in Australia*, February 2018, pp. 4 and 7.

84 IBISWorld, *Industry Report C2391: Shipbuilding and Repair Services in Australia*, February 2018, pp. 3-4.

85 Ibisworld noted that exports have been volatile over the past five years and this was underscored by massive growth over the two years through 2014-2015 followed by a large drop. Strong competition from foreign manufacturers also had an effect on exports. IBISWorld, *Industry Report C2391: Shipbuilding and Repair Services in Australia*, February 2018, p. 15.

86 IBISWorld, *Industry Report C2391: Shipbuilding and Repair Services in Australia*, February 2018, p. 15.

Production efficiencies

3.73 Findings by the 2015 RAND report and the ANAO's performance audit report suggest that ships built in Australia come at a premium cost. Witnesses and submitters considered that this premium was worth it, given the other benefits of a local ship building industry.

3.74 The 2015 RAND report found that producing naval ships in Australia includes a 30 to 40 per cent premium in price in contrast to comparable ships produced overseas. The RAND report noted that this premium could drop over time with continuous production, reform to acquisition and contracting processes focusing on cost effectiveness, selection of mature designs containing minimal changes, and adoption of an integrated design, builder and supplier model of production.⁸⁷ This was supported by the Department of Defence's evidence that with more ships built, the productivity and cost of each subsequent ship built will improve. This productivity is also reflected in the learning curve moving down until it reaches the 'most efficient and effective build process' in place and workers become more skilled and experienced.⁸⁸

3.75 However, the ANAO's recent report into the competitive evaluation process for the future submarines project suggested a more modest price premium, with the submarines provided by the successful participant Naval Group likely to incur a premium of around 15 per cent for an Australian build option (in comparison to an international and hybrid build).⁸⁹

3.76 The committee reiterates its conclusion from its third report during the 44th Parliament that 'the committee is not convinced by assessments that dismiss the economic benefits from a vibrant domestic ship building industry'.⁹⁰ Primarily, naval shipbuilding is a critical input to national security and 'most countries are more than willing to pay a price premium for this security'.⁹¹ As Ms Deirdre Willmott, Chief Executive Office, Chamber of Commerce and Industry of Western Australia, explained, it is important for Australia to have a naval shipbuilding sovereign capability despite narrow considerations of immediate cost. She added that it made little sense to 'keep going overseas' to build ships when Australia can build these ships

87 RAND Corporation, *Australia's Naval Shipbuilding Enterprise: Preparing for the 21st Century*, 2015, pp. xxxviii and xxxix. See also Australian National Audit Office, *Naval Construction Programs—Mobilisation*, p. 47.

88 Rear Admiral Gregory Sammut, Head Future Submarine Program, and Mr Stephen Johnson, General Manager Submarines, Senate Foreign Affairs, Defence and Trade Legislation Committee, 29 May 2018, *Proof Committee Hansard* (Budget estimates), pp. 33 and 58.

89 See Australian National Audit Office, Audit Report No. 48 2016-17, *Future Submarine – Competitive Evaluation Process*, April 2017, pp. 24 and 25.

90 Senate Economics References Committee, *Part 3: Future of Australia's Naval Shipbuilding Industry – Long-Term Planning*, July 2015, p. 95.

91 Senate Economics References Committee, *Part 3: Future of Australia's Naval Shipbuilding Industry – Long-Term Planning*, July 2015, p. 96.

locally, and with the added built in advantage of having sovereign capability for the future.⁹²

3.77 Mr David Singleton, Chief Executive Officer, Austal explained that it was possible for ships to be produced economically if the buyer requires the supplier to produce subsequent ships at a cheaper cost. He gave the example of Austal's experience with the US government:

[We] have two ships and no competition for those ships at all—so there is not another aluminium defence shipbuilder and there isn't anybody else who competes for both the littoral combat ship and the EPF. I can tell you that the US government has an extremely effective way of making sure that we produce ships to a very good economic standard. In fact, we are managed by the US to make sure that every single ship we produce is cheaper than the previous ship we produced, and by quite large percentages.⁹³

3.78 Mr Glenn Thompson, Assistant National Secretary, AMWU, explained that the more ships built, the more efficiently and economically they are produced. In the case of the AWD project:

From ship 1... to ship 2, there is a 45 per cent increase in productivity. [And the] government has announced that it is ahead of budget and on time.⁹⁴

3.79 At the 24 May 2017 Senate Finance and Public Administration Legislation Committee estimates hearing, Mr Mark Lamarre, then Chief Executive Officer, Australian Submarine Corporation Shipbuilding, confirmed these productivity and economic gains. Indeed, on the day of the hearing, ASC delivered ship one to the Capability Acquisition and Sustainment Group (CASG) within the Department of Defence.⁹⁵ Mr Lamarre explained that productivity and financial gains made with each subsequent AWD program ship produced had a multiplier effect: ship three would be more economical than ship two and one, with ship three currently 38 per

92 Ms Deidre Willmott, Chief Executive Officer, Chamber of Commerce and Industry of Western Australia, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, p. 34.

93 Mr David Singleton, Chief Executive Officer, Austal Limited, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 3 April 2017, p. 11.

94 Mr Glenn Thompson, Assistant National Secretary, Australian Manufacturing Workers' Union, Senate Economics References Committee, *Committee Hansard* (Future of Australia's naval shipbuilding industry), 4 April 2017, p. 4.

95 Mr Mark Lamarre, then Chief Executive Officer, Australian Submarine Corporation Shipbuilding, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, p. 24. On 16 June 2017, the Minister for Defence Industry attended a ceremony at the Osborne Naval Shipyard to mark the Government's provisional acceptance of the first AWD *Hobart* vessel. See the Hon Christopher Pyne MP, Minister for Defence, 'Defence accepts delivery of first Air Warfare Destroyer Hobart', *Media release*, 16 June 2017, <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/defence-accepts-delivery-first-air-warfare-destroyer-hobart> (accessed 20 June 2018).

cent less expensive than ship two, and over 50 per cent complete.⁹⁶ Mr Lamarre stated that the ASC was proof that Australia could produce ships economically without a premium cost:

We are cost competitive, as I have indicated in the turnouts that we are getting on the three ships, but also as benchmarked by others... [T]he team ... are absolutely smashing the notion that Australians have to accept a 40 per cent premium for building ships.⁹⁷

3.80 Findings by the ANAO in an audit report in March 2017 further supported this evidence. In the ANAO's audit report into the procurement of the replacement Antarctic Vessel, the ANAO found that the view held by the Department of Defence that a home build will cost 40 per cent more was not adequately supported by relevant documentary evidence.⁹⁸

ANAO Audit Report: Naval Construction Programs—Mobilisation 2018

3.81 The recent ANAO Audit Report *Naval Construction Programs—Mobilisation*, released on 14 May 2018, raised serious concerns for the committee about aspects of the government's implementation of the naval shipbuilding plan. These concerns were not fully assuaged by the Department of Defence's explanations at the recent Foreign Affairs, Defence and Trade Legislation Committee's budget estimates hearing on 29 May 2018.

3.82 In its findings, the ANAO noted that:

The Naval Shipbuilding Plan did not identify how Defence will address the high to extreme level of risk associated with its naval construction programs, as advised to the Government in 2015 and 2017.⁹⁹

3.83 The ANAO reported that Defence's main risk mitigation strategy was the implementation of the government's guiding principles. The ANAO reported that the successful implementation of the Naval Shipbuilding Plan would require 'seamless' management of the naval construction program and the following factors falling into place:

- the timely and effective mobilisation of key enablers;
- the timely and effective implementation of each construction project; and
- the seamless management of the naval construction program as a whole, to avoid flow-on effects and maintain a continuous build process which delivers the specified capability on time and within budget.¹⁰⁰

96 Mr Mark Lamarre, then Chief Executive Officer, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, pp. 24–25.

97 Mr Mark Lamarre, then Chief Executive Officer, Senate Finance and Public Administration Legislation Committee, *Committee Hansard* (Budget Estimates), 24 May 2017, p. 26.

98 Australian National Audit Office, *Replacement Antarctic Vessel*, Audit Report No. 45 2016–2017, March 2017, footnote 13.

99 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017–18, *Naval Construction Programs—Mobilisation*, p. 51.

3.84 The ANAO noted that based on Defence's past experiences with naval shipbuilding programs in Australia, successful implementation of the naval shipbuilding plan required very high expectations:

The history of naval construction programs in Australia suggests that these are very high expectations indeed. Shortcomings in the management of program risk will result in the extension of service of the Armidale and ANZAC class ships, and the Collins Class submarines, and the associated costs and effects on naval capability.¹⁰¹

3.85 The ANAO also noted that Defence did not have an updated cost estimate for its naval construction programs that included the FSP's domestic build.¹⁰² Indeed, current cost estimates do not reflect changes to the earlier design and build milestones for its surface ships.¹⁰³

3.86 Other issues raised which are of concern to the committee include:

- the progress of the Offshore Patrol Vessel through second gate approval without detailed sustainment costs and finalised commercial arrangements;¹⁰⁴ and
- the high risk level related to aspects of the Future Frigates program identified by Defence in an internal review in 2016.

3.87 The 2016 Defence internal review found an accelerated schedule would risk cost and construction overruns. It provided two options to mitigate these risks but an alternative option was chosen. This alternative option allowed for construction to commence in 2020 with 'prototyping activities'. The ANAO noted this alternative option was not supported by any analysis.

3.88 The Department of Defence responded to these concerns at the Foreign Affairs, Defence and Trade Legislation Committee's estimates hearing on 29 May 2018. It also took the opportunity to respond to the negative media coverage and 'selective'

100 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 51.

101 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 51. The ANAO cited a number of previous audit reports to support this statement: For example see ANAO Audit Reports: No. 34 1997-98 *New Submarine Project*; No. 22 2013-14 *Air Warfare Destroyer Program*; No. 9 2015-16 *Test and Evaluation of Major Defence Equipment Acquisitions* (specifically Landing Helicopter Dock). Also see RAND Corporation, *Learning from Experience Volume IV Lessons from Australia's Collins Class Submarine*, 2011.

102 The RAND Corporation's 2015 report, on which the Naval Shipbuilding Plan is based, was not asked to include submarines in its analysis. In contrast, both the Gillard and Howard governments' 2013 and 2002 shipbuilding plans included analysis of both submarines and surface ships.

103 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 9.

104 Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, p. 38.

reporting and interpretation of the ANAO's report.¹⁰⁵ Mr Kim Gillis, Deputy Secretary CASG, claimed media coverage had conveniently ignored the report's positive findings that:

- Defence continues to work towards effective planning and mobilisation to deliver the Australian government's Naval Shipbuilding Plan;
- Defence has identified the key elements for a successful continuous shipbuilding enterprise; and
- Defence is currently meeting scheduled milestones for the naval construction programs, noting that each program is in the early stages.¹⁰⁶

3.89 Mr Gillis advised that the department was making steady progress in its implementation of the government's national shipbuilding plan, stating that in the year since the naval shipbuilding plan's release, 'Defence has progressed the key policy initiatives and critical milestones outlined in the plan in a timely and coordinated national effort'.¹⁰⁷

3.90 Mr Gillis also refuted several negative claims reported in the media. Mr Gillis told the Foreign Affairs, Defence and Trade Legislation Committee' that:

- There was 'no cost blowout' related to the Offshore Patrol Vessel program. As the contract is a fixed-price contract, the department 'understands precisely' the costs of building these vessels in both South Australia and Western Australia.
- The 'government was provided sustainment data for the Offshore Patrol Vessel, based on historical usage and designer forecasts'. This was 'standard shipbuilding practice'. Further, the most current sustainment costs for the Offshore Patrol Vessels are only available following the outcome of the tender process and the known type of vessel to be purchased.
- Defence has provided the government 'with an indicative life-cycle cost for the Offshore Patrol Vessel across a 20 year-year life'. The cost was 'based on previous programs, historical usage and upkeep data provided by tenderers'. This was typical for a shipbuilding project at a similar stage.
- Defence first used the terms 'high to extreme risk' (and not the ANAO) when it identified that aspects of the future frigate program were of a 'high to extreme risk level' in early 2016.
- 'All of the changes associated with the domestic build of the future submarine and future frigate programs are been reflected in Defence's Integrated Investment

105 Mr Kim Gillis, Deputy Secretary, Capability Acquisition and Sustainment Group (CASG), Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget estimates), 29 May 2018, p. 7.

106 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget estimates), 29 May 2018, p. 7.

107 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget estimates), 29 May 2018, p. 8.

Program.' The shipbuilding provisions identified in the IIP have 'been consolidated to enable government to consider the affordability of the naval construction program as each project is presented to government. Offsets are recommended for any shortfalls between funding requirements and existing provisions'.¹⁰⁸

3.91 Mr Gillis disagreed with the ANAO's concern that there were no detailed sustainment costs for the OPV, stating that:

[The ANAO] misinterpreted the requirements, because the requirements are to have tender-quality pricing for the tender. There was only one tender there, which was to build ships. It's a separate tender to actually provide the detailed costing for sustainment. We have been doing that for as long as I can remember because it would be illogical for me to then ask three tenderers to then go and have, potentially, five or six sustainment companies then tender against three different ships, when we haven't selected one, to go through that process. It is an illogical path to say that we should have had tender-quality prices for sustainment when we hadn't even released the tender.¹⁰⁹

3.92 The Department of Defence reported several strategies were adopted to lower these risks to a manageable level. These strategies included:

- The commencement of the future frigate prototyping in 2020 to demonstrate the ship design, shipyard processes and workforce are production ready¹¹⁰;
- The decoupling of shipyard design and construction ahead of the future frigate decision; and
- The adoption of an enterprise approach to Combat Management Systems and bringing forward the future frigate combat management decision. This has allowed for the commencement of studies prior to the future frigate decision.¹¹¹

3.93 At the committee's public hearing on 7 June 2018, Dr Tom Ioannou, Group Executive Director, ANAO, advised that the office remained committed to the findings and recommendations contained in the report, notwithstanding the statements

108 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget estimates), 29 May 2018, pp. 7-8.

109 Mr Kim Gillis, Deputy Secretary, CASG, Department of Defence, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 71.

110 These prototyping activities would allow Defence to 'test the shipyard's tools and procedures, and train and qualify the shipyard workers'. The costs for these activities would be met by efficiencies gained during the frigate program's build. See Australian National Audit Office, Australian National Audit Office, Audit Report No. 39 2017-18, *Naval Construction Programs—Mobilisation*, pp. 43–44.

111 Mr Kim Gillis, Deputy Secretary, CASG, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Proof Committee Hansard* (Budget estimates), 29 May 2018, p. 8.

made by Defence officials during the May 2018 Budget Estimates.¹¹² In relation to the suggestion by Defence officials that the report was out of date, Dr Ioannou advised the committee that the audit continued up until the day it was tabled by the Auditor General, on 14 May 2018:

Our report was, of course, tabled on 14 May 2018, and it includes at page 12 a formal, written Defence response to the audit report, which was received on 26 March 2018. It's in the nature of such responses that we also receive a variety of more detailed comments in addition to the formal response to be published in the report. Our audit standards require us to continue the audit process until the completion of an audit.¹¹³

3.94 In relation to the use of the term 'high to extreme risk' with regard to the future frigate program, the ANAO agreed that this term was first used by the Department of Defence. Dr Ioannou told the committee that he had no reason to doubt that this term had been used accurately by the Department.¹¹⁴

Committee comment

3.95 National long term planning is vitally important for Australia's naval shipbuilding industry to sustain and consolidate its sovereign capability. Since the tabling of the committee's third report in July 2015, the Coalition government has made a number of announcements in support of the continuous naval shipbuilding program. The eventual release of the naval shipbuilding plan on 16 May 2017 went some way to formalising 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.

3.96 The committee acknowledges that a large amount of evidence received at the April 2017 hearings pre-dated the release of the government's naval shipbuilding plan and associated documents. However, the evidence remains relevant, in that the delayed release of the Plan created unnecessary uncertainties for industry. Further, having assessed the Plan after its release, it is clear that the Plan has failed to meet the expectations of witnesses who were disappointed in its lack of details.

ANAO Audit Report Naval Construction Programs—Mobilisation

3.97 The ANAO report raises serious concerns about Defence's mitigation of the risks associated with its implementation of the naval shipbuilding plan. Despite Defence's evidence that it identified risks early and undertook risk mitigating

112 Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 60.

113 Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 60.

114 Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group, Australian National Audit Office, Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 61.

strategies to manage them, the committee remains concerned with the management and implementation of the naval shipbuilding programs. Much of Defence's risk mitigation strategies to minimise any cost overruns and construction delays are premised on all the pieces in the strategies falling into place smoothly, including prototyping activities to address the future frigate's accelerated schedule. Against this background are Defence's past challenges working on Australian shipbuilding projects in Australia.

Defence Export Advocate

3.98 The committee is concerned that information on the remuneration for the Defence Export Advocate is not publically available and that such information was withheld from the Foreign Affairs, Defence and Trade Legislation Committee at its recent estimates hearing. As at the date of this report's tabling, the committee's questions on the matter remained unanswered. The lack of information impedes on the work of the senate and its ability to hold the government and departments accountable to Parliament.

The naval shipbuilding plan

3.99 The committee welcomes the release of the Naval Shipbuilding Plan (NSP). However, the NSP failed to include key information identified by witnesses as vital for inclusion. For example, the NSP 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, are absent. The committee returns to this issue in Chapter 5.

3.100 A plan should be a strategic document for the industry, providing a framework for action. However, the NSP as currently drafted is little more than an explanation of decisions and announcements already made. If the government's intent was to produce a project plan for the management of these announcements already made, it failed by not providing a detailed project schedule for the continuous build nor specifying the related dependencies between projects— something a project plan would be expected to contain. In addition, limited detail was provided about these projects – for example, no further information was provided about the \$100 million Western Australian infrastructure upgrade announcement discussed earlier in this chapter.

3.101 The committee further notes that the NSP does not mandate regular reporting or updates to the NSP. In contrast, the committee heard that in the United States, an updated Annual Long-Range Plan for Construction of Naval Vessels is required under law to be submitted to Congress annually.¹¹⁵ If the Secretary of Defence does not

115 Section 231 of Title 10, United States Code states that the Secretary of Defence shall include with the defence budget materials for a fiscal year, a plan for the construction of combatant and support vessels, and a certification by the Secretary that both the budget for that fiscal year and future defence program are sufficient. This is provided around the time the President submits a budget request to Congress for the next fiscal year, which must be submitted by the first Monday in February.

provide this to Congress, funds available for implementation of the plan in that financial year are reduced by 50 per cent until such documentation is provided. By comparison, the Australian naval shipbuilding plan simply states that the government will provide regular updates on its implementation through national security statements and naval shipbuilding updates to the Parliament. While the committee acknowledges the internal governance arrangements in place and direct reporting to the National Security Committee of Cabinet, this does not enable the public or the Parliament to hold the government to account in regard to its implementation of the NSP, as limited as it is. The committee considers that at a minimum, a status report and updated plan is required to be provided twice a year to the Parliament.

3.102 The Plan only focussed on one part of the Australian industry – government defence contracts—ignoring a thriving domestic commercial sector and a growing exports industry. An internationally competitive Australian industry is vital to the sustainability of the Australian naval shipbuilding industry, enabling it to maintain its sovereign capability, and the realisation of future economic benefits. Long term planning for consolidating the commercial and exports side of the industry is still required.

3.103 Evidence presented by Mr Glenn Thompson, AMWU, highlighted the use of minor and support vessels by the Commonwealth, outside of the Defence sector.¹¹⁶ The committee considers that these vessels should also be included in a national shipbuilding plan.

3.104 A large number of support vessels relied on by the Royal Australian Navy are being managed by Serco Defence which operates across Australia.¹¹⁷ As one of the country's largest maritime service operators, with facilities across the country, it has an important role to play in sustaining a viable shipbuilding industry in Australia. This means having a consistent flow of maintenance and construction work for people to build skills, gain experiences, and for businesses to 'attract investment and improve productivity'.¹¹⁸ The company has designed, built, operated and maintained a large number of vessels. It has provided maintenance and in service support for the Pacific

116 Evidence presented by Mr Glenn Thompson from the AMWU highlighted use of minor and support vessels by the Commonwealth. Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 32-35.

117 Serco Australia is an Australian proprietary limited company and is owned by Serco Group plc (Serco Group), a company incorporated in the UK and listed on the London Stock Exchange. Serco Defence was created in 2012 after the Serco Group acquired DMS Maritime Pty Ltd (DMS). See additional information provided to the Senate Economics References Committee by Serco Australia Pty Ltd, received 15 May 2018, p. 1; Australian Manufacturing Workers' Union, *Supplementary submission 42.1*, p. 1.

118 Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, p. 32.

Patrol Boats, Bay Class Australian Customs Vessels, Cape Class Patrol Boats, and Armidale Class Boats.¹¹⁹

3.105 Mr Thompson, AMWU, advised the committee that Serco Defence manages a large number of vessels for Defence and other government agencies, including the Antarctic Supply and Research Vessel (ASRV) which will replace the icebreaker and research vessel *Aurora Australis*, and a 93-metre aviation training vessel to the Australian government.¹²⁰ The training vessel was built in Vietnam and the replacement icebreaker vessel will be built in Romania.¹²¹ Unfortunately Serco Defence declined the committee's invitation to attend and give evidence at the hearing on 7 June 2018. As a consequence, the committee has not had an opportunity to discuss these vessels with Serco Defence.

3.106 The committee considers that the contracts, construction, maintenance and support services related to all Commonwealth procured and leased vessels, such as those outlined above, should also be included in a national shipbuilding plan.

3.107 The finding by ANAO that the naval construction program's cost of implementation did not reflect changes to the original cost assumptions remains relevant. The committee is not convinced that the original cost assumption which omits an Australian build for the Future Submarine program and an earlier construction of the surface ships (bringing forward expenditure) has been satisfactorily reflected in the Integrated Investment Program. The committee does not believe the arrangement that shortfalls between the funding requirements and existing provisions be covered by 'offsets' is a satisfactory solution for not having more up-to-date cost assumptions.

119 Pacific Patrol Boats: from 2010 to 2017, Serco Defence was contracted by the Commonwealth as the maintenance provider; Cape Class Patrol Boats: from 2011 to 2017 Serco Defence was contracted by Austal to provide in service support of the Australian Border Force's eight vessels; Armidale Class Patrol Boats: from 2007 to 2017, Serco was contracted to provide in service support of the RAN's 14 patrol boats. Refer to Serco Australia Pty Ltd's correspondence provided to the Senate Economics References Committee, received 15 June 2018, pp. 2-3.

120 The numbers provided at the hearing has been subsequently disputed by Serco Australia. For instance, Serco Defence has disputed that it manages over 100 vessels for government and have around 847 contracts with government valued in excess of \$3 billion. Serco Defence advised it manages 64 vessels, two of which are capital assets and the remainder comprising of harbour tugs, general purpose workboats and other various support vessels. Refer to Serco Australia Pty Ltd's correspondence provided to the Senate Economics References Committee, received 15 June 2018, pp. 1-2. Senate Economics References Committee, *Proof Committee Hansard* (Future of Australia's naval shipbuilding industry), 7 June 2018, pp. 33-34.

121 This vessel is being built at Damen Shipyards in Romania, with Romanian Steel by ArcelorMittal Galati. See, Anca Bernovici, 'ArcelorMittal Galati provides steel for Antarctic state-of-the-art research vessel', *Romania Journal*, 18 January 2018. Available online <https://www.romaniajournal.ro/arcelormittal-galati-provides-steel-for-antarctic-state-of-the-art-research-vessel/> (accessed 22 June 2018).

Other Commonwealth vessel procurements

3.108 One of several notable absences from the government's Naval Shipbuilding Plan is the absence of other key Defence Department and Commonwealth vessel procurements. For example, the Plan did not include:

- the Department of Defence's own RAN replacement replenishment ships (SEA1652) program (the subject of this committee's first report); or
- the Department of the Environment and Energy's Replacement Antarctic Vessel (the subject of a March 2017 ANAO audit report).

3.109 In both instances, the successful tenderers were both international companies, Navantia of Spain and DMS Maritime Pty Ltd (now Serco Defence) respectively.

3.110 The committee can only assume in the instance of replenishment ships (SEA1652), because these ships will not be built in Australia by an Australian company, the program was not included in the naval shipbuilding plan and as a result, Australian industry involvement will not be prioritised in these projects.

3.111 The committee considers that the government's Naval Shipbuilding Plan is limited in scope and falls short of achieving the government's intended aim of a continuous national build of ships in Australia. It is a document that focuses on a small number of defence naval procurements and their sustainment, in a limited number of Australian states.

The need for a national shipbuilding plan

3.112 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, 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.

3.113 The committee notes that state and territory procurements are a matter for state governments and that state procurement frameworks may differ. Predominantly, the main vessels procured by state and territory governments are for their police forces. While there are a limited number of procurements for state public transportation, a mixture of private and public ownership and operations arrangements makes a national approach difficult in these circumstances.

3.114 Moreover, the committee is aware that in the past decade, an overwhelming number of state and territory vessel procurements have been awarded to Australian industry. Despite this, the committee considers there to be value in developing a shared principles framework to ensure that:

- state involvement in Australian industry continues;

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

3.115 In regards to non-defence naval Commonwealth vessel procurements, the committee is aware of several procurements that should have been, or should be, planned in conjunction with defence procurements and non-government opportunities in order to sustain a continuous national build of vessels in Australia. These include:

- Replacement Antarctic Vessel (icebreaker). Department of the Environment and Energy. Awarded to DMS Maritime Pty Ltd (now Serco Defence). Discussed in ANAO report 45 2016–2017;
- Cape Class Patrol Boats. Australian Border Force (formerly Department of Immigration and Border Protection and before that Australian Customs and Border Protection Service). Awarded to Austal. Discussed in ANAO report 13 2014–2015;
- RV Investigator – scientific research vessel. CSIRO. Teekey Holdings Australia, constructed in Singapore. The number of days spent at sea by this vessel and the backlog of bookings for use by researchers was discussed at a Senate Environment and Communications References Committee public hearing into the impacts of climate change on marine fisheries and biodiversity held in Sydney on 17 March 2017;¹²²
- STS Young Endeavour ship. Operated by the Royal Australian Naval for the Young Endeavour Youth Scheme. This vessel was a gift from the United Kingdom government in 1988. At the 30 May 2017 Foreign Affairs, Defence and Trade Legislation Committee's estimates hearing it was revealed that the vessel had a planned withdrawal date of 2021–22.¹²³ The Department of Defence is in the process of developing options for replacement of the vessel;¹²⁴
- Vessels used by Australian Border Force such as the Ocean Shield and Thaiyak.
- Vessels used by the Department of Agriculture and Water Resources; and
- Vessels such as patrol boats and rigid hull inflatable boats used by the Australian Federal Police.

Recommendation 1

122 Dr Andreas Schiller, Acting Director, Oceans and Atmosphere, Commonwealth Scientific and Industrial Research Organisation, Senate Environment and Communications References Committee, *Committee Hansard* (Inquiry into current and future impacts of climate change on marine fisheries and biodiversity), 17 March 2017, pp. 4–5.

123 Vice Admiral Tim Barrett AO CSC, RAN, Chief of Navy, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget estimates), 30 May 2017, p. 81.

124 Vice Admiral Tim Barrett AO CSC, RAN, Chief of Navy, Senate Foreign Affairs, Defence and Trade Legislation Committee, *Committee Hansard* (Budget estimates), 30 May 2017, p. 81.

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, including 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.

