

Additional Comments by Senator Rex Patrick

Increasing Australia's sovereign shipbuilding capability: a shipload more to be done

Betrayal of a National Kind

1.1 I thank the committee for the work it has done in relation to this long running but very important inquiry. I also thank the secretariat for their behind the scenes efforts.

1.2 I support the general findings in this report and the recommendations that flow from them, but there is a need to emphasise one issue of considerable concern that stands out against the significant ground covered by the committee in its work.

1.3 The \$89 billion naval shipbuilding program could have served as a program that would bring not only great economic benefit to the nation, forming the nucleus of a high technology industry sector, but also serve as the bedrock of a sovereign naval shipbuilding capability. Unfortunately the latter will not occur as the Government offshores the lead responsibility, and in some instances the actual build, to foreign entities.

Supply Ships

1.4 As was explained in the main report, in June 2014 the Government gave approval for Defence to conduct a limited competitive tender between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering of South Korea for the construction of the ships.

1.5 Arguments were made that the job could not be done in Australia because of a lack of appropriate infrastructure. Such an argument only stands when subject to shallow consideration. The Government's planning in this program has been like putting the 'cart before horse' – the Naval Shipbuilding Plan was finalised only after all the major shipbuilding tenders were released and, in the case of supply ships and submarines, after procurement decisions had already been made. Had a plan come first, existing infrastructure could have been examined and upgraded to enable a local build of any ship for the RAN.

1.6 The tender eventually concluded and the contract was awarded to Navantia to build the ships in Spain; an outcome that saw Australian taxpayers money being used to support foreign supply chains and jobs at the expense of our own.

Ice Breakers

1.7 About the same time that the Supply Ship contracts were awarded, the Australian Antarctic Division also awarded a contract to have a Dutch Company, Damen, build Australia's future Icebreaker in a shipyard in Romania. In doing so, more cash and Australian jobs were exported.

Future Submarines

1.8 The Submarines were next. DCNS, now Naval Group, won a competitive evaluation process that was run to select Australia's strategic partner for the Future Submarine Program. Documents released to the Senate in 2018 in response to an order for production show that DCNS intended, if they were to be the successful design partner, to build the future submarines in partnership with ASC.

1.9 Slowly but surely, Defence has conceded that its preferred outcome is for Naval Group to be the builder and that they are working towards legally committing Naval Group to conduct the build in the Strategic Partnering Agreement about to be signed by the Government. When this occurs, ASC, the company that represents Australia's most significant body of submarine design, build and sustainment expertise, will have been sidelined in favour of a foreign entity.

Offshore Patrol Vessels

1.10 The lead on the Offshore Patrol Boat (OPV) program has been given to the German company Luerksen. ASC will be the lead builder of the first two ships, with the remaining 10 vessels going to Covic in Perth (which was a Singaporean listed company at the time).

1.11 The Australian shipbuilder Austal has been excluded from the program.

1.12 Austal is the largest aluminium shipbuilder in the world. In 2016, Austal delivered 10 ships all around the world and had 14 other ships in construction. Some of these ships are as big as, and bigger than, the ships being proposed by the Navy for its future frigate program. In the US, Austal are the only company since American independence that has ever designed and built ships for the US Navy that is not a US based company. In fact, they design and build two classes of ships for the US Navy. No-one else in the world has ever done that, whether they are British, Spanish or Italian.

1.13 The Committee found that "the procurement process was poorly managed." The Government inserted Austal into Luerksen's commercial negotiations after the announcement that Luerksen was the preferred designer. This approach did not put Austal in a strong negotiating position, nor was there any incentive for Luerksen to reach a mutually beneficial settlement once it had won the prime contract.

1.14 To me, this was not just poorly managed, rather shows significant commercial naivety inside Government. That Luerksen, left alone without strong direction from the Commonwealth, would not find agreement with Austal who operates in the same fiercely contested market space is pretty obvious.

1.15 Instead of supporting a great Australian sovereign shipbuilder, an exporting shipbuilder at that, the Government turned their back on them and simultaneously propped up one of their international competitors.

Future Frigates

1.16 In August last year former Senator Xenophon revealed that Australian shipbuilders, ASC and Austal, would be shut out of the \$35 billion project.

1.17 A leaked portion of future frigate tender documents stated that:

The Commonwealth's intention is that the successful tenderer will (itself or through its Related Corporate Bodies) directly manage and supervise the workforce undertaking shipbuilding work. The responsibility for build management and supervision should not be subcontracted in its entirety to a third party entity.

1.18 This was an absolute betrayal of Australian's existing sovereign shipbuilding capability; which was confirmed when the full tender documents were released under FOI laws in January this year. It stated more clearly:

Tenderers should be aware that the Commonwealth has selected the Tenderers on the basis of their Reference Ship Designs and their ability to undertake the design and build of the Ships. As such, the Commonwealth's expectation is that the core design work relating to the Ships and the management and supervision of build activities will be undertaken by the successful Tenderer (or its Related Bodies Corporate) and **not** subcontracted to a third party entity. In particular, while the successful Tenderer may decide to engage a Subcontractor to provide shipbuilding labour resources, the Commonwealth expects the successful Tenderer (or its Related Bodies Corporate) to personally and directly manage and supervise the workforce and, in particular, the shipbuilding activities. [emphasis in original]

1.19 It was an act of betrayal that then turned into an act of cowardice when, under questioning from Senators, no-one in Government owned up to who had made the decision to deliberately exclude our own sovereign shipbuilding industry.

1.20 When Austal and ASC reacted to the developing situation by forming a joint venture, Defence further undermined them. As described in the main body of this report:

Participation by Australian shipbuilders in the frigate program was further undermined by evidence that Defence had contacted the shortlisted tenderers to advise them to disregard ASC and Austal's teaming arrangements.

1.21 The approach taken by Defence in the Future Frigate Program is contrary to the national interests and appears to be driven by a deep bureaucratic preference for foreign industry, and arguable malice towards Australian shipbuilders. Australia's two established and highly capable shipbuilders, ASC and Austal, have been excluded in the tender documents from having responsibility for the build. Instead, the Government has invited three foreign ship designers to bid for the job, offering them a taxpayer-funded shipyard in Adelaide and a \$35 billion contract to establish themselves to compete with the long standing Australian companies.

Summary of Betrayal

1.22 The following table summarises the treachery.

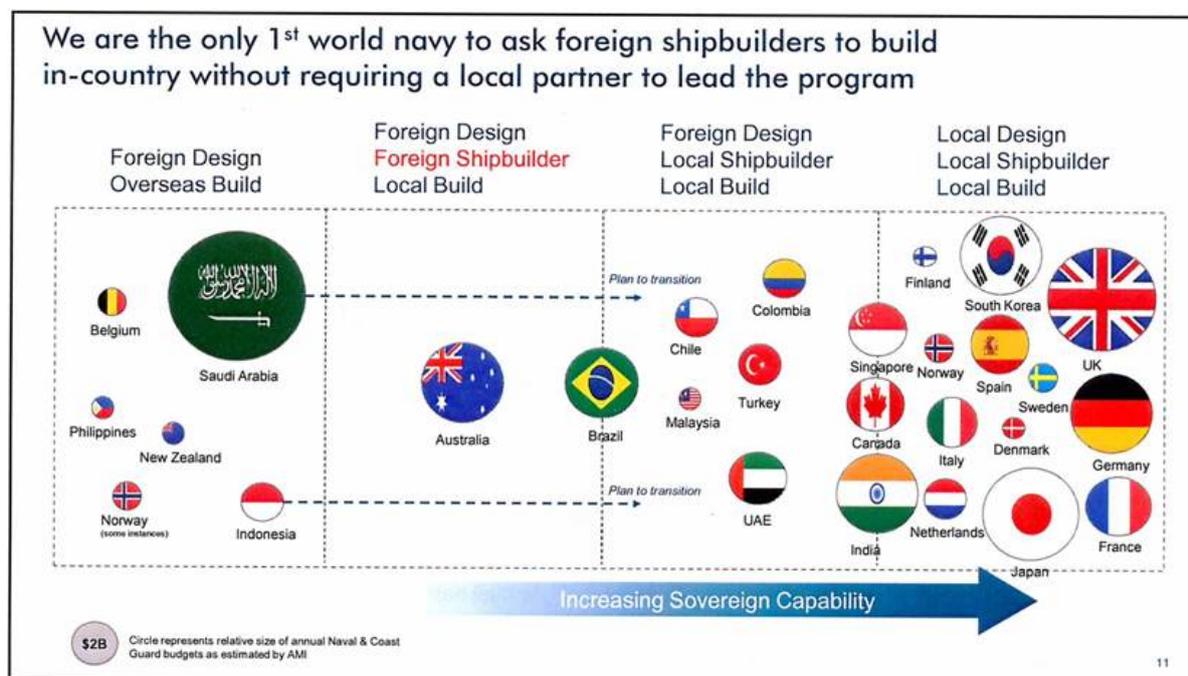
Vessel	Previous Governments	Turnbull Government
Icebreaker	'Aurora Australis' built in Australia by an Aussie Company	New Icebreaker being built in Romania by Dutch Company Damen

Supply Ship	'HMAS Supply' built in Australia by an Aussie Company	Two new supply ships being built in Spain by Spanish Company Navantia
Offshore Patrol Vessels	Armidale Patrol Boats built in Australia by an Aussie Company	Twelve Offshore Patrol Boats being built in Adelaide and Perth led by German Company Lueresen
Frigates and Destroyers	ANZAC's Frigates and Hobart Destroyers built in Australia by an Aussie Company	Australian companies not permitted to tender for build of Future Frigates
Submarines	Collins Class submarines built in Australia by an Aussie Company	Australian companies not permitted to tender for build of Future Submarines

1.23 The Government's approach to this program has taken Australia backwards in its sovereign shipbuilding aim.

1.24 Instead of building upon the substantial capability and experience this country has invested in ASC and giving it responsibility for the build of our future warships, the intention is for the next generation of Australian Navy ships to be built by foreign companies. The Government favours foreign shipbuilders rather than Australian companies to carry forward the work on these vital projects. Foreign companies will operate from Australian waterfront real estate.

1.25 This backwards approach is unprecedented in developed countries and leaves us looking strategically weak. The image below, provided to the committee by Austal, tells the story.



Source of image: Austal submission to the Senate Inquiry into the Future of Australia's Naval Shipbuilding Industry

1.26 The use of Australian companies for the build is important for a number of reasons:

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- It will ensure the know-how of these programs is transferred to an Australian-controlled company, not to a daughter company of a foreign entity.
 - It will ensure that foreign entities will not have veto power over any export opportunities Australian shipbuilders wish to engage in.
 - It will ensure the Australian shipbuilding workforce can be better managed. There will be no competing amongst multiple shipbuilders for a common workforce – under the current regime there will be competition amongst ASC, Austal, Cvmec, Lueresen, Naval Group and BAE/Fincantieri/Navantia and, indeed, lay-offs with the ebb and flow of contracted work across multiple shipyards.
 - Australian shipyards will be able to assure export customers that they have the confidence of their own Navy.
 - Reduce exposure to foreign corporate risk – we do not want the entirety of this \$89 billion work in the hands of foreign entities
 - It will ensure that Australia retains and develops sovereign shipbuilding and support capabilities able to support a larger and more self-reliant Royal Australian Navy in a strategic environment characterised by considerable uncertainty. It will also allow Australia to confidently exercise independent naval power in our immediate region.

Recommendations

1.27 Australia's uncertain strategic future requires a much greater measure of self-sufficiency as a Pacific maritime power.

1.28 While Australia can expect to work with our alliance partners for a long time to come, it needs balanced and self-sustaining naval capabilities that will buttress our security in a regional environment that is likely to be more contested than it has been at any time since the Second World War.

1.29 Australia needs to be able to exercise a much greater measure of independent maritime power in our region and to do that we need a sovereign naval shipbuilding and support sector.

1.30 The following critical recommendations are made:

Recommendation 1

The Parliament should pass the Defence Amendment (Sovereign Naval Shipbuilding) Bill 2018.

Recommendation 2

As is permitted under the tender terms and conditions, the Future Frigate Program should be reconfigured such that an Australian controlled entity has responsibility for the Future Frigate build.

Recommendation 3

Noting Strategic Partnering Agreement negotiations with Naval Group are well advanced, and that this agreement will make a commitment to Naval Group to build the Future Submarines and close off all options to future governments, the following term should be inserted into the Strategic Partnering Agreement:

Nothing in this agreement would prevent ASC being contracted for part or all of the build of the Future Submarines.

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