

Appendix 4

Senate Economics References Committee Inquiry into Australia's Naval Shipbuilding Industry Part III: *Long-term Planning* 1 July 2015

Recommendations

Recommendation 1

The committee reaffirms recommendation 1 from its initial report that the tender process for the two replacement replenishment ships:

- be opened up to allow all companies, including Australian companies, to compete in the process; and
- make clear that a high value will be placed on Australian content in the project.

Recommendation 2

The committee recommends that the government adopt the following procurement process to acquire 12 future submarines:

- a twelve to eighteen month procurement process, involving a Request for Proposal, followed by a Request for Tender;
- invite the most prominent and relevant submarine designers to participate in the process, encompassing Germany, France, Japan and Sweden;
- conduct a Funded Project Definition Study; and
- down-select two submarine builders to provide full design definition and fixed priced contract bids.

The committee also reaffirms recommendation three from its report on future submarines that:

Given the weight of evidence about strategic, military, national security and economic benefits, the committee recommends that the government require tenderers for the future submarine project to build, maintain and sustain Australia's future submarines in Australia.

Also, given the national significance and complexity of the project to acquire the future submarine, the committee recommends that the government establish a Naval/Submarine Construction Authority as a 'non corporate Commonwealth entity with appropriate industry and defence expertise and authoritative leadership to deliver the future submarine'.

The committee recommends further that Defence heed and apply the lessons learnt from the AWD regarding the transfer of knowledge and those of the Collins Class submarine about the consequences of being a parent navy to the future submarines.

Recommendation 3

The committee recommends that the Australian Government provide the committee with a copy of the 'forensic audit' of the AWD program.

The committee also repeats its recommendation contained in its first report that the government release the report of the independent review of the AWD program (also known as the Winter Report).

The committee understands that it may be appropriate for a public version of both documents to be released with classified material removed.

Recommendation 4

The committee recommends that the Australian Government take measures immediately to reverse the perilous downturn in Australia's naval shipbuilding industry, reduce the impact of the 'Valley of Death' and enable a program of continuous build by:

- mandating a hybrid build for the first Auxiliary Oil Replenishment Ship and an onshore build for the second;**
- mandating that all 12 of the future submarines be built in Australia;**
- fast tracking the build of the Pacific Patrol Boats and the replacement of the Armidale Class Patrol Boats; and**
- bringing forward the construction of the Future Frigates.**

Recommendation 5

The committee recommends that the 2015 White Paper is prepared in such a way that all procurement proposals are costed and scheduled realistically, and informed by the need to have a continuous build program for naval ships.

The committee understands that, following the release of its 2015 Defence White Paper, the government will also publish a Defence Investment Plan and an enterprise-level Naval Shipbuilding Plan.

The committee recommends that both documents take note of the evidence provided in this report about the importance of having a continuous build program that will sustain a viable naval shipbuilding and repair industry.

Further that both documents, provide:

- a schedule of anticipated timelines for the construction and delivery of all Defence Capability Plan (DCP) projects, with continuity of production the paramount feature;
- a discussion about the nation's future strategic capability requirements that identifies the industrial capabilities deemed to be strategically important and Defence's expectations for Australia's naval shipbuilding industry;
- an assessment of the nation's existing shipbuilding and repair facilities, including the shipbuilding supply chain, and predicted investment needs;
- a comprehensive statement providing accurate and reliable information on Defence's future plans for its naval acquisition program that goes beyond ten-year projections;
- a detailed explanation on the acquisition schedule indicating the reasoning behind it and the major factors influencing demand flows; and
- reliable cost estimates.

The committee recommends the establishment of an ongoing naval shipbuilding industry advocate to work with the Australian Government and the shipbuilding industry, including supply chain and SMEs. The shipbuilding industry advocate should advise Defence and industry during the development of the Defence Investment Plan and Naval Shipbuilding Plan.

Recommendation 6

The committee recommends that, given requisite capital investments have already occurred, and as the industry's only effective client, the Australian Government adopt an approach to domestic shipbuilding that ensures sustainable demand in order to realise returns on these investments.

The committee also recommends that, during the development of the forthcoming Strategic Naval Shipbuilding Plan, the Australian Government ensure that the Plan recognises the holistic economic value of any domestic shipbuilding project. It is the strong view of the committee that the Plan must also acknowledge the economics multiplier effect of domestic shipbuilding, including that expenditure generates a level of economic expansion beyond its initial value.

