



19 December 2019

Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

RE: Submission to the Economic References Committee Inquiry into Australia's Sovereign Naval Shipbuilding Capability

The Defence Teaming Centre (DTC) is an independent, not-for-profit, member-based defence industry association that works to connect members to defence opportunities, develop industry capability, and advocate on behalf of its members. Nationally, we represent more than 280 Australian defence industry businesses, including SMEs, Prime Contractors (OEMs), and Professional Service Providers.

We are the only defence industry association actively designing and delivering industry development programs to meet the unique needs of the defence industry sector. We deliver defence industry leadership programs such as the Defence Industry Leadership Program and the Professional Certificate in Defence Industry leadership Program, Defence Industry 101 sessions and Teaming & Collaboration workshops. It is our objective to bring Defence and industry closer, especially SMEs, to facilitate the evolution of a sovereign defence industrial capability that is sustainable and competitive in global markets.

We thank you for engaging and for the invitation to provide feedback into the Committee's inquiry in to Australia's sovereign naval shipbuilding capability and we provide the following recommendations for your consideration:

- The Commonwealth Government must adopt a unified national approach towards managing acquisition and sustainment programs. Competitive tensions between State and Territories must be eliminated, forcing State and Territories to work collaboratively in the best interests of defence and not state/territory economic benefit.
- Improve the awareness of Australian Industry Capability policy through education programs to both Defence staff and industry more broadly; and improve engagement



with Australian industry to inform how capability gaps will be identified, managed and addressed as part of the National Shipbuilding Plan.

- Department of Defence procurement staff need to be better educated on AIC and procurement policies and accountability needs to be enforced when policies have been breached.
- The cost of investing in skills development needs to be more affordable for SMEs. The current 50% subsidies offered by CDIC needs to be increased to 70% and the threshold of skilling projects needs to be reduced from \$10,000 to \$5,000.
- Greater financial assistance needs to be provided to SMEs to fund their investment into developing Australian staff in support of the Commonwealth's national shipbuilding enterprise.
- The process of migrating skilled workers to Australia must be streamlined. The current 6-12 month process does not support Australian industry in building the capacity to deliver projects on time and must be reviewed immediately.
- The title of the Naval Shipbuilding College should be changed to something that more accurately depicts its role and purpose.
- A plan needs to be implemented to have the NSC model applied across all Defence programs. Defence and industry need a standardised approach to forecasting skilling requirements across all domains and designing skilling programs accordingly to better manage capacity demands and identify synergies across domains.
- The quality of tenders provided to Australian industry should be reviewed and assessed to assess whether Australian industry are being afforded the best opportunity to compete for defence opportunities.
- The audit of AIC Plans needs to be conducted by an independent organisation from Defence, that has a broad and deep understanding of Australia's industrial capacity and capability.



A Long-Term National Defence Plan

The recently obtained documents by Centre Alliance Senator Rex Patrick under the *Freedom of Information Act 1982 (Cth)*, outlined unexpected plans to exclude South Australian industry from Collins Class full-cycle docking maintenance from 2024.¹ The news has created uncertainty within the broader defence industry. The potential change suggested by the documents would see 700 submarine maintenance jobs shifted from South Australia to Western Australia, with no apparent plan for the ASC workers left in South Australia, or for acquiring the skills in Western Australia. The subsequent publicised dispute between South Australian and Western Australian Governments has also done little to unite Australian defence industry towards long-term goals and the greater national interest.

In order to effectively work towards sovereign naval shipbuilding capability, the Department of Defence must ensure a long-term, unified national approach. If relocating the full-cycle docking of the Collins Class submarines is the appropriate decision for Australia's national interest, it must be part of a greater plan including a strategy for implementation. It is of the utmost importance that the future of Australia's Defence acquisitions not be treated with political expedience; Defence and sovereign capability must be above unnecessary politicisation in pursuit of short-term goals.

Industry must be engaged with the long-term national plan. Without compromising confidential Defence information, industry should be kept abreast of long-term strategy and plans for managing resources, technology, risks, and costs. Industry cannot move towards sovereign capability if there is a constant risk of unpredictable political decisions, or an ever-changing long-term strategy. While decisions such as the potential move of the Collins Class submarine maintenance work are strategic Defence decisions, they have major implications for industry and as such, should be managed in a way which involves and unites Australian industry. Furthermore, the actions of State and Territory Governments to influence such decisions in the public domain is not in the best interests of Defence or Australian industry.

Defence industry and industry associations are already exercising leadership, collaborating to work with Defence, however these efforts are being hampered by a failure in State/Territory governments to understand the national interest of defence industry.

The Commonwealth Government must adopt a unified national approach towards managing acquisition and sustainment programs. Competitive tensions between State and Territories must be eliminated, forcing State and Territories to work collaboratively in the best interests of defence and not state/territory economic benefit.

¹ See <https://www.abc.net.au/news/2019-10-04/documents-show-submarine-maintenance-could-be-scraped-in-sa/11573684>



Industry Development Plans for Capability Gaps

It is expected there will be gaps in Australian capability to deliver the Future Submarine and Frigate programs as the nation embarks on this major industrialisation change program. It is unclear whose responsibility it is to identify the gaps and whose responsibility it is to lead the industry development required to close these gaps. Primes are expected to demonstrate where the gaps are, however there is no feedback loop from this market analysis to Defence and then the CDIC to address these gaps. Failure to identify capability gaps and establish development plans to close these gaps will prevent the Government from realising its goal of establishing a sovereign shipbuilding industry.

Improve the awareness of Australian Industry Capability policy through education programs to both Defence staff and industry more broadly; and improvement engagement with Australian industry to inform how capability gaps will be identified, managed and addressed as part of the National Shipbuilding Plan.

Ongoing Examination of Contracts and Scrutiny of Expenditure

A recent decision by the Department of Defence to spend \$55 million on purchasing 41 Finnish rigid-hull inflatable boats, without first putting the contract up for tender and allowing Australian industry to compete for the opportunity highlights major failings in the Department of Defence's ability to adhere to its own policy.

Anonymous military sources informed journalists of this procurement decision which is reported to have been made during PACIFIC 2019 in early October. When questioned by the ABC about the reasons supporting this decision, the Department of Defence advised an Australian industry option represented too much risk to the Program. It is impossible for the Department of Defence to have been able to make this decision when the opportunity was never presented to Australian industry to bid on. Without tender responses there is no way an informed, objective opinion can be formed as to the degree of risk an Australian supply presents to the Program.

Australian industry cannot have faith in the support from the Commonwealth Government when the Department of Defence is making decisions that overlook local capability despite there being several companies with similar and competitive offerings in Australia.² In this case Departmental staff failed to adhere to its own policies, raising serious concerns around the competency of procurement staff.

² See <https://www.abc.net.au/news/2019-11-23/defence-boat-contract-finnish-company-causing-friction/11730136>



Department of Defence procurement staff need to be better educated on AIC and procurement policies and accountability needs to be enforced when policies have been breached.

Workforce and Skills Shortages

There is major concern within industry regarding the filling of skills gaps and future workforce shortages. One big concern is that companies struggle to maintain their workforce during periods of reduced defence work. Following the 'valley of death' companies are then unable to increase their workforce without increased job orders and are unable to increase capacity and fulfil job orders on time without an increased workforce. This creates a problem which is difficult to solve.

There has also been concern expressed from DTC members that in trying to build up their workforce they are running the risk of becoming a 'training house', having trained the appropriate staff and skills but losing them to higher paying roles in mining, oil or gas industries. This makes it very challenging to acquire the necessary workforce to support a bid for defence work. During repressed periods of defence expenditure SMEs are least likely to let staff go, often drawing upon valuable capital reserves to maintain staff. Defence primes by contrast, typically make staff redundant then ramp-up as soon as new projects are announced. In these cases, SMEs often find the staff they tirelessly held on to, trained and developed, are offered much higher paid positions in defence primes. Defence Primes are therefore decimating the capability of SMEs and driving training costs for SMEs when defence expenditure ramps up.

The cost of investing in skills development needs to be more affordable for SMEs. The current 50% subsidies offered by CDIC needs to be increased to 70% and the threshold of skilling projects needs to be reduced from \$10,000 to \$5,000.

The ability to train Australian staff in France is restricted by the 90 day working visa process. The 90 day restriction drives costs for SMEs who must pay for staff to travel back and forth between France and Australia to adhere to the working visa rules, in addition to paying for accommodation costs whilst staff are. These costs are funded from the SMEs profit. By contrast, similar expenditure incurred by defence Primes is considered an allowable contract cost under "staff development/training".

Greater financial assistance needs to be provided to SMEs to fund their investment into developing Australian staff in support of the Commonwealth's national shipbuilding enterprise.



To fill skill shortages business are looking to overseas staff. This process is long, complex and costly, often taking between 6 and 12 months. First the company must demonstrate that they are unable to find a worker with the requisite skillset in Australia. Then there's the recruitment process to find an appropriate worker, and accounting for relocation time.

The process of migrating skilled workers to Australia must be streamlined. The current 6-12 month process does not support Australian industry in building the capacity to deliver projects on time and must be reviewed immediately.

Progress of the Naval Shipbuilding College (NSC)

It has taken considerable time for the NSC to come to fruition. For the first 18 months the organisation's role was unclear and its purpose lacked clarity. However the organisation is now beginning to take shape and its purpose is becoming clearer. It is evident that the College has now developed its capabilities and capacity and is ready to provide workforce outcomes for the shipbuilding sector across the prime contractors and increasingly for the SME's within the sector. The organisation's name is misleading, which when launched, led industry to believe the NSC would be an organisation that students attended to undertake shipbuilding related courses. It is now clear that this is not the organisation's role, but rather the identification, promotion and endorsement of shipbuilding related skilling and education programs that meet the future needs of the industry.

The title of the Naval Shipbuilding College should be changed to something that more accurately depicts its role and purpose.

We are beginning to see the college's increased engagement nationally across the education and training provider network at the vocational, secondary and tertiary levels, and is now positioned for these education and training providers to actively contribute to the delivery of the education and training of the future candidates needed for the shipbuilding and sustainment programs. The recent improved performance in this area has resulted in the DTC stepping down as the independent Chair of the Defence Industry Education and Skilling Consortium with this role being taken over by the NSC.

We know the priority roles for industry have been identified, and the College is now moving to assess the whole supply chain in order to fully understand the complete workload requirements. It is also understood that the College is looking to further enhance its engagement with the SME community, in order to ensure that its programs are supporting the specific skilling needs of SMEs.



A plan needs to be implemented to have the NSC model applied across all Defence programs. Defence and industry need a standardised approach to forecasting skilling requirements across all domains and designing skilling programs accordingly to better manage capacity demands and identify synergies across domains.

Implementation of AIC Plans

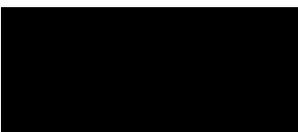
We are aware of cases where opportunities are being sent to Australian industry to bid on where the quality of tender requirements is so low Australian industry must invest excessive time and resources seeking clarity on the requirement. Examples include the stipulation to use metals that are outdated and virtually impossible to source, the stipulation to adhere to overseas welding certifications when there is no organisation in Australia to provide the certification to the specified standard, the provision of incomplete drawings or drawings written in a foreign language using imperial measurement.

The quality of tenders provided to Australian industry should be reviewed and assessed to assess whether Australian industry are being afforded the best opportunity to compete for defence opportunities.

There is no accountability for a prime to adhere to the original AIC Plan as submitted during the tender evaluation phase and there is no check to confirm whether the Australian industry identified in the original AIC Plan have been awarded a contract. We know Defence intends to establish a branch to review and audit AIC Plans. For these audits to be effective, the scope of the audit needs to test the validity of statements and claims made in the AIC Plans as to the availability of Australian industrial capacity for the project at hand. This requires an intimate knowledge of Australian industry and the DTC does not feel Defence has staff with the depth of industrial knowledge to effectively make this assessment.

The audit of AIC Plans needs to be conducted by an independent organisation from Defence, that has a broad and deep understanding of Australia's industrial capacity and capability.

Yours sincerely,



Audra McCarthy
Chief Executive Officer