



DTC Luncheon – 11 October 2011

Speech by Steve Ludlam, ASC Managing Director and Chief Executive Officer

I want to welcome each of you to this lunch today.

I would also like to acknowledge the leadership of the Defence Teaming Centre and I extend a warm welcome to our partners, suppliers and sub-contractors.

I have the great privilege to lead over 1,700 employees at ASC, a company owned by the Commonwealth that built – and currently maintains – the Royal Australian Navy's fleet of Collins Class submarines.

ASC is also the lead shipbuilder for the construction of three Hobart Class air warfare destroyers.

We are a major manufacturer – the largest employer of apprentices in South Australia, operating in the most modern naval construction facility in Australia.

Many of you will be aware of our operations at ASC North and ASC South, here in Adelaide, but you may not be aware that we also have a submarine repair and maintenance facility at Henderson in Western Australia.

You might have also seen ASC advertisements in the local newspaper seeking new employees.

The recruitment drive is part of a campaign that has already seen nearly 400 new employees appointed at our three sites between January and September this year.

Another 200 employees will be recruited over the next eight months as our AWD construction process ramps up.

Many of you who have dealt with ASC or worked in the defence industry for some time may also know that we have a team of over 300 engineers who are world leading.

As an engineer myself, I take great pride in the work of this team in projects such as Deep Blue Tech, where the design and performance of tomorrow's submarines are being tested and retested on behalf of the Commonwealth. But more about that later.

Today I've been asked to 'debunk' the myths around the two projects with which we are inextricably linked – the Collins Class submarines and AWD project.

I also want to discuss the ongoing debate about Australia's Future Submarine project and touch briefly on the contribution South Australia is making to the Defence industry.



Commentators may see what I am about to say as an argument for a national shipbuilding capability or mounting a case for the next generation of submarines to be built by a company such as ASC.

Those commentators would be correct.

I have 36 years in the naval shipbuilding sector. By any measure, I have a strong understanding of just how powerful such an industry can be to the life of a nation.....

It encourages investment,

It encourages innovation,

It stimulates job growth,

And, I should add, it demands that our State, South Australia – which has built an impressive defence capability – must play a central role in the defence of the Commonwealth.

From small beginnings, South Australia has focussed on growing its defence presence and is intent on building and maintaining a sustainable defence industry.

The key projects driving this presence are:

- The \$8 billion Air Warfare Destroyer build contract and AWD Systems Centre;
- The \$1 billion Orion aircraft maintenance and upgrade contract;
- The through life support contract for the Collins Class submarines;
- The \$1 billion Customs Project Sentinel contract, which is the world's largest fixed wing civil maritime surveillance program; and
- The 1,200 personnel mechanised battalion that has been relocated to Edinburgh.

South Australia is now the high-technology centre for Australia's defence industry, with more than \$10 billion in contracts – more than any other state.

The maritime and electronics sectors represent South Australia's core strengths, and accounts for about 60 percent of DMO's total in-country spend – some \$5.6 billion in the last financial year alone.

In South Australia, both of these sectors have a healthy and stable base of sustainment activities and will see activity increase rapidly over the next few years, mainly due to the construction of the AWDs.

The effect on the State's GDP is profound.



It has been estimated that major defence and specialist industry-related activities contribute around \$1.2 billion to the State's economy..... and this figure is rising.

There are some 23,000 South Australians who are either directly or indirectly employed by the defence sector, with direct specialist industry employment projected to increase by around 4.8 percent per year.

So where can you find this work and what are South Australia's primary breadwinners?

The State's top major defence and security projects are:

- The AWD project;
- Collins Class submarine through life support;
- AP-3C aircraft maintenance and upgrade; and
- The Project Sentinel civil maritime surveillance program.

These projects account for about 40 percent of the total defence and industry contribution to the State's economy, and about 35 percent of total defence industry employment in South Australia.

Specifically, ASC's Collins Class submarine through life support contract is estimated to directly and indirectly contribute an average \$150 million and 1,400 jobs to the State's economy per year.

While, over peak years including 2009/10 to 2012/13, the AWD project will make an average annual contribution of some \$290 million and 1,800 jobs to South Australia's economy.

This is all very impressive but what many of you may be thinking is what about the negative sentiment around Collins and the AWD projects. Both have been the subject of a number of media articles that have cast both projects in poor light.

Let me start with the **AWD project**. This has been mentioned in the news because one of the project's subcontractors has been hampered by significant capacity constraints.

For those who are unaware, the construction of the AWDs is overseen by an organisation known as the AWD Alliance. The Alliance has been in operation for six years now and will operate for the 15year life of the ship build.

ASC is part of this alliance, alongside private defence contractor Raytheon and the Commonwealth's defence procurement arm, Defence Materiel Organisation.

Earlier this year, on learning of the build up of work and constraints at Williamstown, the Alliance swung into action.



Alternative sites for construction of the blocks were considered month by month and a plan, to reallocate work, was formulated.

The Commonwealth endorsed the plan and now ASC and a second subcontractor; the Newcastle-based Forgacs are undertaking to complete the block work.

Some blocks will also be built in Spain by the AWD design partner Navantia.

So, the matter has been resolved and the project is accelerating.

Costs have been contained and the schedule impact minimised. Over time you will see the schedule delay reduced, particularly as the first ship – HMAS *Hobart* moves into consolidation.

Indeed, construction is underway on the second destroyer.

Steel has already been cut and work is underway on these blocks inside the ASC shipyard.

ASC has also taken delivery in the last two months of three blocks from our subcontractor in Williamstown.

Blocks from Newcastle are expected toward the end of the year and consolidation of the first ship will start on the Government of South Australia's Common User Facility in 2012.

Yet stories about delays may reverberate in the media for a while.

Indeed, recent reports have portrayed disagreement in the Alliance and among the block contractors.

But what people are not hearing is that the Alliance structure has been strong, decisive and it ensures the project can manage every element within its direct control.

It ensures accountability **and that accountability rests here in South Australia.**

It demands that the private sector work collaboratively with the Commonwealth.

And it also builds a platform for the future of naval shipbuilding in Australia by creating a sustainable capability and establishing the resources, expertise and skill base that can accomplish an incredibly complex task.

Let me now turn to the Collins Class submarine project. This is a project of massive national significance.

From 1987 to 2003, a period of 16 years, a submarine build yard was established, Six Collins Class submarines were built and in the water – a new team had emerged here in South Australia.



One that had achieved one of the most complex engineering tasks man has ever undertaken and one that has now progressed into sustaining these submarines.

Lessons have been learnt – lessons on reliability of diesels, motors and generators, lessons that speak of equipment acquisitions that should have been more inquisitive about the equipment, lessons that tell us we should undertake research and development in order to predict the potential for latent product defects or unknown faults arising.

Not only predict them but provide solutions, solutions that can be implemented before the issue makes the submarine unavailable.

Lessons that significantly inform us on making Collins more available and more reliable...

These submarines are highly capable, much of what they achieve is secret but last year Collins sailed around the entire coast line of Australia, a conventional submarine sailing effectively two thirds the way around the world. She never missed a beat. Outstanding!

We have also established a data set on sustainment and performance at ASC. One that now gives facts by which we can continuously improve our efficiency and effectiveness, reduce the cost of sustainment and provide better value for Navy.

The creation of the Australian Submarine Program Office, last year, between Navy, the Defence Materiel Organisation and ASC, was the start of the creation of a united body and enterprise.

Our new contracting model, in the final stages of development, will facilitate a significant change in the way we work together with a common goal which is intended to further improve both reliability and availability.

Well let me now look at national significance.

One commentator said that the recent issue with the AWDs should spark a debate about whether the nation should be involved in naval shipbuilding.

More recently, another commentator questioned Australia including AWDs in its maritime defence capability and joined the shrill chorus of critics of an indigenous shipbuilding capacity.

This is a worthwhile debate.

It is a debate that Australia should have, that a mature country should have.

Yet I would point out that this debate has been underway in Australia for some years and these recent contributions offer nothing new or compelling.



A number of commentators have been at the forefront of the argument against the construction of naval vessels in Australia for some time.

I welcome their input.

I welcome the questions that come with projects of the scale of the AWD build and maintenance of the Collins Class fleet and the scrutiny defence projects like these are receiving.

I also welcome the opportunity to point out that the AWD project is:

- Consuming millions of tonnes of iron ore from the West Australian Pilbara;
- Consuming millions of tonnes of steel from Port Kembla steelworks in NSW;
- Requiring thousands of man hours in block construction in three States;
- Requiring thousands of man hours during the fabrication of accommodation modules in Tasmania; and
- Transforming near dormant industries in to thriving employment hubs that are expanding to drive job growth and secure new construction contracts.

In short, that this is a truly national effort!

To me, both the air warfare destroyer and Collins Class projects tick all the right boxes.

They encourage investment,

They encourage innovation,

They stimulate job growth,

And – they enable our State, South Australia, to play a central role in the defence of the Commonwealth of Australia.

This debate is much more complex than “do we” or “don’t we”.

It is a discussion that must:

- Incorporate the fact that projects such as the AWD and Collins Class touches people in every State and Territory across Australia;
- Measure these benefits against the flat argument for never undertaking these projects and leaving them to governments in other countries; **AND**
- Take into account that Australia needs more than a resources boom to deliver jobs, innovation and income.

In South Australia we have seen the defence industry grow exponentially as a result of investment by the Commonwealth and State governments.



There is close collaboration between both levels of government and the industry has stimulated both the education and training sectors.

It has created industries in South Australia where none previously existed, it has ensured a sustainable future for new SMEs seeking to employ the best and brightest from across the world.

I want to emphasise that the AWD and Collins Class sustainment projects are not just about laying the foundations for an industry, a high end skills industry that will enable this State to remain the nation's premier defence hub.

It is about nation building and bringing together the skills available in other States and Territories to contribute to the overall construction effort.

Both Collins and AWD projects are building a national capability, both projects are truly of national significance. For projects such as Future Submarine these projects will ensure that Australian industry has the expertise and capacity to continue on this work for many decades to come.

Much in the same way as I am looking at a 50 year horizon for ASC, the Future Submarine Program is planning an approach that will extend beyond our lifetime.

As we look ahead to the replacement of the Collins fleet, you will be aware of the ongoing debates around Australia's capability of fulfilling the requirements set out in the 2009 Defence White Paper that calls for 12 new conventional submarines.

Those with true experience in this field make no bones about the complexities involved in the Future Submarine project. It will be costly, and a massive technical challenge unlike any other project considered before in the defence sector but my experience tells me it can be achieved with determined leadership.

Current debates centre around whether Australia should buy a military-off-the-shelf (MOTS) submarine or build an indigenous design.

There are submarines manufactured around the world that might come close to the capability required by Australian conditions.

These can be discounted for a variety of reasons.

The French, Spanish and German models all seem to be good submarines but all have a dive displacement of around 2,000 tonnes – less than two-thirds of the Collins Class.

All four submarine classes, the export version that is, are considered small coastal submarines that carry fewer weapons and have less growth potential than is ideal.

In addition, they have half the crew size and capacity of a vessel such as one of the Collins fleet.



And they are not intended to go long distances.

It is worth noting here that the Royal Australian Navy is the only navy in the world operating conventional – non nuclear – submarines which is required to routinely travel across oceans as part of its defence requirements.

My overall view is that Australia is more than capable of building a replacement for the Collins Class. We built the six Collins Class submarines from start to finish in 16 years. An outstanding achievement! We can do it again.

We have learnt the lessons of Collins and we have in place a significant reform program that will embed a deep and well developed sustainment culture for Collins and the future. This reform program will deepen our engineering knowledge and set accountabilities in motion.

At ASC, we are establishing a capability, tools, processes, people and knowledge that will form part of the design of the Future Submarine.

To explain, in 2007, ASC established a self funded team focused on design aspects of the SEA 1000.

Deep Blue Tech currently has a staff capacity of 30 which will double by the end of this financial year. It is tasked with establishing the tools and methods needed to understand submarine design.

Although I have a strong belief that Australia should choose an indigenous design to replace Collins, we will support whatever decision is made by the Commonwealth.

To date, we have entered into more than 30 non-disclosure agreements with providers around the world so we will be prepared to work with equipment designers as needed when a decision is made.

One of the lessons learnt from Collins is when you buy equipment you need to be inquisitive, you need intricate knowledge of it and you need to establish requirements to ensure all aspects of its performance are understood and can be connected if they were for the intended performance.

The agreements are important in building the relationships and understanding what will be key to a successful future submarine build and the future of naval shipbuilding in Australia

This is a time to stand up for an indigenous shipbuilding capability.

It is a time to stand beside the key players in the industry and affirm that Australians have the expertise, international relationships and capacity to build the next generation of submarines on their own soil.



It is time to recognise that South Australia has the ability and determination to lead the way in Naval Projects such as Collins and AWD which are of great national significance.

Thank you for your time today....