



D&I Conference Luncheon

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

29 June 2011

I want to welcome each of you to this lunch today and welcome you to Adelaide and South Australia the Defence State.

I would like to acknowledge the Governor of South Australia His Excellency Kevin Scarce and extend a warm welcome to our partners, suppliers and sub-contractors. Ladies and gentlemen.

I have the great privilege to lead over 1700 employees at ASC, a company owned by the Commonwealth that built and currently maintains the Royal Australian Navy's fleet of Collins Class submarines and is the Shipbuilder for the construction of three Hobart Class air warfare destroyers. A business established on a brown field site here in South Australia 25 years ago.

Today I've been asked to talk about the contribution the Defence industry is making to South Australia.

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.

They would be correct.

My experience over 36 years has given me a strong understanding of just how vital such an industry can be to the life of a nation.

It encourages investment,

It encourages innovation,

It stimulates job growth,

And – it requires a State such as South Australia which has built an impressive defence capability to play a central role in the defence of the Commonwealth.

Today I want to illustrate how the Commonwealth is working with the South Australian Government to ensure this industry is built on a sound platform.

I also want to talk about the challenges that come with the role of running a shipbuilder and a company that sustains a fleet of submarines. A challenge that is



enabled greatly by the defence infrastructure and support provided by the South Australian Government.

But first I want to comment briefly on a matter that has been uppermost in the minds of many in this room over the last month or so.

The AWD project has been mentioned in the news of late because the Williamstown shipyard – operated by a subcontractor to ASC – reported significant capacity constraints with the construction of blocks for the first of the three destroyers.

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, DMO.

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 Government 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 where the AWD design partner Navantia will fabricate them under a subcontract to ASC and ship them to Adelaide.

So, the matter has been resolved and the programme continues at a pace.

Costs have been contained and the schedule impact minimised.

It may reverberate in the media for a while, but what the media won't tell you 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 shipbuilding capability and establishing the resources, expertise and skill base that can accomplish an incredibly complex task.

Indeed, construction will get underway this week on the second destroyer. Steel has already been cut for three blocks and work is underway on these blocks inside the ASC shipyard.



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

This is a worthwhile thing to call for. Yet I would point out that this debate has been underway in Australia for some years.

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 a project of the scale of the AWD and the scrutiny defence projects like this are receiving.

I welcome the opportunity to point out that iron ore from Western Australia has been transformed into steel at Wollongong;

That accommodation modules are being pre-fabricated in Tasmania;

That blocks from Williamstown are being positioned on the Geelong wharf for shipping to Adelaide. A brand new world class shipyard has been built here in South Australia on time and on budget;

And that our subcontractor in Newcastle is thriving because of this very project.

In short, that this is a truly national effort.

To me, the Air Warfare Destroyer contract ticks all the right boxes.

It encourages investment,

It encourages innovation,

It stimulates job growth,

And – it enables a State such as South Australia to play a central role in the defence of the Commonwealth and for us to demonstrate that the investment by the state is capable of leading a National Shipbuilding enterprise.

I would add, at this point also, that creating a shipbuilding capacity ensures that the AWD Alliance delivers the right capability to our ultimate customer, the RAN.

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

It’s a discussion that must weigh these benefits when assessing the impact of projects such as the AWD contract and the fact that it touches people in every State and Territory across Australia.



It must measure these benefits against the flat argument for never undertaking these projects and leaving them to governments in other countries. It must take into account that there must be more to Australian industry than the resources boom.

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

Indeed, the level of collaboration between the Commonwealth and State Governments is apparent across industry as well as the education and training sectors.

This extends through to support for SMEs and is working to ensure projects like the AWD contract have the skills and resources to achieve successful outcomes.

So what does the defence industry mean to South Australia?

From small beginnings, this State 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 \$1.20 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 four major defence and security projects are the AWD project, Collins Class submarine through life support, AP-3C aircraft maintenance and upgrades, 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.

Specifically, ASC's Collins Class submarine through life support contract is estimated to directly and indirectly contribute an average \$150.0 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.

Against the backdrop of a downturn in the State's automotive and wine industries, defence is an industry sector which continues to grow and provide numerous opportunities for established primes, suppliers, SMEs and individuals.

But there are also many challenges involved in building and shaping an industry of this size and scope.

We know how to create the infrastructure in South Australia, take the Techport as a golden example, we also have the ability to create a total capacity.

Our SMEs are first class, provide a world range of defence related high end skills and are willing and able to work in a partnered way providing great quality to time. They can do anything and do what to some would seem impossible.

I want to focus, however, on one element – growing our workforce.

Many of you in this room will be aware of the ongoing dilemma facing the Defence industry.

I am hardly the first person to talk before an audience about the skills dilemma facing a company, the defence industry and our nation.

Many chief executives of defence companies are looking at the expectations of our customers and considering how we can meet their demands out to 2030.



We are looking at the pool of talented people in the community, in our trade schools, universities, primary schools and high schools, and asking ourselves: “How can we transform a percentage of these people into valued, long term employees?”

At the same time, companies across the sector are losing very talented, long serving employees with a wealth of knowledge and experience.

There is activity on a number of fronts designed to recruit and retain the right people.

As I mentioned earlier, the Commonwealth and State Governments have been very proactive in the skills development area.

From reshaping curriculum in Port Adelaide high schools to funding Masters degrees at Adelaide University, the focus on boosting skilled numbers has been intense and effective.

Ministers, their advisors and government officials are seeing the same data we do from peak bodies such as the Australian Industry Group.

Their actions to date indicate they take the prospect of a skills gap very seriously.

They have implemented numerous programs so defence industry companies have a foundation for growth into the future.

We are grateful for the support yet the challenges remain significant.

An insight into these challenges can be gained from considering ASC’s need to hire skilled labour for the AWD project.

ASC has more than 29,000 people on its potential employee database for the construction of AWDs. Clearly people believe in defence and defence projects as a sought after employment.

These people have registered to work with ASC yet only a small percentage are trained or qualified in the areas where we need talented employees.

That figure is even smaller when it comes to successfully navigating selection and testing processes.

Indeed, it is well below the labour required at peak levels where pipe welders, pipe fitters, electricians, sheet metal workers, mechanics and boilermakers will be in hot demand.

So as industry leaders we need to find and prepare the next generation of welders, the next generation of boilermakers and data analysts or marine engineers.

That is why we are going out into schools and talking about what we do at ASC.



That is why the Commonwealth is putting money into education and training across all levels of the tertiary sector.

That is why the State is focused on building the maths and science programs at our schools across the State to ensure we have the next generation of engineers who are ready to pick up the reins when our existing employees retire.

That is why ASC is opening its doors to the public at least twice every year to display the internal workings of a world class business that builds the nation's most potent military hardware.

ASC and its partners in the Alliance are also focused on creating strong working relationships with our subcontractors and suppliers. A large part of winning on an international playing field will result from a strong relationship between defence and industry.

This is 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.

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

ASC is doing this with the AWDs and we've done it with the Collins Class submarines. South Australia is leading the way.

Collins is much maligned but by my comparisons, it is a very capable fleet supported by a dedicated team and a pipeline of world class suppliers and subcontractors.

The results – from job creation to SME development and meeting quality outcomes – were exceptional.

There are few other conventional submarine in the world that is capable of challenging the technical capabilities of the Collins Class.

In the water, these vessels are practically invisible.

ASC's submarine maintenance operations are dependent on high end engineering skills.

The foundations for these skills are production workforces with trade qualifications and technical and support staff with post trade tertiary qualifications and a large number of degree qualified engineers.

It just so happens that the same people are highly sought after in a number of other growth industries.

The Resources sector is hungry for engineers and labour, where many of the skill sets are common to shipbuilding and submarine sustainment.



We have experienced the difficulties that come with trying to attract qualified employees in Western Australia where our ASC West operation – and the home of the Collins submarine fleet – is pitted against the lucrative jobs on the Kwinana industrial strip and a resource sector offering the best conditions in the world.

So we know what challenges lie ahead for companies such as our own as South Australia's resources sector moves from an emphasis on exploration to mining and production.

Indeed, we are seeing the impact now.

As a Company that can see a growing role in the Defence industry through to 2030 we believe these issues can be overcome.

And we've identified ways to ensure our business is thriving in 20 years time.

At ASC, we are focused on working with our private sector partners through the AWD Alliance.

And we are working hard to address the issue of employee recruitment across our business, working alongside industry, industry groups, education institutions and, of course, our employees.

Let me conclude by stating that my leadership of ASC is directed towards making the Company internationally competitive.

I don't mean this in the sense that ASC should do work overseas, but for ASC to be fit to fight and win work here in Australia.

And, while we are at it, to ensure that ASC is sought-after in the global defence industry as an employer of choice.

Back in 1987, when ASC was first awarded, the contract to build six submarines at a cost of \$5 billion there were five employees at the firm and Adelaide was little known in defence circles.

There was no critical mass of technical skills or infrastructure to begin with.

On the day I arrived in Adelaide it immediately became apparent to me that what has emerged over the last 25 years is a set of competencies across our facilities that are comparable to any.

With strong leadership, our people are world beating.

I may not be the first bloke to stand before an audience and talk about the challenges that lie ahead in finding the best employees available, nor will I be the last.

But, together with our partners in the Alliance, we are grappling with a challenge that extends beyond the confines of the ASC business.



That is – taking a leadership role in helping to build an indigenous defence industry.

This has only been possible because of the skills and talents of Australians.

At ASC we are dedicated to doing our part to ensure the next generation of Australians want to be part of that industry in the future. The South Australian Government have played a significant part in enabling this possibility.

Thank you