SIA CONFERENCE

SPEECH OF MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVE LUDLAM

Tuesday 15 October 2013

Adelaide Convention Centre, Hall A
10.45am – 11.10am

Introduction

Thank you for the opportunity to share some thoughts on harnessing the skills we need for Australia's future submarine capability.

I'd like to share with you the preparations that are underway to equip a workforce of thousands to design, build, operate and sustain a new fleet of submarines that will protect and defend Australia's sovereign interests.

These vessels will replace the six Collins Class submarines currently in operation by the Royal Australian Navy.

There is no doubt that the program envisaged under SEA 1000 will become a defining point for Australia's defence capability.

I also believe it will underpin the Commonwealth's aspirations to become a leading advanced manufacturing nation.

ASC

For those who are unfamiliar with ASC, I have the great privilege to lead over 2,400 employees.

We maintain the Collins Class submarine fleet and are also the lead shipbuilder for the construction of three Hobart Class air warfare destroyers (AWDs).

We operate the most modern naval construction facility in Australia here in Adelaide with access to Australia's largest ship lift and wharf.

We are also a major employer in South Australia, with one of the largest cohorts of apprentices in the State.

Together with ASC's employees in Western Australia, these young men and women form part of a dedicated group of individuals focused on building Australia's frontline naval capability.

Let me start with people and the future submarines…

The best thing we have in Australia is people, great trades people, first class engineers, capable project managers and excellent people in the supply chain.

These people, ASC is an example, are among thousands of Australians at various stages in the supply chain, located across the nation - from iron ore miners at Newman, to steel fabricators in Newcastle, small and medium sized enterprises (SMEs) in every state and territory, and employees across naval shipyards in Williamstown, Newcastle, Fremantle and Osborne.

Much of the media commentary has been on a final decision about the design of the new fleet. However, the most important question is how we build the pool of talent in Australia to meet the challenges that come with building twelve submarines.

That is a question we don't have the luxury to simply investigate today or answer when the dilemma arises. We need to build the pool of talent now. It needs to understand the design, build it effectively and on time, and produce a world beating project.

This project will have a continuous build that will see construction and maintenance work ongoing for almost half a century.

This means that today's ten-year-olds could realistically make a life-long career working on the project, as long as they make the right subject choices at school.

This has been our focus at ASC and other businesses for some time. It has been the focus of government through the development of the future submarine skills plan.

The challenge confronting us is significant.

We can predict 5,000 permanent jobs will be created during the construction phase and sustainment of the submarines, involving more than 1,000 Australian companies of which 90 per cent will be SMEs.

We need to increase the pace and amount of activity underway so that it is focused exclusively on developing the skills of Australians to build and sustain each of those 12 vessels.

We can harness our current skill levels and further develop them in order to meet the increased complexity 12 modern conventional submarines will bring. We need to harness them

to increase productivity, reduce cost and simplify the complexity.

Secondly, our ability to evolve…

Australia has faced a challenge of a similar magnitude before.

Indeed, ASC, originally as the Australian Submarine Corporation, built the six Collins Class submarines which started 25 years ago.

At the time there was no supply base, employee base or facilities that could house a project of the kind envisaged by the government of the day.

It was a stand up start.

And yet, the Collins Class was constructed with greater than 70 per cent local input, exceeding thresholds put in place to ensure Australians were at the heart of the project.

This signified a turning point for defence because it created the impetus for an indigenous naval shipbuilding industry focused on construction and sustainment.

It is significant that even though we now have thousands of people and significant infrastructure in place to support a naval shipbuilding industry, we are still seeking answers – some 30

years on - as to whether this is an industry that Australia can sustain.

Clearly, our challenge today is to preserve the people, the knowledge and the infrastructure.

We can only do this by reversing an historical approach to procuring naval vessels that is centred on intense periods of investment and skill development – typically followed by a rapid decline in work and the inevitable erosion of the knowledge developed.

So, what about the new challenge?

We have the opportunity to leverage knowledge, skills and processes developed across a number of projects.

And we must grow the industry.

We have the opportunity to break the cycle of boom and bust that has plagued the naval shipbuilding industry for decades, and avoid the so called 'valley of death'.

This term is used by media to great effect but in real terms its impact on the lives of Australians and the protection of our shores is real and profound, it:

- Impedes progress along the inter-project learning curve;

- Magnifies the impacts of ‘last ship’ syndrome; and
- Is a significant threat to sustaining a leading military edge and a viable naval industry.

We, in industry, have many hundreds, even thousands, of talented people. We need to keep them challenged – one way to do this, the way we do it at ASC, is to move them between our submarine sustainment program, the AWD build program, and the future submarine program.

It is important that we as industry:

- keep these people engaged;
- protect them from being poached by other industries;
- build on their existing skill sets; and
- contemplate what skills they will need over the next decade as the demands of the Future Submarine contract come to bear on prime contractors, subcontractors, suppliers and training organisations - to mention just a few.

These ideas are nothing without a statement about what we are doing to harness the skills…

ASC is looking beyond the short term and contemplating the challenges that will surface in the coming years as we fight for

talent alongside sectors such as resources, telecommunications and other arms of the defence sector.

Like me, leaders of defence companies are looking at the expectations of our customer and considering how we can meet their demands in the future.

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

From the outset, the Commonwealth and State governments have been very pro-active in the skills development area.

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

Yet the challenges remain significant.

ASC wants to be part of the team that meets this challenge head on and I believe we have a great deal to offer when it comes to building the necessary skill base to drive the Future Submarine program.

Insights on building these skills can be drawn from both of ASC's programs. In particular, the AWD program is a case study in how to attract and transform thousands of job applications into a cohesive workforce.

ASC's AWD program started with approximately 21 employees in 2005.

By early 2006, we were building a recruitment campaign which targeted 1,200 people to support the planning and construction of three air warfare destroyers.

The first advertisement for skills drew more than 600 applications in the space of five days.

Applicants flooded in from around the nation.

We also developed a number of recruitment initiatives including:

- A referral policy which rewards employees for referring a job candidate who goes on to secure a role at ASC.
- Targeting the wives of tradies in the resources sector by promoting the ability to be home with their families and the clean air environment of Adelaide; and

- A female tradie campaign which tapped into a target group and attracted some great quality female trade candidates.

Within days we had 1,300 registrations of interest from people willing to attend information evenings.

After three years of activity, the AWD recruitment campaign had received 30,000 applications for jobs.

Today, we have more than 36,000 people on ASC's potential employee database.

We have also utilised our internal capability…

We have taken the significant opportunity to utilise experience and skills already developed in other naval shipbuilding programs, including our own submarine sustainment program.

Indeed, our experience to date suggests that up to 80 per cent of skills are interchangeable between the two programs currently undertaken at ASC.

This type of thinking has seen ASC transformed as part of a five year program designed to make the company internationally competitive.

ASC employees - across submarine maintenance, the AWD program, and engineering and support services - now work together as one team, with an urgency to deliver for our customer and ensure we operate safely and more efficiently.

We have empowered our people to drive innovation and efficiency through the business.

We are finding new ways of working and learning the lessons that will make the future submarine program a success.

We are transforming the Collins Class sustainment program through the new In Service Support Contract (or ISSC) for submarine maintenance.

We have formed a Submarine Enterprise (with the Defence Materiel Organisation, the Navy and our shareholder, the Department of Finance) to collaboratively work towards increasing performance on the Collins Class program.

And I am pleased to say we are seeing results.

Indeed, the first maintenance activity to be implemented entirely under ISSC saw HMAS *Farncomb* complete a Certification Extension Docking slightly ahead of its contracted completion date. This has never been done before.

We will also move to immediately transition towards reducing long term planned maintenance (full cycle docking, or FCD) from three years to two years beginning with HMAS *Farncomb's* planned FCD next year.

This will be made possible through a range of productivity initiatives that change the manner in which long-term maintenance is performed.

All these ideas broaden, deepen and overall strengthen our skill base for the future. We must grow its capability and take every opportunity to do that whilst continuously improving productivity and reducing cost.

We need the support of TAFE and universities…

As an industry, and particularly at ASC, we are seeking a position within the marketplace as an employer of choice with a competitive advantage based around the:

- strength of our culture; and
- strength of our workforce development programs.

The critical goal is to become a key part of the SEA 1000 project and I would like to give you a short insight into how ASC is working towards this goal.

I mentioned earlier that ASC now has one of the largest apprenticeship programs in South Australia.

The total cohort includes adults, school-based apprentices, Australian Industry Group training apprentices and a significant number who are studying at TAFE institutions around Adelaide.

The AWD project also relies on the expertise of young ASC engineers from local universities; our apprentices who work nights at TAFE institutions after a long day in the shipyard; and so many talented people who are dedicated to bringing this project in on time and on budget.

We focus on a number of in-house initiatives that enable employees to gain access to further education such as a diploma or advanced diploma courses.

This ranges from Masters programs in engineering disciplines through to a WorkSmart Lean Six Sigma program to build recognised competencies and certification across safety, quality, military systems and project management.

ASC also runs internal courses tailored to the unique needs of our workforce and we offer nationally recognised qualifications across 16 different disciplines.

This runs across the gamut of workplace needs, from developing an employee's negotiating skills, building their strategic thinking, to establishing people management skills.

We are also expanding our graduate programs.

Our two-year ASC Graduate Development Program exposes graduates to many disciplines within our business, and enables them to work closely with senior staff from a variety of backgrounds and fields in areas of work vital to ship construction and submarine maintenance.

We work with local tertiary institutions to ensure every available opportunity is open to students seeking a career in the naval shipbuilding sector.

Utilising funding from the DMO's Skilling Australia Defence Industry Initiative, ASC and the University of Adelaide have established the Master of Marine Engineering program.

The University of Adelaide delivers the majority of Master of Marine Engineering courses, but some are also delivered by senior ASC engineers and others selected from other universities across Australia.

Along with BAE Systems and Saab, we are also participating in the Master of Military Systems Integration, which is being delivered through the University of South Australia.

This course is aimed at giving participants a range of depth, knowledge and skills to work as a Senior Systems Engineer.

ASC agrees with Skills Australia's analysis that the retirement of the baby boomer generation will affect skills supply for the broader workforce over the longer term - including those skills crucial to the Defence Materiel supply industries.

Over the longer term, growth in the non-working-age population is projected to far outstrip growth in the working-age population and, as such, skilling Australians will become paramount.

We are also actively involved in the Advanced Technologies Pathways program, which is aimed at introducing the next generation of Australia's workforce to the technologies and opportunities within sectors such as Defence.

So there are numerous platforms for building the skills capability we need to meet the challenge of building and sustaining the 12 new submarines that make up the SEA 1000 program.

Each is complementary to the way we do business now. They are supplementing the skills and expertise we need today to meet our obligations to our customer.

But they are also focused on the defence needs for future decades.

And finally, we need to build on the vibrant science and technology, research and development environment led by the DSTO, and continue to increase support and partnership with industry.

When this is fully achieved, we will see skill levels in the technology areas develop at a rapid pace, producing outstanding scientists, engineers and technologists all ready to improve productivity through advanced manufacturing approaches, reducing cost of acquisition and through life, and delivering first time quality of solution to the future submarine program.

So, in conclusion…

I recall arriving in Adelaide it in early 2010 and it was apparent that this industry has a skill set that is second to none.

In 30 years we've built a cohort of talented employees across the length and breadth of the naval shipbuilding industry. With strong leadership, our people are world class.

However, as leaders we cannot rest on our laurels - we need to find and prepare the next generation of welders, the next generation of boilermakers and data analysts or marine engineers.

Defence is a fast moving and advanced sector and what you can dream about at 10 years old today, could be what you build at age 30.

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

That is why in South Australia, we are focused on building the maths and science programs at our schools across the State to ensure we have the next generation of engineers.

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.

Thank you. I welcome any questions or any points of further discussion you may have.