The Sir Richard Williams Foundation

SPEECH NOTES FOR MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVE LUDLAM

13 April 2012

Thank you for your warm welcome and for the opportunity to speak at this distinguished gathering today.

I would like to draw a simple plan for industries' contribution to national security. This involves the stabilisation of industry capability and capacity. I am not pitching for subsidy or increased budget, and I will concentrate on maritime.

I would like to start with an establishment of our maritime credibility, which I will say from the outset is first class and the equal of our major allies around the world. Naturally, I will use ASC statistics but BAE, Forgacs, Austal, Raytheon, Lockheed Martin and others have world class capabilities and we would all benefit from stability.

For those who are unfamiliar with ASC, I have the great privilege to lead over 2400 employees, 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 (or AWDs).

We are one of the major maritime employers competing with the fast-growing mining sector for the best talent Australian universities and technical colleges and the population at large can deliver.

As a major manufacturer we are one of the largest employers of apprentices in South Australia.

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

And I believe we are succeeding in our contribution to the Australian Defence Force which is our major focus.

Over the past year, ASC has recruited more than 560 permanent new employees across our three sites, with plans to recruit a further 150 production trades on the AWD project in the coming 12 months.

You may also know that we have a stable of more than 300 engineers who are recognised as of world leading standard.

As an engineer myself, I take great pride in the work of this team. These skills are being maximised in projects such as Deep Blue Tech, where we are building capability to play a lead role in the design and performance of tomorrow's submarines.

And all the other companies I mentioned are doing the same.

ASC's role at the heart of naval manufacturing, sustainment, and research and development gives me the opportunity to speak today about the challenges facing the naval shipbuilding and repair sector, as I see it.

My own experience working in the naval industry in a number of countries for more than 30 years gives me insights about the role the sector can play in supporting the Commonwealth to build a sustainable industry going forward.

I have been quite openly in favour of supporting and growing the national shipbuilding capability of this country.

Let me be clear that this position is not predicated on pending decisions for defence contracts such as SEA 1000, or future submarine as it is commonly referred.

Having had no exposure to the Australian industry before January 2010, I now have a strongly developed view of what this industry is capable of.

And I now see our industry here in Australia at a cross road with a choice to go one of two ways.

We can build on the significant capability that has developed over the last 30 years and prosper in self-reliance.

Or, we can be subjected to the boom-bust cycle that characterises industries that do not secure their long-term capabilities against the otherwise inevitable ebbs and flows of work.

This results in intense periods of investment and skill development followed by steady decline and knowledge letting, which ensures valuable capability is not fully leveraged on future programs.

And those highly skilled people who populate it today turn to new industries to supply goods to, go offshore for work, or turn to the resources industry for an income.

I should say this is not just a story of capital projects but speaks to sustainment. Without the knowledge grown in capital projects and retained we are not able to sustain to the level of availability necessary to fulfil the nation's security.

I obviously favour the first approach to build on the significant capability that has developed over the last 30 years. But it will only take place if we change the environment and approach to procurement.

The Government's Defence Capability Plan does provide useful guidance by outlining priority industry capabilities (pics) and strategic industry capabilities (sics). These are valuable tools.

Yet they are merely the first step.

Currently, our national shipbuilding and repair industry is not treated as a strategic imperative that can provide significant economic benefits for the nation.

The strong message peddled in the media is that we need to look offshore for cheaper and easier options; that the nation is better served by focusing on the resources sector and leaving advanced manufacturing to other countries.

This becomes a cycle that feeds its own argument.

As noted in the recent Defence Industry Workforce Strategy discussion paper, the availability of relevant skills is a key factor in determining the capability and capacity of defence industries to meet the demands of Government.

It's time to define Australia's naval shipbuilding and repair sector for the future.

This begins with a vision for the procurement of naval assets spanning two or even three generations.

And it is driven by forward looking policy that outlines a procurement path for Navy, Government and the shipbuilding industry to meet future naval demands.

The path must begin with the assets we have built here in Australia.

Australia's key defence allies have explicitly acknowledged the importance of maintaining their domestic shipbuilding and repair industries, and have acted to secure critical domestic capabilities into the future.

Recent research shows our industry is highly capable and cost competitive. Historical research by Defence also supports this.

Across the construction of submarines, destroyers and frigates, Australia is competitive with, if not cheaper than the builds conducted overseas.

The industry view is that the 30 per cent premium paid for the domestic build of frigates in the 1970s was due to one-off costs required to establish infrastructure and human capacity.

The nation has invested in infrastructure across the nation, the supply chain is robust, and the skill base is growing.

Yet the attitude to securing industry appears to be one of indifference.

Indeed, I see the current approach to naval planning and procurement as potentially putting the ADF at risk, turning the clock back to the early 1980s before the Collins Class project.

My view is there is considerable discretion for the Commonwealth to implement a procurement approach built on both competition **and collaboration**. The bias today is towards competition.

Yet a more collaborative approach would immediately bring certainty and transparency for industry and engender a real and substantial commitment to building infrastructure, ongoing training and workforce participation from the domestic industry sector.

This thinking is not new. It has been contemplated here for over a decade.

And Canada, the United Kingdom and United States have all followed this path with success.

Each has a vibrant and capable industry sector that works closely with government to deliver the best outcomes for navy, the economy and the nation.

The Commonwealth has a valuable opportunity to consider this as we move into a period shaped by the Defence Capability Plan and Defence whitepaper.

These documents outline expenditure of approximately $3 billion annually over the next 20 years built around enhancing the Royal Australian Navy’s capability.

In many ways, the evolution of the Collins Class build program underlines just how capable this nation is – and can be - when focused on building a complex naval capability.

Indeed, the requirement of 70 per cent Australian Industry Content implemented during the Collins program is still achievable today.

In today’s figures, and given the Government’s projected expenditure commitment, this represents wealth generation across the industry of approximately $2 billion a year between 2012 and 2030.

And yet we are grappling with the uncertainty.

Decisions such as those contemplated with the SEA 1000 construction program cannot – and should not – be driven by a short-sighted attitude of finding the next best or most convenient option available.

We need a National Naval Shipbuilding and Repair Policy. So let me suggest a simple 5 point plan:

We need to secure and develop skilled Australian jobs and small businesses.

Analysis suggests that building Australia’s naval fleet will generate full-time employment for over 13,000 people annually and engage over 1,500 small to medium enterprises in providing systems, equipment, material and services. These are highly skilled jobs, many in manufacturing and engineering.

These are the types of jobs the nation needs to foster to address the ‘two speed economy’ that exists in the southern states of Australia, and to ensure we are ready when the resources boom comes to an end, as it surely will.

However, under the current ad hoc policy settings which govern the Australian Naval Shipbuilding and Repair (or NSR) sector, there is a significant risk that much of this investment by the nation will provide jobs, skills growth and work for SMEs in foreign countries at the expense of the domestic NSR sector.

We need to leverage the nation’s investments.

Since the 1980s, Australian governments have chosen on a project-by-project basis to build and integrate all of Australia’s naval combat vessels in Australia, for a range of strategic and economic reasons.

This significant investment by the Australian nation has resulted in the development of a strong capability base with which to build Australia’s future submarine and surface combatant vessels.

Committing to the future of naval shipbuilding in Australia and developing a national NSR industry policy would build on this investment and deliver significant strategic and economic benefits to government, and the business certainty required for industry to make productivity enhancing investments.

We need to establish an effective and cost competitive industry.

The argument is often made in the media that the Australian NSR sector is not cost competitive. However, our research leads us to the conclusion that the Australian industry is on par with the NSR sectors of comparable countries.

This uncompetitive argument is a hangover from the late 1970s and early 80s when the industry was being re-established in Australia.

The Australian NSR industry is not seeking subsidies. It is looking for an environment where industry can drive to become more cost effective based on investment that has a long term certainty.

With smart policy settings, Australian industry will become more cost effective than its international counterparts and open up the potential for export of complex high technology naval platforms.

We must adopt word's best practice.

Australia stands alone amongst its allies and other comparable sized nations with modern navies in not committing to the future of domestic naval shipbuilding.

Plus, Australia is the only country that allows the capability, size and shape of its NSR sector to be determined by market forces through competitive procurement on a project-by-project basis.

Without an NSR sector policy, it is likely that Australia will become increasingly dependent on foreign nations for our strategic naval assets. The ability to defend our maritime environment will be subject to the policy settings of foreign governments and access to spare foreign complex naval shipbuilding industrial capacity.

We must address current issues through developing an NSR industry policy.

The maintenance of a highly capable domestic NSR industry is a strategic imperative for Australia and can provide significant economic benefits.

To realise these benefits for Australia, an NSR industry policy needs to be enacted by Government that:

- Formalises the Government's position on what aspects of future naval programs will be undertaken in Australia;
- Specifies the NSR industry capabilities that are strategically important to Australia, and the demand mechanisms that will be put in place to sustain these capabilities;
- Establishes an industry structured around core prime roles in surface and subsurface domains, for build and maintenance activities;
- Provides sufficient and stable demand to sustain core capabilities;
- Establishes the mechanisms for effective and mutually beneficial enterprise relationships between government and industry; and
- Sets out collaborative procurement processes between industry and Government that effectively address trade-off decisions between cost, schedule and capability.

Development of draft policy should be coordinated and led by either the DMO or an industry group such as Australian Industry Group with support naturally from the major domestic NSR sector players and Government.

This is a time to stand up for an indigenous shipbuilding and repair capability in Australia and for Government to provide a policy platform that allows industry to thrive and work collaboratively with Defence Materiel Organisation.

It is a time to stand beside the key players in the Australian defence industry and affirm that Australians have the expertise, skill set, international relationships and capacity to build naval assets for many generations to come – and prosper from the many benefits that this industry can bring.

Thank you for your time today.