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**AN AUSTRALIAN DEFENCE INDUSTRY:
MOVING FROM POLICY TOURISM TO NATIONAL INTEREST**

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*****CHECK AGAINST DELIVERY*****

“[T]he decision to have a national defence industry is not lightly made”

It was a young room: disconcerting as always for a man on the wrong side of 50.

A dozen faces were glued to a series of screens. One had zoomed in on a fast approaching van. Another was scrutinising a person on a push bike traversing a roundabout with a large package in a basket mounted atop the front wheel. A third was looking at a woman walking a dog.

A toolbar on the side of the screen appeared to allow a series of analytics to be performed which then ascribed a threat probability in respect of each of the three them.

Some of those looking at the screens wore the uniform of the Israeli Defence Force, others wore the more familiar uniform of the scary-smart twenty-something cyberist: t-shirt, jeans and thongs.

This room was located in Netanya, north of Tel Aviv, the home of the land and C41 facilities of Elbit Systems, an Israeli defence industry company. The screens contained a border management system designed to peer across the frontier and assess the potential danger of any approaching vehicle, person or animal.

Seen only through the lens of innovation this room was remarkable. In just one hour I watched the process of invention unfold before my eyes. Questions and suggestions burst forth: ideas for new features, what functions could be honed.

As I watched these people work their uniforms faded. The line between company employee and soldier disappeared. All I could see was young Israelis working on the one task of making their country safe. It was good natured, earnest and deadly serious all at once.

I was watching the pursuit of a national mission and it was scintillating.

Elbit Systems is a company employing more than 12,000 people. Along with Rafael, which employs 7,500 people and Israeli Aerospace Industries which has more than 15,000 employees it forms the heart of the Israeli defence industry. The vast majority of the workforce of each of these companies are in the broad sense scientists.

About 80% of the revenue of each of these companies is export based. This is deliberate. The needs of the IDF alone would not sustain these companies and this industry and yet the existence of these companies and the equipment they produce is fundamental to the technological capability that the IDF enjoys. Each of these companies provides high tech employment and a high tech boost to the Israeli economy at large. It is a matter of consensus in Israel that its stunning start-up economy has its beginnings in the defence industry.

And so the Israeli defence industry is a national asset. It is born of a national need which is integral to Israel's sense of national mission. The decision for it to exist is deep involving all sides of politics, the bureaucracy, the IDF and the defence industry companies themselves. It is an industry which has its roots in strategic policy but has contributed so much to Israel's broader civil economy.

Two weeks into my current tenure I had my first meeting as Shadow Defence Minister with the British High Commissioner Menna Rawlings. We spoke about the extensive links and cooperation that exists between the Australian Defence Force and the British military. This is a relationship which possibly affords the ADF its best point of reference.

Before long Menna raised with me the tenders being pursued by BAE Systems in relation to the building of Australia's next generation of frigates and armoured fighting vehicles. She told me about the quality of this company, of British technology and the interoperability that BAE could build between our forces. Menna is a highly capable diplomat and this was an entirely appropriate and high quality pitch.

Bearing in mind that I had little chance of ever being a decision maker in respect of either of the tenders I was impressed by the level of thoroughness demonstrated by the British system in putting its best foot forward. Afterwards I wondered whether Australian diplomats have seen it as a part of their role to promote Australian defence industry companies in such a proactive way. But perhaps to be fair to Minister Christopher Pyne he has put our Defence Attaches to work in promoting Australian exports and for that he deserves credit.

In any event it was impossible to leave the meeting with Menna without a clear sense that the existence of the British defence industry was a conscious decision and a clear act of deep public policy in Britain. Every facet of government was pursuing it.

The conclusion from these experiences and all that I have had since is that the decision to have a national defence industry is not lightly made. If you want to have a national defence industry then as a nation, at every level, we have to commit to it.

“Whichever way you look at it ... Austal matters”

The visit to Israel left me deeply impressed by what that nation had achieved but more than a little discombobulated about the state of Australia’s endeavours in developing our own defence industry.

Yet a starting point was to consider which existing companies in Australia fitted the profile of the defence industry companies that I had witnessed abroad many of whom have a presence in Australia.

Be it Elbit or BAE or for that matter Thales in France, Saab in Sweden or Lockheed Martin in the US, each employ thousands of people, are high tech in nature, and are heavily export focused.

Are there any Australian companies which fit that bill?

ASC has employed thousands of people in its time. It has been the subject of historic criticism, none more virulent – in fact – than from the current government. Yet over the journey ASC has built submarines and ships, maintained them as well, and contributed enormously to Australian defence capability. That said, it has no real history of exports and accordingly has been susceptible to the valleys of death which come from having only one defence force as a client. We have seen the consequences of this in the last 24 hours with the loss of 223 jobs at ASC in Adelaide associated with the winding down of the Air Warfare Destroyer build.

CEA Technologies is a boutique high tech company that produces the best phased array radar in the world and is based right here in Fyshwick. It is a wonderful Australian story with a great history of exports. By comparison though CEA Technologies is relatively small employing about 400 people. It is, however, far from the only example of an Australian defence industry SME playing a role on the global stage through an export business.

Ultimately there is only one company which could claim to fit the bill. Austal is an Australian shipbuilder that grew out of Henderson near Fremantle in WA building aluminium hulled boats. It began in 1988 building small catamarans that evolved into massive ferries exported globally. It has performed various pieces of work for the Royal Australian Navy and the Australian Border Force (it built the existing Cape Class vessels for the ABF and is currently building the Pacific Patrol Boats). In addition it exported patrol boats to countries like Egypt and Malta as well as larger troop carrying vessels for the Omani Navy.

Its most celebrated contract, however, has been the Littoral Combat Ship for the US Navy. This is a futuristic looking ship which is being built at Austal’s facility in Mobile, Alabama which I visited last year. Along with large troop carrying catamarans, Austal has been commissioned to build 27 ships from this facility and hopes to build more. This Australian company is now shortlisted in competition for the US Navy’s Future Frigate program. Importantly all the ships being built in Mobile have been designed by Austal in Henderson. The design brain of Austal, consisting of highly qualified technicians and naval architects is developing intellectual property in Australia, capability in Australia and jobs in Australia.

Austal is a projection of Australia. They have enhanced our nation's standing within the US Navy and the American defence establishment.

So Austal is an Australian company, high tech in nature, employing thousands of people around the world, and principally reliant on exports.

Whichever way you look at it the achievements of Austal are remarkable and Austal matters.

“[C]reating an Australian defence industry ‘enterprise’ literally represents a 180° about face on the part of the Coalition”

Much has been made by the Coalition Government of its renewed commitment to building a defence industry in Australia.

In the first term of this Government there actually seemed little interest in the development of an Australian defence industry. Indeed given former Defence Minister Johnston's infamous assertion that he would not trust ASC “*to build a canoe*” we all could have been forgiven for believing there was an active hostility by the Coalition directed toward the Australian defence industry.

Prime Minister Abbott was responsible for seeing Australia's new supply ship be built offshore in Cadiz, Spain by Navantia. There was an attempt to have our future submarines built in Japan in a bid to close the Australia-Japan Free Trade Agreement. And along the way thousands of Australian shipbuilding jobs were lost in Newcastle, Melbourne and Adelaide.

So the recent clarion cry of creating an Australian defence industry “*enterprise*” literally represents a 180° about-face on the part of the Coalition.

Its new found rhetoric of “*Australian made*” is spoken forth with the zeal of the convert.

To make it all happen the Government has created a specific Defence Industry Minister. It asks us to believe that this has nothing to do with the need to inject some energy into the Defence portfolio without giving rise to yet another change in Defence Minister, but instead is an ingenious idea of policy purity to place defence industry at the heart of the government's agenda. If this portfolio division makes any sense one would imagine that if ever offered the role of the traditional Defence Minister Christopher would decline. But does anyone really believe that? And in fact don't we all know that deep down this is exactly the job that Christopher really wants?

For the record Labor will only have one Defence Minister.

But to be fair as Defence Industry Minister, Christopher has maintained a fast paced tempo of announcements, photo-ops and press releases.

Combined with a Government paid advertising campaign it would appear the creation of an Australian defence industry is a simple act of Malcolm and Christopher's combined personal will.

“Until [the Government] starts to base an argument for an Australian Defence industry in strategic policy it will continue to be met with scepticism”

Despite this I believe that many in the defence community don't buy it. Within the bureaucracy and the ADF itself I believe the commitment to a national defence industry is mixed.

There are certainly Australian defence industry achievements which have come about through the active engagement of the ADF and the defence community. For example, as the Afghan conflict evolved our military identified a critical need to counter the increasing threat of improvised explosive devices that were harming our soldiers. Our scientists in the Defence Science and Technology Group working with Thales continued to develop the protection of the Bushmaster as this threat grew. Our Army now uses it extensively and the defence community have for many years been active in marketing it abroad.

Nulka which is a missile decoy system produced by BAE Systems Australia is our biggest defence export. These sales abroad have also been supported by the defence community.

But the First Principles Review embraces *“a leaner ‘smart buyer’ model that ... is more commercially oriented and delivers value for money.”*

This reflects the attitude of many in the Capability, Acquisition and Sustainment Group and the senior military leadership about the way government should procure equipment for the ADF. And on its own terms these are important considerations: of course value for money must be paramount.

When asked what we should buy, time and again I hear the answer that rightly we need the very best equipment available to keep our soldiers, sailors and aviators safe and allow them to do their job to the best of their ability.

That this equipment be made in Australia is a secondary issue.

In addition I have often heard the comment that the Defence budget is about Australia's defence and ought not be used as a proxy for industry policy.

That a number of our senior public servants and military leaders should have these views is not unfair. We have never really asked them to think differently. And the Coalition's recent Road to Damascus conversion lacks any credibility to those who have devoted their lives to our nation's defence. Moreover, it is true that Defence is fundamentally about defence and not industry.

Until the Government starts to base an argument for an Australian defence industry in strategic policy it will continue to be met with scepticism from the defence community.

“[A] reaction to the loss of the car industry”

This scepticism is based in the shallowness of the Coalition's approach to defence industry policy.

At no point has the Coalition attempted to provide a strategic policy reason for its new found support for an Australian defence industry because it doesn't have one.

In truth the Government's defence industry policy is its industry policy. And its desire to see a jobs outcome from defence industry is nothing more than a reaction to the loss of the car industry on this Government's watch.

But using defence industry as a proxy for an industry policy is lazy thinking. It fails to build the rationale necessary to garner the support of the defence community which in turn is necessary to create a long term sustainable defence industry in this country. And just as significantly it masks the failure of the Government to develop an industry policy within the general economy which Australia so badly needs.

All of this provides a sense in which the Liberals are policy tourists when it comes to the establishment of an Australian defence industry. It suits their political circumstances now. But if there is no deeper rationale for the Government's involvement in the defence industry then when a future Liberal Government, which is not reacting to the loss of the car industry, comes to this area of policy the Coalition's commitment to an Australian defence industry will not survive.

“Offshore Patrol Vessels”

The failure of the Government to develop a proper rationale for an Australian defence industry and its corresponding inability to bring the defence community along with it can be seen in the recent decision about the building of the Navy's next generation of Offshore Patrol Vessels (OPVs).

While developing an export based defence industry must be the goal if we are to have a national defence industry, the best opportunity to do this is by leveraging the domestic capability which is developed through the building of equipment for the ADF. Making sure we get the key procurement decisions right, from the perspective of the Australian defence industry, is therefore essential if we are to develop that industry. But this is unlikely to happen if the development of our national defence industry is not a clear goal in the procurement process. Clearly it is not.

The OPV procurement was particularly important because it has been widely regarded as the most likely class of vessel which an Australian shipbuilding industry could design, construct and export in the short to medium term. As Kim Gillis, the Deputy Secretary of CASG, said recently during Senate Estimates: *“that class of vessel is very in-demand from a range of navies around the world, and the export of those size vessels is far more likely than much larger combatant vessels”*.

Of all the functions associated with the build of these vessels the most important is the design. This is where the smarts reside. This is where the intellectual property of the vessel exists. And this is where true ownership of the ship lives. We are unlikely to build an export based business in Australia selling this kind of vessel overseas unless the design capability is developed here. And if we are not building and exporting this class of ship we are unlikely to build and export any class of ship.

As the tender came to the pointy end of proceedings there were three design options presented to the Government. The first was a smaller vessel from Dutch company

Damen. The next was a design by the German company Lürssen wholly developed in Germany with the intellectual property based in Germany. The third option came from another German company Fassmer in a joint venture design with Austal and would have seen the design capability developed in Henderson and the intellectual property in the ship based in Australia.

For all its abilities and deficiencies the design house at Austal in Henderson is the only significant naval design house in Australia.

To be sure Lürssen is an excellent company with vast experience in ship building and design that is certainly capable of delivering to the Navy what it needs.

The OPV will be a steel hulled ship. Austal does not have extensive experience in designing steel ships although it has designed and is building the Pacific Patrol Boats which are steel hulled. For this reason, in its bid, Austal teamed with Fassmer which has proven steel OPV designs and does have extensive experience in steel hulled shipbuilding in order to ensure it could deliver on the requirements of the Government's tender. In other words the performance of this work by Austal would unquestionably have further developed its Australian capability and export potential.

Despite this, in awarding the tender the Government has chosen the Lürssen design. Now I am not in a position and certainly do not have the expertise to assess which bid provided the better option for the navy. I can only assume, given the Government's decision, that the answer to this question is that the Lürssen design was the better boat.

But the consequence of this decision is that there will be no Australian, or even part Australian, design of the next OPV which could have been the foundation for the development of an Australian vessel which could be sold to the world. If we assume that Lürssen did design the better boat then in the making of this decision navy capability trumped the development of Australian defence industry capability.

Given the current orthodoxy in the way in which CASG procures for the ADF, an orthodoxy which does not prioritise the development of Australian defence industry, and an orthodoxy which has not been altered by this Government despite its rhetoric, this decision is wholly to be expected.

And yet do we imagine for one moment this is how it would have worked in Israel or Britain? Can we imagine either country so easily accepting the loss of this defence industry development opportunity? And can we imagine them allowing a situation to develop where the choice became one of a superior foreign capability over an inferior domestic option but nevertheless a development opportunity?

The Government has shown a willingness to not accept bids as they find them but rather to intervene. It has done so with the OPVs. In order to appease Austal they have requested that some of Austal's workforce be used in the building of the Lürssen design even though Lürssen's preferred builder is another company Cimvec. This intervention has been a disaster with Austal and Lürssen not surprisingly unable to agree terms given they are competitors internationally and have been forced into a shotgun wedding. A mediator has now been appointed by the Government to try and sort out this mess.

But if the Government was willing to do that, then why couldn't it have acted at an earlier stage in proceedings. If it had concerns about the Austal/Fassmer design then why couldn't it have acted years ago to try and rectify this and provide the Australian designer with a fighting chance to win work that was critical to the development of an Australian export based naval shipbuilding industry.

As the designer and shipbuilder of two classes of vessel within the US Navy, Austal would no doubt contend that it had the superior design. But if the Government genuinely felt that the choice it faced in awarding the OPV contract involved an inferior domestic design then at that moment the Government had already failed. At that moment it became clear that the Government's commitment to an Australian defence industry is as clangingly hollow as it is loud. Protestations about Australian shipbuilding are just words without strategy.

The decision has left Austal in a quandary. It can win naval design work abroad, including in the US, but not in Australia. It can build huge commercial ferries for export in Fremantle, as it is doing today, but also has the option to build them in its facility in the Philippines. Its future in Australia looks uncertain. And given its unique status as the one Australian defence industry company which resembles the profile of the global defence industry primes, to lose it would be a disaster.

The Government's record of nurturing existing Australian companies within the defence industry has been poor. The failure to seek a bid from SAAB for the future submarine which would have at least given ASC a chance of being in play with a variant of Collins reeked of politics. The strategic partnership between Austal and ASC which offered the prospect of uniting Australia's most significant shipbuilding capabilities appears to have been met by the Government with disdain. And the structural separation of ASC now appears to have weakened rather than strengthened its hand.

This Government stood by and watched the loss of the car industry. Despite all the defence industry hoopla, were it to lose Austal, along with the thousands of shipbuilding jobs already lost, its defence industry scorecard would be grim.

“[A] thoughtful rationale”

Ultimately I believe that as a nation we have not made the kind of deep decision to have a national defence industry in the way that decision has been made by Israel, Britain or for that matter Sweden. There will be those who argue that we have neither the centuries of defence industry tradition enjoyed by Britain nor the existential threat experienced by Israel that would yield such a deep national decision. In part of course that's true. Yet the comparison does highlight the magnitude of the decision we need to make if we really want to build a meaningful national defence industry in Australia. And this is possible to do without the tradition or the existential threat.

Labor passionately believes in the value of Australia having a national defence industry. Historically it has formed part of our political DNA. But in expressing this belief we are acutely aware that it needs to be founded upon a thoughtful rationale if we are to make the deep national decision that is required.

Jobs are critically important but ultimately strategic policy has to be the foundation upon which defence industry is based.

At the ALP National Conference in Adelaide in July I expect the Party to express its support for an Australian defence industry based on four pillars.

First, *“providing the ADF with the world’s best capability in order to keep our sailors, soldiers and aviators safe and successful on behalf of our nation.”*

At its best Australian industry is as capable as any in the world. If we believe we have or can develop the world’s best capability in any given area then this is reason alone for Australia to have a defence industry so that the ADF can have access to the best. Bushmaster, Nulka and the Jindalee Operational Radar Network bear testament to that. At the heart of Israel’s rationale for a defence industry is a fundamental confidence in its own ability to build the best in order to make the IDF the best.

A dull acceptance of Australian industry inferiority, without any attempt to improve it, is inexcusable.

Second, *“providing Australia with the sovereign capability to maintain and sustain the ADF and all of its equipment.”* The ability to sustain and maintain the equipment the ADF uses is fundamental to our national security and it is essential that we always retain the industrial capability to meet this objective.

Third, *“building technological capability and workforce skills within Australia’s broader industrial base”*

Defence industry is high tech industry. For a first world nation like Australia to maintain an industrial manufacturing base then we have to be at the top of the technological ladder. Making low value products at the cheapest prices is not the business we should be in. From Israel to Sweden, the value to the broader economy in the industrial capability developed through defence industry is priceless.

A Labor Government will have a coordinated approach between broader industry and Defence towards building future capabilities ensuring that Defence develops strong links with our civil science and research sectors and relevant education institutions.

And finally, *“enabling Australia to project its strategic weight through an exporting defence industry.”*

An export based national defence industry can add to Australia’s strategic weight.

The need for Australia to plot its own path in the world means that more than most countries we have a particular premium on being taken seriously.

The ADF helps that happen for Australia. So too could an exporting Australian defence industry. It can be a means by which we project Australian power.

Consider the US: American power is about aircraft carriers and marine bases. It is also about being the home of Lockheed Martin and Northrop Grumman.

Austal helps us be taken more seriously by countries such as Oman and indeed the US. Similarly an exporting OPV business based upon an Australian designed ship could have helped project Australian power in the region and beyond.

As it is, the decision the Government has made in relation to the OPVs will be more about a projection of Germany.

“[T]he frigates”

The next major procurement decision the Government faces is the awarding of the frigates contract.

While Australia is unlikely to export frigates in the near future this is a much bigger build than the OPVs and will certainly provide the opportunity to develop Australian defence industry capability.

All the designers competing for the tender come from overseas. However, be it BAE Systems, Navantia or Fincantieri who design the frigate, the build will be done in Australia. Depending on how that build is done much design work can still occur in Australia. Accordingly as much as possible the intellectual property behind the building process needs to be based in Australia.

Today Labor calls upon the Government to mandate that the build be done by a truly Australian company. To be clear this does not reduce the field to an option of one. Competition in the process is essential.

A company that has its origins in Australia obviously meets the test of being truly Australian. In another context Thales Australia – which has developed the Bushmaster: as an Australian export, with Australian intellectual property which generates Australian jobs, and that represents a clear projection of Australia – would also meet that test.

What matters is that the company performing the build is an Australian company maximising Australian design content and the retention of intellectual property in Australia. If we lift our eyes above the next twelve months and look to the decades over which the continuous ship-build is intended to occur, then it is self-evident that the company which performs this build must be or become a truly Australian company.

The projection of Australia must be a consideration in the way we develop Australian defence industry capability.

Such options exist within the context of the tender as it is currently being run. Once the successful designer is chosen in the next month or so there will then be a process running through to the end of the year of determining the build solution.

It is in this process that an Australian shipbuilder must be ensured.

To be clear, Labor will not be revisiting these contracts if we win office. We will never entertain sovereign risk. So it is for this Government, right now, to get this right. The confused process of OPVs cannot be replayed with the frigates.

We need the best possible frigate for our Navy. But we also need the best possible outcome for Australia's defence industry. These should not be competing agendas. Rather the Government needs to ensure they are complimentary agendas.

A truly Australian shipbuilding company performing the build is fundamental to that.

“A deep political consensus ... to make the deep decision required to establish a national defence industry”

The projection of Australian strategic weight is a strategic reason why Australia should have a defence industry. And given it complements the role of the ADF itself, this reason should be the basis upon which the defence community embraces the development of an Australian defence industry as a national mission.

Were the Coalition to rise above partisan politics then it too should support this strategic rationale. There is nothing in its political tradition which prevents it from supporting a rationale of increasing Australia's strategic weight.

So given we are at a moment in time when the Coalition is expressing its support for an Australian defence industry, a more thoughtful strategic rationale for it offers a unique chance to build a lasting political consensus underpinning an Australian defence industry long into the future.

And such a genuine political consensus combined with the real support of the defence community could just be the necessary ingredients to make the deep decision required to establish a national defence industry that as a nation we need to make.

ENDS

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