
What we know about the economic benefits of naval shipbuilding for South Australia



By the Numbers - Defence Briefing Note: October 2017



South Australia has a strong naval construction and sustainment sector

Key current projects delivered at Techport Australia in Adelaide include the:

- Construction and sustainment of the Collins Class Submarines, and
- Construction of the nation's Air Warfare Destroyer.

South Australia is also home to other key naval projects, including the:

- Landing Helicopter Dock (LHD) mission system design, development, integration and in-service support
- ANZAC ship combat system in-service support, and
- Collins Class submarine Integrated Ship Control Management and Monitoring System upgrade.

As a result, South Australia has developed a world-class maritime industry base and highly skilled workforce, with expertise across all naval shipbuilding activities, from systems engineering and integration to hull fabrication.



Future commitments entrench South Australia as Australia's key naval construction centre

Given this background, as part of the Australian Government *Naval Shipbuilding Plan*, South Australia is the confirmed location for the construction of Australia's next generation of:

- **Offshore Patrol Vessels (OPVs)** - construction of Australia's 12 OPV fleet worth \$3 billion is due to start in 2018, with two to be constructed in South Australia
- **Future Frigates** - construction of Australia's new \$35 billion Frigate fleet (nine ships), due to start in 2020, and
- **Submarines** - the \$50 billion Future Submarine Program for 12 submarines.

The *Naval Shipbuilding Plan* also includes:

- **\$1.3 billion** to upgrade the Osborne Naval Shipyard in Adelaide and the plant at Henderson in Western Australia
- **\$25 million** Naval Shipbuilding College centered in Adelaide to ensure the necessary supply of a skilled workforce.

The key change to previous shipbuilding initiatives is the commitment to build these warships and submarines at the Techport through a continuous build programme. A continuous shipbuilding programme means that the industry and individuals have the confidence to invest in the capabilities required by modern naval vessels.

The Prime Minister describes this as a “national enterprise”:

“The Naval Shipbuilding Plan will not only enable us to deliver the key naval capabilities identified in the 2016 White Paper, but will also guarantee long-term employment for Australian workers and a sovereign naval ship-building and sustain capability. Capability, jobs, a sovereign defence industry.”

There has been considerable debate about the economic benefits of naval shipbuilding for South Australia

The Government's \$90 billion *Naval Shipbuilding Plan* is 'unashamedly nationalistic' in supporting local vessel construction and sustainment.

Construction of naval ships and boats benefits the shipbuilding industry itself and also the broader economy.

The importance of the industry is not limited to the direct output and employment it generates (i.e. "direct impact"). Companies in the shipbuilding and repairing industry purchase inputs from other domestic industries, contributing to economic activity in those sectors (i.e. "indirect" impact). Employees spend their incomes, helping to support the local and national economies (i.e. "induced" impact). Thus, the economic importance of the ... shipbuilding and repairing industry includes direct, indirect, and induced effects.¹

The construction of these vessels will inevitably involve a combination of domestic and international:

- Sourcing of inputs - while some inputs are readily available, or can be available domestically, others will be sourced from global supply chains.
- Construction - while ultimately construction will be conducted in Australia, in practice some key modules will be constructed overseas and incorporated into the final vessel in Australia.

The *Naval Shipbuilding Plan* makes a number of statements about the expected economic impact of the three major construction pillars within the *Plan*:

- "Commencing in the mid-2020s, the construction of the future submarine fleet is expected to sustain around 1 100 Australian jobs in direct build and around 1 700 Australian jobs through the supply chain."²
- "The future frigate project is estimated to be worth more than \$35 billion (out-turned) in capital investment and will directly create over 2 000 Australian jobs."³
- "... the design and construct of the first 19 vessels valued at over \$300 million in total, including an initial seven-year period of sustainment. This project will directly create around 200 jobs".⁴

¹ Maritime Administration (MARAD) 2015, *The Economic Importance of the U.S. Shipbuilding and Repairing Industry*, p.E-1

² Department of Defence 2017, *Naval Shipbuilding Plan*, p.26

³ Department of Defence 2017, *Naval Shipbuilding Plan*, p.33

⁴ Department of Defence 2017, *Naval Shipbuilding Plan*, p.37

The Australian Government's shipbuilding programme is expected to result in



15,000

direct and indirect jobs to be created nationally in both construction and sustainment.



3500

estimated additional direct shipbuilding jobs in SA will support an additional 4550 South Australian jobs in industries directly related to shipbuilding.



Meaning more than half, or an extra

8000

jobs created in the SA economy resulting from the Australian Government's naval shipbuilding programme.

In aggregate, the Prime Minister is quoted as noting that:

The naval shipbuilding workforce is expected to grow to around 5,200 workers by the mid to late 2020s, with more than double this number of workers in sustainment activities and throughout supply chains across Australia.⁵

This would be a more than tripling of the current workforce in South Australia.

There is much debate about the quantum of work that will be sourced from South Australia (i.e. inputs provided or construction undertaken).

In a recent submission to the Commonwealth Parliamentary inquiry entitled *The Future of Australia's Naval Shipbuilding Industry*, the South Australian Government suggests that there is a 'false perception' that South Australia is set to receive a large part of the *Plan's* benefits:

*The naval shipbuilding programme will be a national enterprise which involves all states and territories, however much of the current public and media commentary is creating the false perception that all of the economic benefits will be delivered to SA.*⁶

By then pointing to an estimated 10-15% spend in South Australia over the life of the vessels, the submission supports a general assumption that most of the 'servicing' or sustainment of vessels will be done in WA, and some in NSW.

Discussion of sustainment obscures the fact that close to \$90 billion will be spent on acquisition alone.

What is not clear yet, at least publicly, is an understanding of the level of expenditure that will likely occur in South Australia in this acquisition phase.

Some sense of the spend in SA can be derived from a series of recent studies:

- Analysis undertaken for the Economic Development Board of SA regarding the future submarine programme estimated that South Australia would capture
- 63% of the programme spend
- 65% of total national employment.⁷
- The Collins Class submarine project expended 67% of its costs in Australia, and 42% in SA⁸
- The Australian Government has indicated that it expects at least 60% local content for the naval shipbuilding programme to qualify as a 'local build'.⁹

The Government rightly makes the point that setting minimum target is a mistake as Australian industry should be incentivised to make the most of this unique opportunity.

In addition, the Australian Government expects significant export opportunities to develop. These opportunities and benefits will be in addition to these projections.

⁵ Prime Minister 2017, 'Securing Australia's Naval Shipbuilding and Sustainment Industry' Media Release, 16 May

⁶ South Australian Government 2017, The Senate Economic Reference Committee Inquiry to the Future of Australia's Naval Shipbuilding Industry - Submission from the South Australian Government

⁷ Economic Development Board of South Australia 2014, Economic Analysis of Australia's Future Submarine Program, pp.3-4

⁸ Department of Defence 2015, Building Submarines in Australia - Aspects of Economic Impact

⁹ Minister Pyne 17 May 2017

Maximising the upside for South Australian industry and economic benefit

In some respects, debating the absolute level of expenditure on shipbuilding in South Australia is not productive in and of itself.

Rather the priority should be about continuing to mobilise South Australian industry to work with prime contractors to:

- Identify existing capabilities and opportunities to provide 'plug and play' solutions
- Invest to grow new capabilities aligned with the shipbuilding industry's needs.

Such activity will clearly benefit the employers and employees directly, but also has flow-on benefits for the State more broadly. That is, we estimate that for every \$10m in expenditure undertaken in South Australia directly in the shipbuilding industry there is a total of \$24m in additional Gross State Product (GSP).

Based on the Australian Government's expectation of at least 60% South Australian industry content for the \$90 billion naval shipbuilding programme, then this would boost **South Australia's GSP by an extra \$134.4 billion** over the life of the construction programme, resulting in an average increase of **\$6,300 per household per year**.

This will mean a 3.4% increase in South Australia's total economic activity each year, which is the equivalent of adding a new mining industry to the South Australian economy year-on-year over the life of the programme.

Further benefits will be realised as the Defence Industry looks to expand beyond meeting the capacity and requirements of the *Naval Shipbuilding Plan* into exporting into global supply chains as well as civilian sectors. The foundation of a continuous shipbuilding programme allows for this to be achieved.







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