

Minister Martin Hamilton-Smith

Minister for Defence Industries

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New expert economic report supports an Australian submarine build

A new report has for the first time exposed the extent of the economic impact that building submarines overseas would have on local government regions – identifying the real winners and losers.

Expert modelling has also been used to pin point the difference in tax recoupment figures, which were previously not considered when comparing domestic or overseas build scenarios.

The South Australian Economic Development Board commissioned the expert analysis from the independent National Institute of Economic and Industry Research to assess the economic ramifications of purchasing 12 submarines overseas (eg. the Japanese Soryu class) to replace Australia's existing Collins class vessels as compared to building the submarines in Australia together with a foreign design partner.

The Minister for Defence Industries Martin Hamilton-Smith said that the clear conclusion of the report is that there would be no difference in the price for the submarines if they were built overseas as compared to built in Australia. However it would have a devastating economic ripple affect throughout Australia if the contracts went overseas.

“This report provides a clear breakdown of the cash and jobs implications that this decision would have on local council regions throughout Australia and I encourage each council to contact the Economic Development Board for more information.”

The economic report found that under any scenario, the cost of a new fleet of submarines would be borne by Australians and there are two separate components to this cost. The first is the impact on the Commonwealth Government (see Table 1) and the second is the impact on the economy (see Tables 2 and 3).

Table 1 indicates two significant benefits to the Government from building in Australia:

- First, an estimated \$5.5 billion of tax is recouped by the Government. Under the “no change to budget” assumption in this model, this reduces by \$5.5 billion, the need to cut other Government programs to cover the cost of the submarines.
- Second, if the submarines are bought overseas there is a \$6.2 billion increase in the cost to the Australian Federal Government if the AUD mean exchange rate reverts to a purchasing-power parity of \$0.74 US cents as compared to the models of \$0.92 US cents. This cost excludes the hedging cost (estimated at around \$3 billion for a

Japanese purchase) and the pricing of the counter party risk reduction in counter party risk.

Table 1	Australia (\$m)	
Total Cost to Commonwealth Government	@0.92 USD	@0.74 USD
Cash cost: build overseas	21,114	28,344
Tax recoupment from building overseas	624	624
Net cost to Commonwealth Government	20,490	27,720
Cash cost: build in Australia	20,957	21,960
Tax recoupment from building in Australia	6,011	6,011
Net cost to Commonwealth Government	14,946	15,949
Saving in net cost to Commonwealth Government if built in Australia	5,545	11,771

Table 2 summarises the more favourable economic impact on the Gross Domestic Product (GDP) of Australia and on the Gross Regional Product (GRP) of the States and Territories from building in Australia. The table indicates that Australia is “better off” by around \$21 billion and that every State and Territory benefits.

Table 2: Total Impact on GDP/GRP	Australia \$m	South Australia \$m	Western Australia \$m	Other States \$m
Scenario 1 – build overseas	- 29,344	- 2,193	- 786	- 26,366
Scenario 2 – build in Australia	- 8,207	11,081	2,046	- 21,333
Amount by which Scenario 2 is better than Scenario 1 for the economy	21,137	13,274	2,832	5,032

Table 3 summarises the difference in impacts between the two scenarios as relates to average jobs over the life of the program. The table indicates that Australia is “better off” by more than 3,000 jobs per year for 40 years and that every State and Territory benefits.

Table 3: Total Impact on Jobs	Australia average number of jobs each year for 40 years	South Australia average number of jobs each year for 40 years	Western Australia average number of jobs each year for 40 years	Other States average number of jobs each year for 40 years
Additional direct employment: Scenario 2	797	378	345	74
Total economy-wide change: Scenario 1	-6,691	-559	-350	-5,782
Total economy-wide change: Scenario 2	-2,886	1,856	218	-4,961
Net economy-wide impact: How many annual jobs Scenario 2 is better than Scenario 1 by	3,805	2,416	568	821

The estimated regional impacts can be seen in Table 4 below:

Estimated regional impacts by council region and Federal electorate			
Main Commonwealth Electorate	Build in Australia less build overseas		
	South Australia	Addition to GRP \$ million	Additional total man-years over the 40 year period
Adelaide	Adelaide (C)	2,837	1,583
Port Adelaide	Port Adelaide Enfield (C)	5,183	14,753
Mayo	Onkaparinga (C)	265	8,588
Makin	Tea Tree Gully (C)	244	8,503
Hindmarsh	West Torrens (C)	388	4,256
Pt Adelaide, Makin	Salisbury (C)	432	10,935
Hindmarsh	Charles Sturt (C)	541	10,303
	Total of these regions	9,890	58,920
Total SA		13,274	96,621

Mr Hamilton-Smith said that overall “this report indicates that an additional \$20 billion would be wiped from Australia’s GDP if the next generation of submarines are built overseas according to a new report released today.

“If the submarines are built overseas, there would be a negative impact of \$29 billion on Australian GDP over the 40 year life of the project. This is the equivalent of \$725 million every year for 40 years.

“Also at stake is 120,000 man years of work over the life of the 40-year project.

For data relating to specific local government regions or further explanation of the analysis contact Professor Göran Roos from the Economic Development Board on 0477 361 746.