

## **BETTER TO EXPORT THE CAPITAL THAN THE COMPLETED HULLS – says Rothwell.**

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**Under the FTA, Australia has recognized the restrictive effect of the US Jones Act, a pre twentieth century Act of the Congress which bans the import of foreign built vessels for domestic commercial use. Chief Officer Magazine approached Austal Ships' CEO, John Rothwell, for comment.**

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*Chief Officer Magazine:* It seems as if the Americans are picking and choosing at their convenience when they decide that some manufactured items – such as fast aluminium ferries – will be excluded from the FTA. What is your company's response to the effects the agreement may have on your company?

“We don't have an overall opinion about the FTA generally and how it will affect the Australian economy. We do have an opinion on the Jones Act and how it has impacted the way we have built our business,” says Rothwell.

### ***We once complained long and hard***

At the time when we were an emerging ship builder we complained long and hard about the restrictive nature of the Jones Act. At the time we were building ships in Australia and exporting them to Europe, the Middle East and Asia and we knew we could export them to the USA as well.

It should be noted that the effect of the Jones Act is only upon vessels for use wholly within the domestic shipping routes of the USA. A high speed aluminum ship transiting the Great Lakes between USA and Canada is not caught up by the Act and so some export opportunities for vessels across the Great Lakes to Canada or down to Mexico have continued to exist.

### ***We evaluated other options***

As time went on – and our complaining had no effect – we realized that there was probably no use in complaining and that there may be other ways to access the American domestic market. The foreign investment rules applying at the time meant that it was easier to export the capital and know-how to build ships rather than exporting the finished products themselves.

Following this strategy we have set up a new ship yard in the USA in a joint venture with Bender Ship Repair – a long term and well established ship repair company in the US. We hold 70% of the venture and Bender holds 30%. So, in what may appear to be an unexpected twist, our ship building operations in the USA now benefit from the Jones Act! Our yard in Australia can supply the truly free trade markets of the world and our yard in the USA can supply the US domestic market.

The net effect, therefore, of the FTA and our exclusion from it is zero.

***Positioning for naval and military contracts***

There are other reasons to locate a factory in the USA apart from just the freedom of trade issue. The big picture for Austal is the use of our fast aluminium ships for US naval and military operations. In US strategic thinking at the moment there is a recognition of the fact that the US needs more than just good a magnificent blue water navy. Smaller, high speed ships are required for operations close to shore and in confined seas – The Littoral Combat Ship. Austal is in a unique position to design and build these ships and we already have our ships on lease with the US Marine Corps at Okinawa in the Pacific.

The US government will be spending billions on their Littoral Combat Ship project and the hard reality – FTA or no FTA – is that the Congress will spend this money in US ship building yards. Our plant in the US is ideally placed to participate in this project.

***We knew the FTA talks would be peripheral to our purpose***

Even when the FTA negotiations were underway we could see it was unlikely to benefit our company directly. For us the development of our reality based strategy has been more effective than sitting and waiting for the trade barriers to fall.

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