Chapter 2

Proposed acquisition of two replenishment ships

2.1 The current fleet of Royal Australian Navy (RAN) replenishment ships consists of just two ships. One, HMAS *Success*, is smaller than most contemporaries, and is approaching her 30th birthday. The other, HMAS *Sirius*, is a converted civilian tanker but with limited capability.[1] The two vessels form the Afloat Support Force, which services the rest of the fleet by providing operational support in the form of fuel, stores, ammunition and equipment. This assistance allows the RAN to extend its reach and endurance. With Australia's maritime operations covering a vast area, it is essential that Australian naval vessels can be refuelled and replenished at sea by afloat support ships.[2] The ships also provide logistics support to land operations.

2.2 In this chapter, the committee provides background to the government's decision that the Navy needed to replace its existing replenishment vessels.

HMAS *Sirius*

2.3 In 2000, the government announced plans to replace HMAS *Westralia*, a converted commercial tanker, when it was due to complete its service in 2009, with a purpose built support ship. New maritime pollution rules and regulations introduced in the early part of the last decade, however, meant that HMAS *Westralia* would have to be decommissioned three years earlier than scheduled. The regulatory changes were based on the principle that 'singled-hulled vessels such as *Westralia* posed an unacceptable risk to the environment if their single skin hulls were breached' and should therefore be replaced by double-hulled tankers.[3] The project brought forward to replace HMAS *Westralia* was planned to start around 2004–05.[4]

2.4 Its replacement, HMAS *Sirius*, was built originally as a double-hulled commercial product tanker, MV Delos, and purchased by the Commonwealth

---

1 For example, see AMWU, *Submission* 4, p. 2; Andrew Davies, 'Shipbuilding and maritime projects', May 2014, Australian Strategic Policy Institute, http://web.archive.org/web/20140304100249/http://www.aspistrategist.org.au/shipbuilding-and-maritime-projects/# and Defense Industry Daily, 'Australia's Next Supply Ships: Serious about *Success*', 8 June 2014, http://www.defenseindustrydaily.com/australias-supply-ships-serious-about-success-024674/ (accessed 5 August 2014).

2 See for example, Navy, HMAS *Sirius*, https://www.navy.gov.au/hmas-sirius (accessed 6 August 2014).

3 For a full account of the regulatory changes and implications for HMAS *Westralia*, see DMO, *Getting Sirius A Project Manager's Story*, the acquisition and modification of an auxiliary oiler HMAS *Sirius*, 2008, pp. 19–21.

4 *Defence 2000: Our Future Defence Force*, Defence White Paper 2000, p. 90, http://www.defence.gov.au/publications/wpaper2000.pdf (accessed 8 August 2014).

Government on 3 June 2004 for A$52 million. The ship underwent modification for underway replenishment and, in addition, had a flight deck fitted for helicopter operations.[5] The ship was commissioned in September 2006. The purchase and conversion of the commercial oiler was, according to an ANAO report:

> …a striking example of the efficiency that can be gained from the purchase of 'off-the-shelf' products where that is appropriate for our capability requirements.[6]

2.5 The conversion of the vessel also provided 'a good example of achieving results in partnership with industry'.[7] Although only eight years old and with the capacity to carry 37,000 tonnes of cargo, the ship has limited capability.[8]

HMAS *Success*

2.6 The government also made known its intention in 2000 to replace the second support ship, HMAS *Success*, when it reached the end of its service life in 2015, with another ship of the same class. HMAS *Success* is an Auxiliary Oiler Replenishment (AOR) vessel of 18,000 tonne fully loaded and 157.2 metres in length. Based on the French 'Durance' Class Ship, HMAS *Success* was built in Australia by Cockatoo Dockyard Pty Ltd at Sydney, New South Wales.

2.7 The project to construct the ship ran into problems due to a protracted dispute between the Commonwealth and the Vickers Cockatoo Dockyard Pty Ltd over the drawings and specifications contained in the 'Production Package' (PP), which resulted in cost and time overrun. There was evidence that the Department of Defence significantly underestimated the extent of the differences between the original building specifications and the French PP. A 1983 Auditor-General's report criticised the department for failing to ensure that the French company had the PP needed for an Australian build. The construction of HMAS *Success* also suffered from industrial relations disputes and skills shortages.

---

5 Navy, 'HMAS *Sirius'*, https://www.navy.gov.au/hmas-sirius (accessed 6 August 2014).

6 Australian National Audit Office, Audit Report No.20 2006–07, Performance Audit, *Purchase, Chartering and Modification of the New Fleet Oiler*, Department of Defence, Defence Materiel Organisation, p. 13, http://anao.gov.au/~/media/Uploads/Documents/2006%2007_audit_report_20.pdf (accessed 6 August 2014).

7 Australian National Audit Office, Audit Report No.20 2006–07, Performance Audit, *Purchase, Chartering and Modification of the New Fleet Oiler*, Department of Defence, Defence Materiel Organisation, p. 13.

8 See AMWU, *Submission* 4, p. 2; Andrew Davies, 'Shipbuilding and maritime projects' May 2014, ASPI, http://web.archive.org/web/20140304100249/http://www.aspistrategist.org.au/shipbuilding-and-maritime-projects/# and Defense Industry Daily, 'Australia's Next Supply Ships: Serious about *Success'*, 8 June 2014, http://www.defenseindustrydaily.com/australias-supply-ships-serious-about-success-024674/ (accessed 5 August 2014).

2.8 HMAS *Success* was launched from its slipway on 3 March 1984 and commissioned into the RAN on 23 April 1986. She is the largest ship built in Australia for Navy and also the largest ever built in the port of Sydney.[9] The vessel is capable of 'day and night Replenishment at Sea (RAS) to ships alongside and concurrently by her embarked helicopter to other ships in company via Vertical Replenishment (VERTREP)'. The ship is fitted with four main RAS stations, two of which have dual functions and can be used to transfer either fuel or solid cargo.[10] According to Navy, HMAS *Success*:

> …enables RAN fleet units to operate with a greater degree of flexibility and independence from shore support than has previously been possible from other RAN sources.[11]

2.9 In 2000, when the government announced plans to replace its then two replenishment vessels, its strong preference was to build the replacement vessels in Australia.[12] Since 2000, no definite steps had been taken to replace HMAS *Success* until recently.

Strategic needs and analysis stage

2.10 The Defence White Paper is a key strategic document that presents the government's long-term strategic forecast and commitments for Defence including its future capability. The most recent White Paper (2013) outlined the capabilities that the ADF would need in the coming years to address strategic challenges. It announced that, as part of government's commitment to delivering core ADF capabilities, the capability provided by the supply ships HMAS *Sirius* and HMAS *Success* would be replaced at the first possible opportunity. The White Paper noted:

> Resupplying our deployed ships is an essential capability given the size of the area over which our naval forces operate and the extended periods they may be required to remain at sea.[13]

2.11 At that time, the Spanish Navy vessel *Cantabria* was assisting Australia's afloat support requirements while HMAS *Success* was in refit. According to the White Paper, this operational experience, together with other information and activity, would contribute to Defence's understanding of relevant capabilities as options for the

---

9 Navy website http://www.navy.gov.au/hmas-success-ii (accessed 6 August 2014).

10 Navy website, http://www.navy.gov.au/hmas-success-ii (accessed 6 August 2014).

11 Navy website, http://www.navy.gov.au/hmas-success-ii (accessed 6 August 2014).

12 *Defence 2000: Our Future Defence Force*, Defence White Paper 2000, p. 90, http://www.defence.gov.au/publications/wpaper2000.pdf (accessed 8 August 2014).

13 Department of Defence, *Defence White Paper 2013*, paragraph 8.59, http://www.defence.gov.au/whitepaper2013/docs/WP_2013_web.pdf (accessed 8 August 2014).

replacement ships. Defence indicated that it would examine options for local, hybrid and overseas build or the leasing of an existing vessel.[14] The White Paper explained:

> The range of procurement options will be considered by Government including the leasing of an existing vessel, the construction of an existing design, either wholly built overseas in the parent shipyard, other partial construction in both parent shipyard and Australia, as in the Landing Helicopter Dock project, or a full Australian build. A combination of options may be considered for the construction of the two vessels.[15]

2.12 The White Paper provided a broad picture of the capability Defence intended to acquire from the purchase of the two vessels. This statement was then translated into a more concrete proposal in the Defence Capability Plan (DCP) 2012. The DCP is a 'classified and costed 10-year detailed development plan for Australia's military capabilities (including workforce requirements)'. The document:

> …lists the rolling program of major capital investment projects that meet the capability objectives and priorities that fall from the Defence White Paper (or subsequent strategic updates) and the DPG [Defence Planning Guidance].[16]

2.13 Government approval for entry of projects into the DCP provides 'the foundation for subsequent capability work in Defence'.[17] Defence also publishes a public version of the DCP designed to:

> …provide industry with a synopsis of the projects including: confirmed scope; background; indicative schedule; Australian Industry opportunities; cost banding; and points of contact. The format of this Public DCP also introduces stakeholders to the concept of Program and Sub-Program management.[18]

2.14 The 2012 DCP included a costed and scheduled plan for the acquisition of the two replenishment ships, which entered the plan as project SEA 1654, Phase 3.

Project—SEA 1654, Phase 3

2.15 SEA 1654 is the project that is to replace the two existing RAN afloat support capability. As noted earlier, this capability is necessary to sustain deployed maritime

---

14 Department of Defence, *Defence White Paper 2013*, paragraph 8.59, http://www.defence.gov.au/whitepaper2013/docs/WP_2013_web.pdf (accessed 8 August 2014).

15 Department of Defence, *Defence White Paper 2013*, paragraph 12.56.

16 Department of Defence, *Defence Capability Development Handbook 2014*, paragraph 2.2.4, http://www.defence.gov.au/publications/docs/Defence%20Capability%20Development%20Handbook%20(DCDH)%202014%20-%20internet%20copy.pdf (accessed 8 August 2014).

17 Department of Defence, *Defence Capability Development Handbook 2014*, paragraph 2.2.7.

18 Department of Defence, Defence Capability Plan, public version 2012, p. 1, http://www.defence.gov.au/publications/CapabilityPlan2012.pdf (accessed 8 August 2014).

forces at greater distances and for longer periods away from the Australian operating base. There have been a number of phases to this project, which include much earlier ones that have been completed or cancelled:

- Phase 1 Project Definition Study (completed)
- Phase 2A HMAS *Westralia* interim replacement by HMAS *Sirius* (completed)
- Phase 2B replacement of the interim capability originally envisaged under Phase 2A, with a more permanent vessel (cancelled).

2.16 Phase 3 of this project is to replace both HMAS *Success* and HMAS *Sirius* with a single class of Combat Support Ship to sustain deployed maritime forces. According to the scope of the project:

> The ships will be proven-design, double-hulled naval vessels that are compliant with the International Maritime Organisation (IMO) International Convention for the Prevention of Pollution from Ships (MARPOL).[19]

2.17 The 2012 Defence Capability Plan set out the following schedule for Phase 3:

- First Pass Approval FY 2012–13 to FY 2013–14
- Year-of-Decision FY 2014–15 to FY 2017–18
- Initial Materiel Release FY 2018–19 to FY 2020–21
- Initial Operational Capability FY 2018–19 to FY 2022–23[20]

Australian Industry Capability Considerations

2.18 An Australian Industry Capability Plan is required for each project procurement where the estimated value of the procurement is equal to or greater than $20 million or where the procurement will impact on a Priority Industry Capability (PIC). The Capability Plan indicated that it was likely that Phase 3 would require Australian industry capability, priority industry capability, strategic industry capability and global supply chain.[21]

Acquisition

2.19 The Capability Plan stated that Phase 3 industry requirements would be guided 'by the information gained through the Risk Reduction Studies' and that 'market solicitation would commence following first pass to obtain estimated cost, capability and schedule information'. It noted further that as the project progresses, the market solicitation 'may include the release of a request for proposal or request for

---

19 Department of Defence, *Defence Capability Plan 2012*, public version, p. 244, http://www.defence.gov.au/publications/CapabilityPlan2012.pdf (accessed 8 August 2014).

20 Department of Defence, *Defence Capability Plan 2012*, public version, p. 244.

21 Department of Defence, *Defence Capability Plan 2012*, public version, p. 244.

tender 'to obtain more robust information'.[22] The DCP records the acquisition cost at between $1b and $2b.

2.20 According to the Defence Capability Development Handbook, each capability system option proposed for first pass consideration 'must be accompanied by a description of how the capability is to be acquired and its support implemented'.[23] At this stage, the government allocates funds from the Capital Investment Program to enable the options that it has endorsed to be investigated in detail with an emphasis on cost and risk analysis.[24]

2.21 On 6 June 2014, the government announced that it had given first pass approval for Defence to conduct a limited competitive tender process for the replacement of the two replenishment ships.[25] The restricted tender competition would be between Navantia of Spain and Daewoo Shipbuilding and Marine Engineering of South Korea. First pass approval means that the government now has the opportunity to 'narrow the alternatives being examined by Defence to meet an agreed capability gap'.[26]

2.22 At the time, the Minister noted the size of these ships and suggested that currently Australia was not in a position to manufacture vessels 20,000 tonnes and above and hence the ships would be produced either in Spain or in South Korea.[27]

2.23 In the following chapters, the committee considers the arguments for and against the government's decision to undertake a limited tender and to confine it to two overseas shipyards.

---

22 Department of Defence, *Defence Capability Plan 2012*, public version, p. 244.

23 Department of Defence, *Defence Capability Development Handbook 2014*, paragraph 3.4.43, http://www.defence.gov.au/publications/docs/Defence%20Capability%20Development%20Handbook%20(DCDH)%202014%20-%20internet%20copy.pdf (accessed 8 August 2014).

24 Department of Defence, *Defence Capability Development Handbook 2014*, p. 121.

25 'Minister for Defence—Boosting Australia's maritime capabilities', 6 June 2014, http://www.minister.defence.gov.au/2014/06/06/minister-for-defence-boosting-australias-maritime-capabilities/ (accessed 6 August 2014).

26 Department of Defence, *Defence Capability Development Handbook 2014*, p. 121.

27 'Minister for Defence—Transcript—Naval shipbuilding announcement', CEA Technologies, Canberra, 6 June 2014, http://www.minister.defence.gov.au/2014/06/06/minister-for-defence-transcript-naval-shipbuilding-announcement/ (accessed 4 August 2014).