

## Senate Economics References Committee

Parliamentary inquiry – Australia’s naval shipbuilding capability

### ANSWER TO QUESTION ON NOTICE

Department of Defence

**Topic:** SERC - Australia's Sovereign Naval Shipbuilding Capability - 20 Dec 2019 - Q1 - SEA 1000 Attack Class

**Question reference number:**

**Senator/Member:** Rex Patrick

**Type of question:** Written

**Date set by the committee for the return of answer:** 31 January 2020

**Question:** SEA 1000 – Attack Class

1. Which version of the ASDEFCON suite of contracting templates was utilised:
  - a. For the projects RFT,
  - b. For the Contract with the prime (if different).
2. Please provide the Committee with copies of the:
  - a. The draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender)
  - b. The public Australian Industry Capability (AIC) Plans as prepared for the project
  - c. The AIC Plan (including AIC Schedules) that formed part of the contract baseline at the Effective Date (as per the applicable ASDEFCON Conditions of Contract) – if there is anything that is confidential in this document Defence can make an appropriate request for confidentiality for consideration by the committee
3. If a AIC plan was not struck as part of the contract baseline, please indicate this and provide an explanation as to why not
4. What obligations reside with the contractor as per the contracted Statement Of Work (SOW) and relevant Contract Data Requirement List (CDRL) in relation to the:
  - a. Development, Delivery and updating of the AIC Plan
  - b. Development, delivery and frequency of AIC Progress reports.
  - c. How many AIC progress reports have been delivered to the Project Office/Department of Defence
  - d. Copies of all AIC Progress Reports.
5. Please provide the Committee with a summary report that shows:
  - a. Total contracted value (with the Prime Contractor),
  - b. The Effective Date and current percentage of completion of that contract,
  - c. The number and values of the sub-contracts to foreign companies,
    - i. Of the sub-contracts to foreign companies, how many were to related entities and what are the values
    - d. The Effective Date and current percentage of completion of the foreign sub-contracts,
    - e. The number and values of the sub-contracts to Australian companies,
    - f. The Effective Date and percentage of completion of the Australian sub-contracts,

- g. Contracts the Commonwealth has entered into directly with Foreign companies, for deliverables that will be supplied to the Prime Contractor as a form of Government Furnished Material,
  - h. Contracts the Commonwealth has entered into directly with Australian companies, for deliverables that will be supplied to the Prime Contractor as a form of Government Furnished Material,
  - i. The Effective Date and current percentage of completion for the Commonwealth direct contracts.
6. How many Contract Change Proposals (CCP's), relating to AIC, have been:
    - a. submitted (by the Contractor),
    - b. approved (by the Commonwealth),
    - c. how many of these resulted in a reduction of the contracted AIC, and
    - d. how many of these resulted in an increase in the contracted AIC.
  7. In relation to the conduct of Commonwealth performance reviews to verify AIC plan achievement, please advise:
    - a. If the contract includes provision for the conduct of Commonwealth [Defence] performance reviews?
    - b. If yes:
      - i. If yes, at what frequency can the reviews be undertaken?
      - ii. If yes, how many reviews have been conducted to date?
      - iii. Has there been any negative findings? If so how many?
      - iv. What action has the Commonwealth taken in relation to a negative finding?
    - c. If not, why not?
  8. In relation to proposed AIC Plans please explain specifically how they assess and rate prospective tenderers in relation to the draft Australian Industry Capability (AIC) Plans submitted as part of tender responses?
  9. In relation to proposed AIC Plans what does the Department of Defence provide to the Government for consideration of business cases for 1st and 2nd Pass approvals?
  10. For the current Naval shipbuilding contracts, have the AIC plans proposed by the contractors/suppliers as part of their tender response been used as the contracted baseline AIC plan. If not, why not?

**Answer:**

1.
  - a. ASDECON Strategic Materiel Version 3.0, tailored to meet the specific requirements of the Future Submarine Program Competitive Evaluation Process.
  - b. ASDECON Strategic Materiel Version 3.0, tailored to meet the specific requirements of the Future Submarine Program where consecutive program contracts are executed under an enduring Strategic Partnering Agreement (SPA) with Naval Group and Design, Build and Integration Contract with Lockheed Martin Australia (LMA).
2.
  - a. AIC Plans contain commercially sensitive information which could impact competitive advantage if released.  
 A redacted copy of Naval Group's AIC plan submitted under the Competitive Evaluation Process, as previously provided under FOI provision, is provided at Attachment A.  
 A redacted copy of Naval Group's Draft AIC Plan and AIC Strategy, as previously tabled under Senate Motion on 12 November 2018, is provided at Attachment B.

- b. A copy of Naval Group and LMA's Public AIC Plans/Strategies are provided at Attachments C and D.
- c. AIC Plans/Strategies were delivered after the Effective Date as contract deliverables.
- 3.
- Under all contracts, AIC Strategies and Plans were delivered as contract deliverables within a specified period of the Effective Date for approval by the Commonwealth.
- 3.
- a. Both prime contractors are contracted to deliver an AIC Strategy (to cover the duration of the program) and an AIC Plan (to cover the duration of the contract). To incorporate progress in the design and build process, AIC Strategies are required to be updated every 12 months and AIC Plans are required to be updated every 6 months.
- b. Progress against AIC Strategies and Plans are reported as part of each prime's Contract Status Report (CSR) and reviewed during the regular contract and program reviews. The Naval Group Submarine Design Contract requires delivery of a CSR every three months and the LMA Design, Build and Integration Contract requires delivery of a CSR every month.
- c. Naval Group has delivered three CSRs under the Submarine Design Contract and LMA has delivered 20 CSRs under the Design, Build and Integration Contract.
- d. The AIC section of the latest CSR for each prime is attached. Each report builds on the previous version, as such the latest report is attached.
- 190930 – Naval Group – CSR – AIC Extract - October 2019
  - 191213 – LMA – CSR – AIC Extract - December 2019

- 5.
- a. & b.

<b>Prime Contractor</b>	<b>Contract</b>	<b>Current Contract Value (GST excl. AUD equivalent)</b>	<b>Effective Date</b>	<b>Percent Complete</b>
Naval Group SA	Design and Mobilisation Contract	\$452,925,564	7 October 2018	100%
Naval Group SA	Submarine Design Contract	\$838,124,973	1 March 2019	17%
LMA	Initial Services Contract	\$32,000,000	16 November 2016	100%
LMA	Design, Build and Integration Contract	\$723,164,720	12 January 2018	30%

- c. As at 19 December 2019, Naval Group has signed eight subcontracts that relate to the design or build of the submarine platform with non-Australian companies with a total

subcontract value of €70,279,500 and LMA has not signed a subcontract that relates to the design or build of the submarine combat system with an overseas company.

- i. No subcontracts have been signed by the prime contractors with overseas companies to which they are related.
  - d. The eight subcontracts signed by Naval Group with non-Australian companies and their effective dates and percentage completion (calculated in currency) as at 31 December 2019 unless otherwise stated are:
    - MTU Friedrichshafen GmbH – 2 April 2019 – 30%
    - Schneider Electric France SA – 27 May 2019 – 48%
    - Jeumont Electric France SA – 22 July 2019 – 10%
    - Babcock International Group PLC – 18 October 2019 – 50%
    - Pinette Emidecau Industries SA (two subcontracts) –
      - 31 October 2019 – 3.10%; and
      - 31 October 2019 – 4.50%
    - Starrag Group Holding AG – 31 October 2019 – 0.70%
    - Systems Sunlight SA – 9 December 2019 – 0%
  - e. Naval Group has signed two subcontracts with Australian companies that relate to the design and build of the submarine platform with a total subcontract value of €27,637,584. LMA has signed one subcontract that relates to the design and build of the submarine combat system with an Australian company with a total subcontract value of \$13,504,796.
  - f. The two subcontracts signed by Naval Group and one subcontract signed by LMA with Australian companies and their effective dates and percentage completion (calculated in currency) as at 31 December 2019 unless otherwise stated are:
    - Naval Group
      - PMB Defence Pty Ltd – 19 December 2019 – 0%
      - Bisalloy Pty Ltd – 16 October 2019 – 87.50%
    - LMA
      - Safran Electronics & Defense Australasia Pty Ltd -25 September 2019 – 8% (as at 30 November 2019)
  - g. Nil.
  - h. Nil.
  - i. Nil.
- 6.
- a. No CCPs specifically related to AIC have been submitted by the Contractor or Commonwealth under the SDC or DBIC.
  - b. Not Applicable.
  - c. Not Applicable.
  - d. Not Applicable.

7.

a. Yes

b.

i. Each prime contractor is required to hold regular meetings with the Commonwealth at which progress of the AIC plan achievement is reviewed. These meetings are held at least monthly with each prime.

ii. The Commonwealth has attended 20 meetings with Lockheed Martin Australia under the Design, Build and Integration Contract and nine meetings with Naval Group under the Submarine Design Contract at which AIC Plan achievement has been reviewed.

iii. Nil.

iv. Not Applicable.

c. Not Applicable.

8.

In the case of the Future Submarine Program, prime contractors are assessed against the approved AIC plans for the specific contract under which they apply. This includes those aspects of the draft AIC plans submitted as part of the Competitive Evaluation Process that have been agreed for inclusion in approved AIC plans by the Commonwealth.

9.

A submission for 1<sup>st</sup> pass approval would typically occur prior to any approach to the market, hence a draft AIC Plan would not have been developed at that stage. AIC considerations would be raised and discussed, with further actions proposed in the 1<sup>st</sup> pass approval submission. Typically the 2<sup>nd</sup> pass submission occurs after one or more preferred tenderers have been identified, and in this case, the assessment of the tendered AIC Plan, potentially with suggested issues for negotiation and clarification, would be presented in that submission.

10.

Tendered draft AIC Plans inform the tender evaluation and selection process. Defence works with the successful tenderer in negotiations to clarify and refine the AIC commitments the tenderer has proposed in its draft AIC Plan. The agreed AIC Plan, following successful negotiations, is put on contract and Defence holds the contractor to the agreed outcomes of the contracted AIC Plan through the contract. As with all contractual requirements and obligations, Defence engages with the contractor on contract deliverables and obligations through regular performance and contractor review meetings and contract reporting processes.