

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
13 November 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q9 - Cost of Hunter Class - Patrick

Question reference number: 9

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

1. Mr Dalton advised that defence is doing analysis on the cost of the Hunter class, with \$265,000 per tonne raised, can defence please:
 - a. confirm this cost per tonne for the class, and
 - b. advise the ships the frigate program is using as comparisons and the respective costs per tonne?
2. During the hearing Mr Dalton advised that a 'mature design' was defined as a ship that was in production, what is the source of that definition?
3. What are the Australian design changes to the UK Type 26 design?
 - a. What has the impact of the Australian design changes been on the Type 26 design?
 - b. What are the associated cost impacts?

Answer:

- 1a. The projected cost per tonne for the first three frigates is estimated to be \$257,000.
- 1b. This compares to the cost per tonne achieved on the Hobart Class air warfare destroyer of \$366,000.
2. RAND defines a mature design as one which has 80 percent or more of the detailed design drawings complete.
3. The Hunter Class frigate will be modified to meet Australian requirements. The headline design changes are:
 - Aegis combat management system with a Saab Australia developed Australian Interface;
 - Australian designed and built CEAFA2 phased array radar;

- Integration of Navy's existing weapon types;
- Integration of the Seahawk Romeo Maritime Combat Helicopter;
- Communications systems compatible with Navy's fleet; and
- Meet Australian legislative requirements.

3a. There has been no impact to the United Kingdom's Type 26 design.

3b. The value of the Design and Productionisation contract with ASC Shipbuilding is \$2.258 billion, this contract covers the design costs of integrating the Australia-unique design changes into the Hunter Class frigate baseline, as well as adapting the production design to match the new shipyard as Osborne and the costs of prototyping.

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability – 13 Nov 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q10 - RAND Report Recommendations - Patrick

Question reference number: 10

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

The RAND report stated commented that “it may be difficult for Australia to sustain more than one domestic shipbuilder of large warships”, but it acknowledged that the risk of natural or man-made disasters could shut that down, the inference being that two could be justified but it would bring additional cost (noting they'd already stated building in Australia would incur a 30-40% premium).

Defence has a program that has, or is, establishing three separate commercial entities/shipyards, co-located in a common precinct. During the hearing Mr Dalton stated he believed the approach Defence hadn't deviated from RAND's recommendation.

1. Could Defence please outline how:
 - a. the model being implemented at Osborne is cognisant of the commentary and advice provided by RAN in their 2015 report?
 - b. It constrains the costs to the taxpayer, beyond the common infrastructure?
 - c. this arrangement assists in managing the demand across the workforce?
 - d. Ensures the yards are not competing against each other for resources?
2. Was any research undertaken or a study completed that informed the approach being taken in Osborne?
 - a. If so who undertook this research/study?
3. Has any modelling been done to ascertain the impact on cost of doing it in this manner?

Answer:

The recommendations of the 2015 RAND Corporation report: *Australia's Naval Shipbuilding Enterprise, Preparing for the 21st Century* are reflected in the 2016 *Defence White Paper* and complementary policy statements: *2016 Integrated Investment Program* and *2016 Defence Industry Policy Statement*. In 2017, Government policy as it related to continuous naval shipbuilding was further articulated in the *Naval Shipbuilding Plan* (the *Plan*) which references heavily the RAND Report.

The *Plan* is the fundamental framework for implementing Government continuous naval shipbuilding policy and acquisition outcomes required to support navy capability. The *Plan* reinforced the Government commitment of 2016 that naval shipbuilding in Australia would be centred on two yards: Osborne Naval Shipyard South Australia and the Henderson Maritime Precinct in Western Australia.

Further, the *Plan* identified that delivering the naval capabilities announced by the Government was predicated on four key enablers:

1. a modern, innovative and secure naval shipbuilding and sustainment infrastructure;
2. a highly capable, productive and skilled naval shipbuilding and sustainment workforce;
3. a motivated, innovative, cost-competitive and sustainable Australian industrial base, underpinned initially by experienced international ship designers and builders who transfer these attributes to Australian industry; and
4. a national approach to delivering the Naval Shipbuilding Plan.

In 2016 the Department of Defence engaged Odense Maritime Technology to redesign the Osborne South site that will host the major surface combatant continuous construction program. The design of the Osborne North site that will host the submarine continuous construction program is currently being developed in consultation with Naval Group, the prime contractor selected to construct the *Attack* class submarines.

The Osborne Naval Shipyard is owned and managed by Australian Naval Infrastructure Pty Ltd which licences space in the yard to the respective shipbuilding primes via arm's length access agreements.

The Henderson Maritime Precinct is the focal point for shipbuilding activity including sustainment of Navy capability and the continuous build of minor naval vessels. The precinct is largely a commercial shipyard. The Western Australian government owns the Common User Facility which is funded by both the Australian and Western Australian governments. It is operated by AMC Management (WA) Pty Ltd. The Australian Government is assisting the Western Australian government in its development of a strategic master plan for the precinct. This includes funding a number of directly related studies.

Growing the industrial workforce quickly to meet peak shipbuilding construction demands and sustaining this highly-skilled workforce overtime presents a substantial challenge. While some level of competition is to be expected within a labour market – ensuring that the success of one element of the Enterprise does not come at the expense of another will be paramount, as will be avoiding any fragmentation of effort across the Enterprise.

The Government is taking a multi-faceted approach to responding to this challenge, recognising that a single holistic solution is not practical in the complex and evolving environment. The Government is working collaboratively with industry, the education and training sector, and State and Territory governments to develop innovative solutions to address projected shipbuilding workforce needs. The Naval Shipbuilding College (the College) is a key initiative that has been implemented to support the development of the shipbuilding workforce.

Defence, the College and other key stakeholders, including across governments, are working closely with industry and the education sector to build a detailed picture of the continuous naval shipbuilding enterprise's workforce demand, specific skill sets, location and numbers required over the coming decade to support the continuous naval shipbuilding programs. The College's efforts are designed to remove potential competition between shipbuilders for skilled personnel resources. Industry's willingness to collaborate with the College to this end was exemplified through the shipbuilding primes signing of the *Naval Shipbuilding Industry Strategic Workforce Plan* in October 2019.

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
13 November 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q12 - Naval Shipbuilding Plan - Patrick

Question reference number: 12

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

1. Please update the committee on the progress of the update to the 'Naval Shipbuilding Plan' and when it is to be released?
 - a. What level of definition will it have regarding the sustainment of Navy's platforms going forward?
2. Which specific elements of the Naval Shipbuilding Plan required updating?
Para 2.74 refers.
3. ASC was broken into three segments on the basis of a strategic review conducted in 2015.
 - a. What were the terms of reference for the review?
 - b. What advice did defence provide to this review regarding this structural separation?
 - c. Can a copy of this review be provided to the committee?

Answer:

1. The update to the 2017 Naval Shipbuilding Plan continues is in the final stages of development ahead of being presented to Government for consideration in due course.
 - a. The proposed title of the updated Plan is the Naval Shipbuilding and Sustainment Plan. The Plan will provide information on the shipbuilding enterprise across all stages of the capability lifecycle, including sustainment of existing and future naval vessels.
2. The 2017 Naval Shipbuilding Plan identified at paragraph 1.37 that further iterations would be needed over subsequent years as decisions are made on each of the continuous building programs and progress is made in delivering the enterprise.
- 3a-c. The ASC Strategic Review was conducted by the Department of Finance, in consultation with the Department of Defence. Questions relating to the ASC Strategic Review are best put to the Department of Finance. A fact sheet released by the Department of Finance describing the Strategic review is attached.

Senate Economics References Committee

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q13 -
OPV Transition - Patrick

Question reference number: 13

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

1. Defence has contracted Austal to deliver 6 new Cape Class Patrol Boats to the Navy, what is the risk in transition this project is addressing?

Answer:

The project is addressing the transition risk from the aging Armidale Class patrol boats to the new Arafura Class offshore patrol vessels.

The purchase of six new-build Cape Class patrol boats negates the need to extend the life of any Armidale Class patrol boats, reducing materiel transition risks by providing new, more reliable boats during the Arafura Class transitional period.

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
13 November 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - CDIC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q15 - Australian Defence Industry Capability - Patrick

Question reference number: 15

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

1. Where is Australian Defence Industry Capability defined?

Answer:

Australian industrial capability is defined in the 2018 Defence Industrial Capability Plan on page 17:

<https://www1.defence.gov.au/sites/default/files/2020-08/defenceindustrialcapabilityplan-web.pdf>

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability – 13 Nov 2020 - Q25 -
Defence Procurement Policy Directive D2 - Gallacher

Question reference number: 25

Senator: Alex Gallacher

Type of question: Spoken

Date set by the committee for the return of answer: 27 November 2020

Question:

CHAIR: Okay. I'll move on. Defence Procurement Policy Directive D2 states:
For paragraph 2.6 of the CPRS, the Secretary has determined that the procurement of the
goods and services listed in Table 1 below are exempt from the operation of Division 2 of the
CPRs. Included in table 1 are:

FSC 19 Ships, Small Craft, Pontoons and Floating Docks; ... Which also encompasses
submarines. In relation to Commonwealth procurement, what is the practical effect of the
exemption from the operation of division 2 of the CPR?

Mr Fraser: I should be able to get you an answer back before we finish here, but I'll just take
that on notice for the moment.

Answer:

The practical effect of Defence's application of the CPR 2.6 exemption is that it provides
sovereign flexibility for limited tenders in the procurement of military equipment and
services to meet capability requirements including interoperability, whilst still meeting our
international trade agreement obligations.

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability -
13 November 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 Nov 2020 - Q26 -
Defence Procurement Complaints Scheme - Gallacher

Question reference number: 26

Senator: Alex Gallacher

Type of question: Spoken

Date set by the committee for the return of answer: 27 November 2020

Question:

CHAIR: Fine. I'll move on. Have there been any complaints under the Defence Procurement Complaints Scheme relying on paragraph 5.4 of the CPRs that allege discrimination based on foreign affiliation or ownership? Have you had any complaints about that?

Mr Halloran: I will certainly take on notice and consult with my colleagues in procurement and contracting. You would be aware that there is the JRA process, the judicial review process. There are a number of pathways when it comes to disputes, especially around contracting and tendering. I can certainly take that on notice and consult with my colleagues.

Answer:

The Defence Procurement Complaints Scheme has not received any complaints relying on paragraph 5.4 of the CPRs that allege discrimination based on foreign affiliation or ownership.