

Senate Economics Reference Committee

Parliamentary inquiry – Australia’s sovereign naval shipbuilding capability

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's Sovereign Naval Shipbuilding Capability - 20 Dec 2019 - Q2 - SEA 1180 - Arafura Class - Patrick

Question reference number: 2

Senator/Member: Rex Patrick

Type of question: Written

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

Question: SEA 1180

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 Q2 Part 6d.
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?

Answers:

1.
 - a. & b. ASDEFCON Complex Materiel version 2.3 for the RFT/contract and ASDEFCON Strategic Materiel version 3.0 for the Statement of Work.
2.
 - a. AIC Plans contain commercially sensitive information which could impact competitive advantage if released.
 - b. A copy of Luerssen Australia's Public AIC Plan is at Attachment A.
 - c. Refer to response to 2a.
3.

An AIC Plan was included in the Contract at Effective Date.

 - a. The contract required three updates to the AIC Plan at six monthly intervals following contract signature. Luerssen Australia has provided these updates with the latest being AIC Plan v2.0 received on 10 December 2019.
 - b. Luerssen Australia is contractually required to report on AIC achievement and AIC opportunities as part of its regular Contract Status Reports (CSRs). These reports are required quarterly leading up to the completion of OPV#1 (*Arafura*) which is expected in December 2021, and six monthly thereafter.

- c. Luerssen Australia has delivered seven CSRs.
- d. Refer to response to 2a, this is commercially sensitive information.
- 5.
- a. The fixed price contract value with Luerssen Australia is \$2.4 billion (out turned).
- b. The Effective Date is 31 January 2018. Expenditure at end of December 2019 was \$331 million (out turned) or 13.5% of the total contract value.
- c. As at December 2019, Luerssen Australia has 19 subcontracts with non-Australian companies with a total value of \$84.4 million (AUD equivalent).
- i. A support contract exists with Lürssen, Luerssen Australia's German parent company, which covers procurement and design assistance. The contract is subject to regular review as more roles are transferred to Luerssen Australia.
- d. Noting the fixed-price nature of the prime contract, Defence does not have or require visibility of the Effective Date or percentage completion of the contracts that Luerssen Australia has in place with its principal non-Australian subcontractors. Luerssen Australia has provided the names of the companies and contract value which is Commercial in Confidence.
- e. As at December 2019, Luerssen Australia has 19 subcontracts with Australian companies with a total value of \$1.11 billion.
- f. Noting the fixed-price nature of the prime contract, Defence does not have or require visibility of the Effective Date or percentage completion of the contracts that Luerssen Australia has in place with its principal Australian subcontractors. Based on AIC reporting, expenditure against the Australia subcontracts as at end of November 2019 is \$185.9 million. The principal Australian subcontractors are:
- ASC OPV Shipbuilder Pty Ltd – shipbuild partner South Australia
 - Cimtec Construction & Engineering Limited – shipbuild partner Western Australia
 - L3 Australia Pty Ltd – Integrated Platform Management System, Navigation & Communications
 - Saab Australia Pty Ltd – Situational Awareness System
 - Penske Power Systems Pty Ltd – main engines and gear box
 - Taylor Brothers – Outfitting
 - Noske-Kaeser Marine Australia Pty Ltd – Heating, Ventilation and Air Conditioning, and fire suppression
 - Kaefer Integrated Services Pty Ltd – Exhaust silencers
 - DNV-GL – Construction Supervision and Class classification
 - Marine Technicians Australia Pty Ltd – Electrical Installation
 - BRE Engineering – Production Support
 - Deloitte Consulting Pty Ltd – Data Management System Development
 - Fraser Nash Consultancy – Engineering Support
- g. The Commonwealth has one contract with a non-Australian company.
- Boomeranger Boats Oy – sea boats

h. The Commonwealth has six contracts with Australian companies (note, not all of them are supplying products exclusively for the Arafura class).

- Thales Australia – Maritime Tactical Wide Area Network & Interrogate Friend or Foe System Development
- EM Solutions – Satellite Communications Systems
- Leonardo MW (Australia) – High Data Rate Line of Sight Comms
- BAE Systems Australia – Covert Global Positioning System Antenna
- L3 Oceania – Integrated Navigation Display System

i. The Effective Date and current percentage of completion for the Commonwealth direct contracts are:

- | | | | |
|---------------------------------|---------------------|-----------------------------------|-----------------|
| • Boomeranger | ED: 9 October 2019 | Value: \$43 million | Completion: 2% |
| • Thales Australia ¹ | ED: 28 March 2019 | Value: \$5.7 million | Completion: 55% |
| • Thales Australia ² | ED: 13 January 2020 | Value: \$1.5 million | Completion: 0% |
| • EM Solutions | ED: 29 March 2019 | Value: \$5.9 million | Completion: 35% |
| • Leonardo MW | ED: 8 May 2019 | Value: \$1.2 million ³ | Completion: 25% |
| • BAES Australia | ED: 8 July 2019 | Value: \$0.5 million ⁴ | Completion: 40% |
| • L3 Oceania | ED: 1 February 2019 | Value: \$5.3 million ⁵ | Completion: 70% |

(1) Maritime Tactical Wide Area Network

(2) IFF System Development

(3) SEA 1442 (Maritime Communications) Contract. Value shown is OPV component only.

(4) Contract shared with SEA 1654. Value shown is OPV component only.

(5) Contract managed by CN30 (Navigation Systems). Value shown is OPV component only.

6.

a. – d. There have been no AIC related Contract Change Proposals submitted by Luerssen Australia.

7.

a. Yes.

b.

i. At any time.

ii. Seven.

iii. No

iv. N/A

c. Not Applicable.

8.

The proposed AIC Plans submitted by each tenderer for SEA 1180 were assessed in accordance with an approved Tender Evaluation Plan against evaluation criteria detailed in the Request for Tender. There were nine assessment criteria and AIC was a sub component of Criteria 1, which reflected the importance of a ship building capability:

The tenderer's proposed commitment and approach to the development of an Australian continuous naval surface ship building capability, including the extent of Australian Industry Capability, and development of an Australian shipbuilding workforce and an Australian Supply Chain.

9.

At First Pass Defence typically provides an estimation of AIC and job creation. At Second Pass Defence's evaluation of the level of AIC as tendered by each bidder (in competition) is typically summarised with detailed analysis of each AIC bid attached.

10.

Yes.

**SEA1180 PHASE 1
OFFSHORE PATROL VESSEL**

**PUBLIC
AUSTRALIAN INDUSTRY CAPABILITY PLAN**

Issue Date: October 2018

Luerssen is very proud to be building its proven 80m OPV design as the new Australian Offshore Patrol Vessel for the Royal Australian Navy.

Company Details:

Contractor: Luerssen Australia Pty Ltd
ACN 618 700 637

Location: 16 Nautical Drive, Henderson, WA, 6166

Website Address: <https://www.luerssen.com.au/>

Contract and AIC Plan - Executive Summary:

Luerssen Australia Pty Ltd, an exciting new entrant to the Australian defence industry landscape is contracted by the Commonwealth of Australia (Commonwealth) as the Prime Contractor responsible for building 12 Offshore Patrol Vessels for the RAN. Construction will start in November 2018 and is expected to be completed around 2029/2030.

Luerssen is a subsidiary of a long established and successful shipbuilding group in Germany and it will quickly build its capabilities and staff in both Adelaide, SA and Henderson, WA to establish fully operational program management, support and engineering design capability. Luerssen has selected as its shipbuilding sub-contractors two key industry players which will offer maximum Australian involvement:

ASC OPV Shipbuilder Pty Ltd which will build the first 2 OPVs in Osborne, South Australia; and
Civmec Construction & Engineering Pty Ltd located in Henderson Western Australia where they will build the next 10 OPVs.

The current total contract value (until 2030) is \$1,988 million expressed in constant year dollars exclusive of GST or \$2,570 million expressed in out-turned year dollars exclusive of GST. The portion representing Australian contract expenditure is currently estimated (prior to all sub-contracts being finalised) at \$1,220 million in constant year dollars exclusive of GST. The AIC value has potential to grow as the program proceeds including opportunities to increase Australian industry participation linked with design reviews at ships 3, 6 and 9.

Luerssen has contracted with the major subcontractors identified in the table below to manage the majority of construction and supply activities associated with the Program.

In addition to these shipbuilders Luerssen will directly engage a number of Australian companies including many Small to Medium Enterprises (SMEs) to perform work under the contract. The scope of work to be performed by these companies includes manufacturing, logistics, engineering services, project

management, supply of specialist equipment items and provision of contract labour supporting contract deliverable activities.

Table 1: Companies supplying major products and services to Luerssen under this contract

Vendor/Supplier	Product/Service	Locality
ASC OPV Shipbuilder Pty Ltd	Ship building services including the placement of sub-contracts for supply of materials, fittings, equipment and services	Osborne, SA
Civmec Construction & Engineering Pty Ltd	Ship building services including the placement of sub-contracts for supply of materials, fittings, equipment and services	Henderson, WA
Saab Australia Pty Ltd	Supply of Situational Awareness System and associated combat system software and hardware including the placement of sub-contracts for supply of materials, fittings, equipment and services	Mawson Lakes, SA
L3 Communications Australia Pty Ltd	Supply of Integrated Platform Management System and associated communications system software and hardware including the placement of sub-contracts for supply of materials, fittings, equipment and services	South Wharf, VIC
Penske Power Systems Pty Ltd	Supply of MTU engines and xx including the placement of sub-contracts for supply of materials, fittings, equipment and services	NSW
Taylor Bros. Marine Pty Ltd	Outfitting materials and services including the placement of sub-contracts for supply of materials, fittings, equipment and services	Derwent Park, TAS
Noske-Kaesar Marine Australia Pty Ltd	Supply of HVAC system, CO2 firefighting system, Refrigeration and Chilled water systems, including the placement of sub-	Drummoyne, NSW

	contracts for supply of materials, fittings, equipment and services	
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Future Opportunities

Luerssen Australia has responsibility for managing the development of AIC opportunities and activity under the contract. Luerssen as Prime Contractor is committed to developing Australian Industry Capability in Australia and will continue to look for opportunities to engage Australian industry to progressively join the OPV supply chain as additional work scope is identified that can be satisfied locally or within the region.

Luerssen aims to:

Utilise both established and growing Australian defence industry suppliers with an emphasis on engaging with SMEs. Luerssen has a history of outsourcing and its build processes are attuned to the utilisation of multiple contractors that deliver specialist services and value for money.

Select overseas suppliers which have a commitment to Australia through a local presence or established support arrangements. Where such arrangements do not currently exist Luerssen will work with the overseas suppliers to facilitate such matters.

Undertake critical systems integration work in Australia by Australian industry to ensure sovereign sustainability of key functionalities.

Use the scheduled Design Refresh Reviews at ships 3, 6 and 9 as opportunities to increase Australian industry participation in equipment selection, supply and related services.

Actively seek out and introduce Australian companies into the global supply chains of Luerssen and the major subcontractors.

Help Australian suppliers develop value for money products and services that can be used in the Project as well as other Australian Naval Shipbuilding Program that will follow SEA1180.

Luerssen has chosen an Australian focused team committed to undertaking their activities to support continuous naval shipbuilding in Australia and to ensuring important capabilities are resident in Australia. It aims to support the growth of Indigenous enterprises and ensure that all participants diligently comply with applicable Work Health and Safety legislation and workplace gender equality objectives and requirements. The team intends to bring a focus on ensuring the generation and sustainment of the Australian industrial capabilities essential for this Project, the future support of the OPVs and in meeting Australia's military self-reliance and operational capability needs.

The creation of Luerssen Australia and the subsequent announcement of a new joint venture with Cimtec, Australian Maritime Shipbuilding & Export Group Pty Ltd (AMSEG) will together provide Australian industry with new local and export program opportunities and help maintain a constant baseload of work to sustain a viable naval shipbuilding industry in Australia.

Luerssen has robust policies regarding supplier qualification and selection, driven by our desire to achieve value for money for the Commonwealth. This includes fair and equitable tendering processes.

Australian industry is welcome to contact the Luerssen SEA1180 team via either of the following avenues:

Vendor/Supplier	Contact person	Email	Phone
Luerssen Australia	Malcolm Taylor AIC Manager	[REDACTED]	[REDACTED] [REDACTED]
Luerssen Germany	Procurement Department	[REDACTED]	

In addition there are industry supplier portals which can be accessed at:

SEA-1180 Project Australian Industry Supplier portal [REDACTED]

Civmec supplier web site and portal [REDACTED]

For indigenous companies, Supply Nation operates the Indigenous Supplier Portal

[REDACTED]



Tim Wagner
Director, Luerssen Australia Pty Ltd

