

Senate Economics References Committee

Parliamentary inquiry – Australian Sovereign Shipbuilding Capability

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australian Sovereign Shipbuilding Capability - 20 DEC 2019 - Q3 –
SEA 3036 - Guardian Class - Patrick

Question reference number: Q3

Senator/Member: Rex Patrick

Type of question: Written

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

Question:

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&b. ASDEFCON Complex Materiel Version 2.3 tailored
2.
 - a. AIC Plans contain commercially sensitive information which could impact competitive advantage if released.
 - b. A copy of Austal's Public AIC Plan is at Attachment A.
 - c. Refer to response to 2a.
3.

An AIC Plan was included in the Contract at the Commencement Date.
4.
 - a. The contract required that the contractor deliver the AIC Plan at the contract Commencement Date and six monthly updates.

- b. Austal Ships is contractually required to report on AIC achievement as part of its regular Contract Status Reports (CSRs). These reports were required monthly between July 2016 and July 2019 and every six weeks thereafter.
 - c. Austal Ships has delivered 38 CSRs.
 - d. Refer to response to 2a.
- 5.
- a. The fixed price contract value with Austal Ships is \$395.4 million (out turned).
 - b. The Effective Date is 1 July 2016. Expenditure at end of December 2019 was \$151.4 million or 42 per cent of the total contract value.
 - c. As at December 2019, Austal Ships has 69 subcontracts with non-Australian companies with a total value of \$6.9 million (AUD equivalent).
 - i. No subcontracts have been signed with entities related to Austal Ships.
 - 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 Austal Ships has in place with its principal non-Australian subcontractors. The three non-Australian principal subcontractors are:
 - Workribs – sea boats
 - Baggerod – Fire Doors
 - Filtration group – Industrial filtration
 - e. As at December 2019, Austal Ships has 446 subcontracts with Australian companies with a total value of \$60.5 million.
 - 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 Austal Ships has in place with its principal Australian subcontractors. Based on AIC reporting, expenditure against the Australian subcontracts as at end of December 2019 is \$52.3 million. The five Australian principal subcontractors are:
 - Energy Power systems – Main engines, throttle, gearboxes, generator sets
 - Taylor Marine – navigation and communications equipment
 - Veem – Propellers, rudder assembly, shafts
 - Vulcan Engineering – Crane Hire
 - Onesteel – Steel
 - g,h&i. Defence has no contracts for the supply of Government Furnished Material to Austal Ships.
- 6.
- a&b. There have been two AIC related Contract Change Proposals (CCPs) submitted by Austal Ships and approved by Defence.
 - c. The first CCP, submitted in March 2018, corrected Austal Ship's AIC accounting methodology to conform with Defence guidelines, which, when applied correctly, reflected a reduction in AIC value.

d. The second CCP, submitted in December 2019, increased the contracted AIC to a value higher than that originally contracted at Commencement Date using the approved AIC accounting methodology.

7.

a. Yes.

b.

i. At any time.

ii. 38.

iii. Yes, one.

iv. Austal Ships were required to revise their AIC Plan to use the Defence approved methodology to account for AIC achievement.

8.

The proposed AIC Plans submitted by each tenderer for SEA 3036 were assessed in accordance with an approved Tender Evaluation Plan against evaluation criteria detailed in the Request for Tender. There were 10 assessment criteria and AIC was Criteria 8:

The extent to which the tender satisfies the Australian Industry Capability (AIC) requirements in the RFT.

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.



**Australian Pacific Patrol Boat Replacement
Public AIC Plan (Acquisition)**

COMPANY DETAILS:

Company Name: Austal Ships Pty Ltd (Austal)

Location: 100 Clarence Beach Road, Henderson, Western Australia 6166

Website Address: www.austal.com

EXECUTIVE SUMMARY:

Austal is an ASX listed Australian Global Defence Prime Contractor with a significant shipbuilding facility at Henderson, Western Australia. The Commonwealth of Australia (Commonwealth) has entered into contract with Austal:

- for the supply and support of the Pacific Patrol Boat Replacement (PPB-R);
- for the sustainment of the current Pacific Patrol Boat (PPB) fleet and the Tongan Sealift Landing Craft (SLC); and
- to provide conversion and maintenance training for the current PPB, the PPB-R and the SLC.

The PPB-R Contract (Acquisition) involves the design, development and production of up to 21 PPB-R. The Contract (Support) involves up to a 25 year life of type maintenance and training support out to year 2043.

The Acquisition contract is valued at approximately \$600 million for a duration of 7 years.

Under the Contract (Acquisition), Austal is required to perform all activities necessary to manage, design, develop, construct, integrate, test, deliver, install and commission the PPB-R to the Commonwealth. Austal has extensive in-house capabilities to perform many of the functions and activities required under the Contract (Acquisition) and expects to perform much of the work required using its in-house capabilities.

However, Austal will engage subcontractors to perform work when more cost-effective and as necessary to perform specified activities. Table 1 details the work to be performed under subcontract, the Australian subcontractors engaged by Austal to perform the subcontracted work and the location of the work performed.

Table 1 PPB-R Subcontractors and Subcontracted Work

Australian Company Performing the Activity	Local Industry Activity	Location of Work
BlueScope Steel	Supply of steel & materials	Henderson, WA
Capral Aluminium	Supply of aluminium & materials	Bibra Lake, WA
Fremantle Steel Fabrication Co. Pty Ltd	Steel cutting / forming / profiling	Jandakot, WA
Mig-Co Engineering Pty Ltd	On-site machining services	Naval Base, WA
J.N. Taylor Pty Ltd	Supply & commission navigation & communications equipment	Henderson, WA
Cool Technology	Supply & commission air conditioning systems	Kardinya, WA

Australian Company Performing the Activity	Local Industry Activity	Location of Work
GEA Services	Supply & commission fire detection systems	Singleton, WA
Sealed Marine Windows	Supply & install glass materials	Bibra Lake, WA
Flooring Solutions	Supply & install flooring materials	Bibra Lake, WA
Boatspray	Provide painting services	Henderson, WA
Flagship Enterprises	Provide painting services	Bibra Lake, WA
Energy Power Systems Pty Ltd	Supply & commission main propulsion & power generation equipment	Henderson, WA
VEEM Limited	Supply & commission main drive propulsion equipment	Canning Vale, WA
Australian Maritime College Search (AMCS)	Provide PPB & Conversion Training services	Tasmania & Henderson WA
ABM Envirosafe	Provide tank cleaning services	Henderson, WA
WATM Crane Sales & Services	Supply & commission HIAB cranes	Embleton, WA
H.I. Fraser Pty Ltd	Supply & commission sewage treatment plants	O'Connor, WA
Hypac Pty Ltd	Supply & commission hydraulic steering systems	Skye, SA

SCOPE OF FUTURE WORK OPPORTUNITIES:

The PPB-R Contract presents significant opportunities for Australian Industry to be involved over the longer term. The Contract for the PPB-R is being executed in three phases that extend over the next 25 years:

- Phase 1 - Acquisition during which up to 21 patrol boats will be designed, built and delivered for duration of 7 years.
- Phase 2 – Transition from the existing PPB fleet to the PPB-R; and
- Phase 3 – Support and Sustainment for the expected life of type of the PPB-R through until withdrawal from service planned in 2043.

In addition to performing all the activities associated with the design, development, construction, integration, testing, delivery, installation and commissioning of the PPB-R, under the Contract (Acquisition), Austal is also required to:

- design the required Support System, produce and deliver Support System elements, and conduct Verification and Validation (V&V) of the Support System;
- develop, implement and maintain a Data Management System (DMS);
- conduct Project Management activities in accordance with the Contract (Acquisition);
- conduct a program of Systems Engineering activities;
- develop and deliver an Integrated Logistics Support (ILS) program and documentation;
- perform Configuration Management (CM) activities;
- implement and sustain a V&V program;
- implement, manage and sustain a Quality Management Program; and

- comply with its Health, Safety And Environment obligations and the requirements of the Contract (Acquisition).

Further, under the Contract (Support), other opportunities may arise for Australian Industry to provide:

- specialist ship repair services;
- Engineering services;
- component repair and overhaul services;
- Components and consumables; and
- Material supply services.

FUTURE OPPORTUNITIES / INDUSTRY ENGAGEMENT:

Austal enables all current/prospective subcontractors/suppliers to remain aware of Austal's activities by allowing them to register to receive Austal news via email or social media. This ensures that relevant news, including notification of new Austal projects which they may be able to provide goods/services for, is provided directly to potential subcontractors/suppliers directly and in a timely fashion. Registration is available to all at no cost.

The information provided by Austal combined with the Commonwealth's publicity of planned procurements, enables potential subcontractors/suppliers to readily identify planned Commonwealth procurements that Austal is likely to pursue. Potential subcontractors/suppliers are thus able to register their interest in supplying goods and/or services to Austal prior to the release of Commonwealth Requests for Tender (RFT). This helps facilitate further dialogue, including Austal seeking Requests for Quotation (RFQ) as the Commonwealth procurement process proceeds.

Austal operates with an open supply chain philosophy in which all prospective subcontractors/suppliers are welcome to register their interest in participating as a subcontractor/supplier. Austal welcomes these registrations of interest regardless of whether there is an immediate specific need for the product/service. Austal facilitates ease of communication for prospective subcontractors/suppliers of goods and services by providing a dedicated contact email address for the Austal Procurement Department (suppliers@austal.com), the details of which are publicised on the Austal website. Prospective subcontractors/suppliers are also able to register their interest via mail, telephone or facsimile. All written or telephone enquiries should be addressed to the Procurement Department.

By eliminating the need to register separately for each specific project, Austal reduces the administrative burden for potential subcontractors/suppliers. This is particularly beneficial for smaller enterprises.

AUSTAL CONTACTS:

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Approved By:



Signature:

Name: Dave Shiner
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