

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
07 September 2020

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q3 - 07 September 2020 - Defence Policy for Industry Participation - Gallacher

Question reference number: 3

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

If the Government's objective is to establish a sovereign naval shipbuilding capability, please explain the policy rationale behind the following provision of the Defence Policy for Industry Participation launched in March 2019:

“Defence will not preference Australian industry at a local or national level. The focus is on maximising opportunity to compete for work.”

Answer:

Paragraph 5.4 of the Commonwealth Procurement Rules (CPRs) states “all potential suppliers to government must, subject to these CPRs, be treated equitably based on their commercial, legal, technical and financial abilities and not be discriminated against due to their size, **degree of foreign affiliation or ownership**, location, or the origin of their goods and services.”

https://www.finance.gov.au/sites/default/files/2019-11/CPRs-20-April-2019_1.pdf.

The development of a sovereign naval shipbuilding capability is defined by its access to, or control over, the essential skills, technology, intellectual property, financial resources and infrastructure within our defence industrial base as needed – rather than individual companies or products.

Within the context of this primary goal, Defence will maximise opportunities for Australian industry, to the greatest practical extent, across all elements of Defence procurement and phases of the Capability Life Cycle.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q5 - 07 September 2020 - Overseas residency of sovereign Australian Defence Industry Capability - Gallacher

Question reference number:

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

At the Hearing on 14 August 2020, Mr Halloran quoted from the Defence Industrial Capability Plan 2018, page 29: "These industrial capabilities have been identified as those that must be developed and supported by Australian industry because overseas sources do not provide the required security or assurances." He then stated, "Sovereignty in terms of sovereign capability is not so much Australian made, Australian owned, but rather it 'allows Australia to maintain a degree of access to, or control over' those capabilities". Under this policy approach, could a sovereign Australian Defence industry capability be resident in an overseas country provided that the 'degree of access' was considered acceptable?

Answer:

The 2018 Defence Industrial Capability Plan defines Sovereign Industrial Capability Priorities as industrial capabilities that are assessed as strategically critical and therefore Australia must have access to, or control over, the essential skills, technology, intellectual property, financial resources and infrastructure as and when required.

Implicit in all Sovereign Industrial Capability Priorities is the expectation that these industrial capabilities will be resident in Australia over time.

This is different to Defence sovereignty which is defined as the ability to independently employ defence capability or force when and where required to produce the desired military effect. Defence sovereignty does not automatically mean a defence capability has to be designed, developed or maintained in Australia.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q6 – 07 September 2020 - Outcomes for Primes to ensure Australian Industry Participation within supply chains - Gallacher

Question reference number: 6

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

Other than the expressing the general objective of maximising Australian industry participation, has the Government determined any specific recommendations or specific required outcomes to the Primes involved in the naval shipbuilding program to ensure Australian Industry Participation (AIP) content within supply chains?

Answer:

The level of Australian industry capability is set in competition, where Australian industry capability is an evaluation criteria. The tendered level of Australian industry capability, or in the case of the Attack Class submarine program, the obligation to maximise Australian industry capability, is then contractualised.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q8 - 07 September 2020 - Consultation with Industry and supply chains - Gallacher

Question reference number: 8

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

At the Hearing on 14 August 2020, when asked whether Defence had conducted any consultations or meetings with Australian owned companies to ascertain if they are satisfied with progress in relation to Australian participation within the supply chain, Mr Dalton answered “We have routine conversations with the peak bodies that represent Defence and defence industries, and they raise issues with us.” Please provide a summary of the issues raised in these ‘routine conversations’.

Answer:

Engaging with Australian defence industry is a “business as usual” exercise for Defence. Within appropriate probity bounds, Defence maintains engagement through a number of formal and informal channels to receive stakeholder feedback and monitor the health of supply chains.

Defence uses the Centre for Defence Industry Capability (CDIC) and the resources of the facilitators and advisers to engage with small businesses. The CDIC hosts regular information and educational sessions as well as facilitates direct feedback from industry to Defence. The regular feedback conveyed covers issues of Defence industry readiness, capability improvement grant opportunities, workforce pressures, workplace health and safety, upcoming Defence tenders and industry briefings.

Defence uses the formal Environmental Working Groups as well as individual industry briefings (Requests for Information (RFI), Pre-tender roadshows) to convey and gather information about domestic supply chain capability, health and satisfaction of Australian businesses. For example, in April 2020, Defence released an RFI to Australian industry for sea boat capabilities. This was supported by a pre-recorded industry briefing by senior CASG and Navy officials that has received 883 views on YouTube, more than 55 companies responded with 39 being Australian; all resulting from a single routine RFI engagement.

In August 2020, the Secretary of the Department of Defence hosted a second industry dialogue with representatives from Defence industry associations and state-based advocates and the discussion included supply chain participation as well as COVID impacts to the Defence industry sector.

Defence hosts regular Ministerial engagements with industry bodies, with more than 30 meetings with the peak bodies and Australian industry since the COVID-19 pandemic commenced. Industry partners have raised issues regarding the impact of COVID-19 on contract performance, cross border travel, skilling and training, and cyber security.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q12 - 7 September 2020 - Australian Industry Content in Defence Acquisitions - Gallacher

Question reference number:

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

Has there been a decision of Government to eschew the policy approach of prescribing a required minimum level of Australian Industry Content (AIC) in Defence acquisitions? If so, when was this decision taken?

Answer:

The Morrison Government is committed to maximising opportunities for Australian business to participate in Defence procurement. Minister Reynolds and Minister Price recently announced the Government will strengthen the requirements for Australian Industry Capability (AIC) in Defence contracts, including new AIC provisions in defence contracts. These additional AIC provisions in future contracts will require companies to make specific and measurable commitments. Under the new contractual framework, the key enhancements are to elevate AIC as a “core” clause with strengthened AIC obligations.

That said, Defence does not mandate percentages of Australian industry participation in procurements in tenders. Instead, Defence seeks to maximise Australian industry participation in Defence procurement through the Australian Industry Capability Program, and work with industry to deliver the best capability for the Australian Defence Force on time and within budget.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q13 - 07 September 2020 - Non-Binding undertakings from overseas Primes to maximise AIC - Gallacher

Question reference number: 13

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

Is Defence exploring the possibility of non-binding undertakings from overseas primes to maximise Australian industry involvement during the acquisition phase of naval assets?

Answer:

No. Australian Industry Capability outcomes are contracted deliverables across all of the naval shipbuilding projects.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q14 - 07 September 2020 - Guidelines for procurement officials to optimise involvement of AIC - Gallacher

Question reference number:

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

Has there been any additional work undertaken by the department to provide appropriate guidelines to procurement officials to ensure the optimised involvement of Australian industry to meet AIC outcomes?

Answer:

Guidance for the Defence organisation, including Capability Managers and delivery groups, stems from key policy documents:

- 2016 Defence Industry Policy Statement
<https://www.defence.gov.au/spi/Divisions/IndustryPolicy.asp>
- 2018 Defence Industrial Capability Plan, and the 2019 Defence Policy for Industry Participation <https://www.defence.gov.au/spi/Industry/IndustryPrograms.asp>).

The Secretary's expectation is that Capability Managers and delivery groups adhere to this guidance.

Defence is amending the Australian Standard for Defence Contracting suite to strengthen considerations of Australian industry capability, in line with Defence industry policy. Defence is developing further guidance for officials when undertaking procurements.

Additionally, the Government has released updated guidance for the Commonwealth Procurement Rules. The guidance for considering broader domestic economic benefits in procurement clarifies that, when considering value for money, officials are required to assess economic benefit to the Australian economy.

Defence, including the AIC Program, operates within the framework of the Commonwealth Procurement Rules.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q21 – 07 September 2020 – Cost for Future Submarines in the 2020 Force Structure Plan compared with the 2016 Integrated Investment Program (IIP) – Gallacher

Question reference number: 21

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

The recently released 2020 Force Structure Plan finally provides an updated out-turned acquisition cost for the Future Submarines of \$89.7 billion. Has there been any subsequent change to that cost estimate?

a. How much of the \$89.7 billion cost of the Future Submarines is contained within the \$270 billion Force Structure Plan? In other words, how much of the \$270 billion is attributable to the Future Submarine program?

i. How does that compare with the 2016 Integrated Investment Program (IIP)? How much of the \$200 billion IIP was attributable to the Future Submarines?

Answer:

The Attack Class submarine program total acquisition estimate included in the 2020 Force Structure Plan was \$89.7 billion (2019-20 MYEFO price and exchange). The latest program total acquisition estimate is \$88.5 billion (2020-21 Pre-ERC price and exchange). The variation is due solely to changes in foreign exchange rates.

Of the \$270 billion (2019-20 MYEFO price and exchange) planned investment detailed in the 2020 Force Structure Plan over the decade 2020-30, up to \$50 billion (2019-20 MYEFO price and exchange) is attributable to the Naval Shipbuilding Enterprise, which includes an element of the Attack Class submarine program cost, noting that the program will run for 25 years beyond 2030. Given that the contracts for the construction of the submarines are yet to be put in place, the actual build cost estimates and distribution remain commercial-in-confidence.

The Attack Class submarine program when approved matched the discrete funding profile that supported the public 2016 Integrated Investment Program. The Attack Class submarine program funding profile supporting the 2020 Force Structure Plan is unchanged.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q22 – 07 September 2020 – Contractually Binding Clauses with International Partners for AIC – Gallacher

Question reference number:

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

On 13 February 2020, the Minister for Defence Industry said: “The actual proportion of Australian content on the submarines will be determined as the design of the submarines is completed”.

Once the design phase is exited, will international partners have contractually binding clauses for AIC?

a. How is Defence ensuring Australian equipment is designed into the Future Submarines?

Answer:

Both Naval Group and Lockheed Martin Australia have a range of contractually binding obligations in relation to Australian Industry Capability under their respective contracts with the Commonwealth for the Future Submarine Program. These include obligations to maximise Australian industry involvement through all phases of the program without unduly compromising capability, cost and schedule.

- a. Defence is ensuring Australian industry involvement is maximised through a number of requirements in its contracts through:
- The requirement for Naval Group to establish its procurement organisation in Australia and to manage the majority of procurement activities from Australia;
 - The development of procurement processes which require Naval Group and Lockheed Martin Australia to approach the Australian market in the first instance for the majority of equipment; and
 - The requirement to formally seek Commonwealth approval of the source selection for the most significant equipment:
 - For scopes of supply that are categorised as Approved Subcontracts, which includes the procurement of major equipment and key services, the Commonwealth is part of the decision process in supplier selection, to ensure Australian industry has been considered.

- For scopes of supply that are not categorised as Approved Subcontracts, where Naval Group does not envisage that the procurement of equipment will result in an Australian supplier being selected, Naval Group must notify the Commonwealth and provide a business case to justify the decision.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q23 – 7 September 2020 – Shortcomings in Workforce and Industrial Landscapes – Gallacher

Question reference number: 23

Senator: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

Naval Group Australia's submission to this inquiry states:

“Whilst the program is on track, workforce and industrial landscape challenges remain and strategies to address these must be developed. Coordination between federal and state departments and other government agencies is essential if these challenges are to be addressed.”

What is your response to Naval Group highlighting this shortcoming and what is Defence doing about it?

Answer:

The Naval Shipbuilding Enterprise is on track acknowledging that challenges remain and coordination is essential to grow a 15,000 strong shipbuilding workforce across a range of disciplines. While the shipbuilding prime contractors are responsible for recruiting and developing their own respective workforces, Defence is proactively engaged and is working collaboratively with industry, the education and training sector, other Commonwealth agencies and State and Territory governments to help satisfy the growing workforce demand.

The Naval Shipbuilding College was established by Government to analyse the marketplace and develop strategies to grow and skill Australia's shipbuilding workforce. The College is an important mechanism to mitigate the workforce risk and is delivering a coordinated, national approach to skilling through a network of education and training providers.

Defence is also coordinating a number of programs to help build the future shipbuilding workforce including scholarships, internships and graduate programs.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q24 – 07 September 2020 – Future Submarine Project and Personnel in France – Gallacher

Question reference number: 24

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Future Submarine project:

- a. How many Australian Defence and ADF personnel are presently located in France?
- b. How much is being spent on accommodating and feeding them each week?
- c. Is there a cap of the number of personnel to be located in France at any one time?

Answer:

- a. 25 (as at 1 September 2020 – 13 Australian Public Service, 4 Australian Defence Force and 8 industry staff).
- b. On average \$21,600 per week is spent on property rent, fees and furniture (based on September 2020 data). Personnel are required to pay a contribution towards this expense from their salary. The amount contributed by each member is based on a variety of factors including rank / level and family size.

Expenditure on food is for personnel to manage from their salaries and allowances.

- c. No.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q25 - 07 September 2020 - Implementation of Maritime Sustainment: 2025 Plan Galileo - Gallacher

Question reference number: 25

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In reference to the Department's Maritime Sustainment: 2025 Plan Galileo, created to transform how the RAN conducts sustainment and support of naval vessels. Have you commenced implementation in July 2020 as planned?

Answer:

Yes.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q27 - 07 September 2020 - Forecast dates of Initial Operational Capability and Final Operational Capability - Gallacher

Question reference number: 27

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Maritime Operational Support Capability – Replacement Replenishment Ships project (SEA 1654, Phase 3), what are the current forecast dates of Initial Operational Capability and Final Operational Capability?

Answer:

Initial Operation Capability: July 2021

Final Operational Capability: December 2022

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q28 - 07 September 2020 - Forecast dates of Final Materiel Release and Final Operational Capability (SEA 4000, Phase 3) - Gallacher

Question reference number:

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Air Warfare Destroyer Build project (SEA 4000, Phase 3), what are the current forecast dates of Final Materiel Release and Final Operational Capability?

Answer:

Chief of Navy agreed to award Final Materiel Release on 29 June 2020.

The forecast date for Final Operational Capability is mid 2021.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q29 - 07 September 2020 - Forecast Dates of Initial Materiel Release, Initial Operational Capability, Final Materiel Release and Final Operational Capability (SEA 1180, Phase 1) - Gallacher

Question reference number: 29

Senator: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Offshore Patrol Vessel project (SEA 1180, Phase 1), what are the current forecast dates of Initial Materiel Release, Initial Operational Capability, Final Materiel Release and Final Operational Capability?

Answer:

Initial Materiel Release:	December 2021
Initial Operational Capability:	December 2022
Final Materiel Release:	December 2029
Final Operational Capability:	June 2030

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q30 – 07 September 2020 – Forecast dates of Initial Operational Capability and Final Operational Capability (SEA 1442 Phase 4) – Gallacher

Question reference number: 30

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Maritime Communications Modernisation project for the ANZAC Class Frigates (SEA 1442 Phase 4), what are the current forecast dates of Initial Operational Capability and Final Operational Capability?

Answer:

As at 14 September 2020, the Maritime Communications Modernisation project for the ANZAC Class Frigates (SEA 1442 Phase 4) forecast delivery dates are:

- Initial Operational Capability (IOC), January 2021.
- Final Operational Capability (FOC), January 2025.

The project is currently experiencing COVID-19 related disruptions which may impact on IOC and FOC delivery dates.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q31 - 07 September 2020 - Forecast or Achieved Dates of Final Operational Capability (JP 2048, Phase 3) - Gallacher

Question reference number: 31

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the Amphibious Watercraft Replacement project (JP 2048, Phase 3), what is the current forecast or achieved date of Final Operational Capability?

Answer:

Final Operating Capability for the Amphibious Watercraft Replacement project (JP 2048, Phase 3) was declared by the Chief of Navy on 04 November 2019. These craft are known as the LHD Landing Craft (LLC).

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Q32 - 07 September 2020 - The build or acquisition of the Pacific Support Vessel referenced in Defence's 2020 Force Structure Plan - Gallacher

Question reference number: 32

Senator: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 21 September 2020

Question:

In relation to the planned investment in a new Pacific support vessel referred to on pages 12 and 45 of Defence's 2020 Force Structure Plan:

- (i) Will this be a newly-built vessel or will an existing vessel be acquired?
- (ii) If this is to be a newly-built vessel, will it be built in Australia or offshore?
- (iii) If this is to be a newly-built vessel, when is construction expected to commence?
- (iv) When is it expected that the vessel will enter into service?

Answer:

- (i) New build.
- (ii) Australia.
- (iii) Subject to Government approval, construction is forecast to commence in 2022.
- (iv) Forecast to enter into service in Financial Year 2024-25.

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability
– 10 September 2020

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC – Q33 – 10 September 2020 – Date for initial build contract for Future Submarines – Gallacher

Question reference number: 33

Senator/Member: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 24 September 2020

Question:

What is Defence's expected or scheduled date for signature of the initial build contract for the Future Submarines?

- a) Have negotiations begun, and if so, when? If not, when does Defence anticipate commencing negotiations?
- b) By what date must the initial build contract be signed so as not to negatively impact the nominal build schedule?
- c) Will the commencement of hull qualification work in 2023 be subject to the signature of the initial build contract?
- d) How many of the Future Submarines does Defence anticipate will be covered by the initial build contract – and how many subsequent build contracts does Defence anticipate will be needed?

Answer:

- a) Negotiations will be undertaken in sufficient time to assure continuity of program contracts under the Strategic Partnering Agreement.
- b) The next program contract under the Strategic Partnering Agreement will address the detailed design of the submarine and its construction, allowing a seamless transition from design to build activities.
- c) Hull qualification work is part of the process in transitioning from detail design to build.
- d) The number of submarines to be constructed under this program contract will be determined in the lead up to detailed design, which is scheduled to start in 2023.

