

SEA 1000 – FUTURE SUBMARINES

Issue

What does the government mean by this statement?

“What we have always intended to have is a competitive evaluation process [for selection of the Future Submarine]”

Headline Statement

- The Australian Government is determined to get the best value for money and the best submarine capability available.

Key Points

- The Government’s policy is to ensure that Australia obtains regionally superior conventional submarines while avoiding a capability gap.
- The number of Future Submarines to be acquired is being considered through the Force Structure Review.
- As I have said, decisions on the submarines will be based on a competitive evaluation process managed by the Department of Defence that considers fully the unique requirements of our Future Submarine capability.
- This will take place within a thorough ‘two pass’ Cabinet process, and we will receive professional advice from Defence to ensure we get the best capability.
- The Department has a rigorous process for determining the acquisition strategies to be used for acquiring any major capability. Key factors such as the capability required, the available options and strategic requirements are all considered in the development of the strategy.

- The acquisition strategy may determine that a tender process that is either fully open or limited may provide the best approach.
- Defence commonly undertakes the procurement of major capital equipment without undertaking an open tender process.
- The selection of the designer and builder for the Collins class submarines was not undertaken through an open tender process. Instead, a limited request for tender was issued to seven submarine designers and builders for a submarine platform system design proposal (the limited tender was issued in May 1983).
- The Defence Materiel Organisation has a standard tender process based on a suite of templates termed the ASDEFCON [pronounced “As-Def-Con”] suite and guidance set out in the Defence Procurement Policy Manual (DPPM).
- In the case of a Request for Tender being responded to by multiple tenderers, the process culminates in a competitive evaluation of the tenders. (DPPM Chapter 5.6)
- Equally there are other circumstances that mean the best outcomes can be achieved by another competitive approach.
- There are cases where Defence needs to compare offers and determine value for money outcomes based on a range of sources of information, not just from a tender.
- A good example is where one offering is through the United States Foreign Military Sales (FMS) system. The US Government will not respond to a standard request for tender for FMS products. Therefore, it becomes necessary to conduct a competitive evaluation using an FMS offer compared to other information which may include a tender response.
- Two recent examples are the procurements of the C-27J airlift aircraft and MH-60R helicopter acquisitions.

- In the case of the C-27 acquisition, although there was some criticism of the process undertaken, the ANAO audit in 2013 on this project found that overall:
 - Defence’s processes to select the US variant C-27J met relevant Commonwealth legislative and procurement requirements applicable at the time; and
 - that there was a reasonable basis for government to select the US variant C-27J as a better value for money option than the commercial version of the C-27J, and the Airbus C-295.
- An open tender involves publishing an open approach to the market and inviting submissions (see Commonwealth Procurement Rules, paragraph 9.8).
- A limited tender involves a relevant entity approaching one or more suppliers to make submissions, when the process does not meet the rules for open tender or prequalified tender (see Commonwealth Procurement Rules, paragraph 9.10).
- The competitive evaluation process managed by the Department of Defence will take into account capability requirements, cost, schedule, technical risk and value for money considerations.
- As was the case with the Collins class submarine, it is expected that international involvement will be required in this project.

If asked: about calls to develop a Submarine Construction Authority to oversee the Future Submarine project

- Shipbuilding requirements will be guided by the Defence White Paper and the Australian Naval Shipbuilding Plan.
- No decisions have been made on the design or construction of the next generation of Australian submarines.

If asked: about the number of submarine sustainment jobs expected in Adelaide

- Approximately 1000 people are currently employed in South Australia to sustain the Collins submarines. Around 400 people are also employed in Collins sustainment activities in Western Australia.
- Australian industry will continue to have a vital role in sustaining the next generation of Australian submarines.

If asked: Is ASC's estimate of \$18-24 billion to build 12 future submarines in Australia accurate?

- Until our requirements are properly considered by any submarine designer and builder, cost proposals for the future submarine cannot be predicted with certainty.
- At this stage of the program, cost proposals should be treated with a high degree of caution.
- Importantly, the cost of the future submarine program will need to cover design, infrastructure, combat system, and broader project expenses, as well as construction costs.

If asked: Will the Government accept the recommendations of the Senate Inquiry into the Future of the Australian Naval Shipbuilding?

- No decision has been made on the recommendations made by the Committee in their report tabled on 17 November 2014.
- The Committee's recommendations will help inform the Government's decisions on Australia's future submarine.

If asked: about submarine cooperation with Japan

- Australia is discussing issues relating to submarines with a number of countries, including Japan.
- There has been no decision on any specific areas of cooperation with any country.

If asked: about the C-27J acquisition

- In seeking to procure a replacement for the Caribou aircraft Defence concluded there were three viable options: An FMS procurement of the C-27J in a configuration specific to the US Government; a direct commercial sale from the US supplier of the C-27J; or the C-295 built by Airbus Military.
- In October 2011 Defence approached the commercial suppliers of the C-27J and the C-295 to obtain price, availability and capability data to compare against information sought from the US Government via FMS on the US variant C-27J option. Defence evaluated the industry responses and compared them to the US offer.
- The competitive evaluation concluded that:
 - the Airbus Military C-295 did not meet several essential capability requirements, including interoperability requirements with other ADF aircraft logistics systems¹⁴;

- the US variant C-27J was the only Military Off The Shelf (MOTS) option available, incorporating ballistic protection, electronic warfare protection, and communications systems that provided battlefield survivability and interoperability with other ADF platforms and the US16; and
- the commercial C-27J option offered by Raytheon could not offer substantial benefits over and above those offered by the US variant available under FMS arrangements.
- The cost to industry of participating in a full tender process was high and Defence assessed (based on previous research and the most recent information received from commercial sources) that the commercial suppliers could not compete with the FMS offer in any case. Defence further considered that conducting a tender would have taken several months and resulted in the loss of the competitive aircraft price available through FMS until 30 June 2012.

If asked: about the MH-60R helicopter procurement

- AIR 9000 Phase 8 is delivering a new maritime combat helicopter capability as a matter of urgency for Navy. The project was predicated on the selection of a capability solution that was already an established military-off-the-shelf (MOTS) system. Only two MOTS options showed the potential to meet this capability requirement. They were the NATO Helicopter Industries NH90 NATO Frigate Helicopter (NFH) and the Sikorsky/Lockheed Martin MH-60R Seahawk Romeo.
- The NH90 NFH was available through a commercial arrangement with Australian Aerospace (now Airbus Group Australia Pacific). The MH-60R Seahawk Romeo is only available from the United States Government through their Foreign Military Sales (FMS) program.
- Defence sought to obtain best value for money in the selection of a supplier for the maritime combat helicopter capability through a

- a sole source Request For Tender (RFT) for the Acquisition and Sustainment of the NH90 NFH Mission and Support Systems released to Australian Aerospace; and
- two Letters of Request (LOR) released to the United States Navy for the Acquisition and Sustainment of the MH-60R Mission and Support Systems through the United States' FMS program.
- The Defence competitive evaluation process compared the FMS Letters of Offer and Acceptance (LOAs) received from the United States Navy in response to the LOR with a tender received in response to the commercial RFT from Australian Aerospace. A Value for Money (VFM) determination was made during the evaluation process to determine the preferred solution and to structure the preferred contractual arrangements subsequently negotiated by Defence.
- The VFM determination considered cost (an assessment of the total capability acquisition and whole of life sustainment costs), schedule, capability, commercial and Australian industry aspects, performance history, intellectual property, compliance and risks.
- AIR 9000 Phase 8 received First Pass approval in February 2010 and Second Pass approval just 16 months later in June 2011. The MH-60R Seahawk Romeo was selected after being recommended by Defence as the best VFM and the lowest risk. The project will deliver 24 aircraft, two mission simulators and a range of other training and support elements. The approved budget is \$3.202 billion. The project remains on schedule and under budget.

Background

On 17 November 2014, the Senate Economics References Committee tabled Part II of its Report into the Future of the Australian Naval Shipbuilding Industry, in which it recommended an immediate competitive tender for the Future Submarine Program to build, maintain and sustain Australia's future submarines in Australia. On 22 October 2014, Defence appeared at the Senate Supplementary Budget Estimates hearing, where the Future Submarine Program featured prominently in discussions on capability and projects. Most of the discussion centred on the status of the program, the schedule for a decision and the evidence heard by the Senate Economics Reference Committee (SERC) Inquiry into the Future of Australia's Naval Shipbuilding. Mr John White, who conducted the review into the Air Warfare Destroyer program on behalf of the Government, provided a submission to the SERC Inquiry into shipbuilding. Mr White appeared at a public hearing of the Inquiry in Melbourne, on Monday 13 October 2014.

On 30 September 2014, Defence appeared at the Senate Economics Reference Committee Inquiry into the Future of Australia's Naval Shipbuilding Industry. On 10 September 2014, then-Minister Johnston said, "We haven't made any decision with respect to submarines. This is a very complex issue – we're looking to make a firm decision next year in the White Paper". The SEA 1000 Future Submarine Program is developing options to replace the Collins class submarines. Program resources have been focused on progressing an 'evolved Collins' option (Option 3) and new design option (Option 4). Australia is also exploring submarine cooperation with a number of countries, including Japan. No decision has been made on cooperation with any country.

In April 2014, the Prime Minister and the Minister for Defence announced the development of the 2015 Defence White Paper. The White Paper will provide a costed plan to achieve Australia's defence objectives and an affordable Australian Defence Force structure. This plan will align Defence's strategy and capability aspirations with agreed funding. There will be a comprehensive consultation process with Australian industry and the Australian public, our allies and regional partners. A Defence Issues Paper, largely prepared by the Expert Panel, has been produced to support the public consultation program. A call for public submissions closed on 29 October 2014. Following the release of the 2015 Defence White Paper, a ten-year Defence Capability Plan and a Defence Industry Policy Statement will be published.

Media Attention

On 11 February 2015, there continued to be extensive coverage of statements by Government, confirming that a competitive evaluation process would be used for the Future Submarine Program. Coverage focussed on what a competitive evaluation process would entail and the difference between this approach and an open tender.

On 10 February 2015, there was ongoing commentary in most major publications regarding comments by the Prime Minister and Minister for Defence confirming that the Future Submarine Program would follow a competitive evaluation process, and speculating what this means for Australian shipbuilder ASC.

On 9 February 2015, *The Australian* and the *Adelaide Advertiser* each contained articles reporting on statements by the Prime Minister that there would be a competitive evaluation process conducted for the Future Submarine.

On 6 February 2015, the *Australian Financial Review* published a story claiming that during discussions with German Chancellor Merkel at the G20, Prime Minister Abbot agreed that if Australia progressed acquisition of a Japanese submarine, that it could increase tension with China.

On 4 February 2015, *The Australian* ran an article stating that the Government had shelved a planned announcement on the Future Submarine Program in December, just days before the Cabinet reshuffle which saw a change in Defence Minister. The article further states that the announcement was to include detail on the creation of a “national defence industry entity to work with an experienced international submarine designer and builder”.

On 8 February, you indicated publicly that the Government had always intended to have a “competitive evaluation process” in relation to the Future Submarine Programme (an extract of the transcript is at Attachment A).

Media reports are claiming that the Government will now seek a commercial “open tender process” to select the Future Submarine.

Point of Contact

RADM Greg Sammut, Head Future Submarines Program, (w) 6265 2251 (m) 0459 248 106

David Gould, General Manager Submarines, (w) 6266 7756 (m) 0467 748 615

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