



12 August 2011

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## **Points for Presentation to the Senate Standing Committee in Defence Procurement**

1430 Friday 12th August 2011

### **Opening Remarks**

Mr Chairman, thank you for the opportunity to address the Senate Standing Committee on Foreign Affairs, Defence and Trade.

The objective of the Submarine Institute of Australia (SIA) is to promote informed discussion and research in the fields of submarine operations, engineering, history and commercial sub-sea engineering - otherwise known as submarine matters.

The Submarine Institute takes the long view of Australia's submarine capability and it sees the Future Submarine Project (SEA 1000) in that context. 2014 marks the Centenary of Submarines in Australia and as we prepare to celebrate the past 100 years so it is appropriate to look forward to the next 100 years. To this end the SIA sees the Future Submarine project as building on an existing capability with the intention that it should develop and thrive for at least the next 100 years.

The SIA supports the Government's intention to purchase 12 highly capable long-range submarines, and the capability described in the Defence White Paper (DWP) 2009. We understand that this will be one of the largest and most complex projects undertaken in Australia, and one that demands a cohesive and coordinated whole of government approach.

For this reason if no other, Australia's Defence equipment procurement system will need to be functioning better than ever before.

We also understand and strongly agree with Admiral Moffitt's observation to the Defence and Industry Conference in Adelaide on 30<sup>th</sup> June that Project SEA 1000 is not just "about 12 submarines." (the Project) "is about building an industry sector which is able to sustain an ongoing build program for the rest of our lives and beyond." We also support the Government's very sensible intention, given our strategic circumstances, that there may be (almost certainly will be) more than 12 submarines.

The SIA is concerned that the program is very late, and this has very serious implications for a sustained and effective submarine capability in Australia. By late, we mean that we expect that the necessary capability will only be achieved through harnessing the energy and commitment of Australia's science, technology, engineering and project management base and draw upon the skills and expertise of Small-Medium Enterprises (SME's). This has not started.

Unfortunately, notwithstanding the recommendations of the Kinnaird Review for small amounts of early up-front investment to quantify and minimise risk in complex projects, this has not yet happened for SEA 1000.

To be fair, since the SIA submission was made to the Committee on 15<sup>th</sup> April, the Government has taken steps that will address some of the concerns raised in the submission. Specifically:

- The criticism of lack of clarity in the DCP is being addressed and the most recent update of the public DCP provides better data from which companies can plan.
- The Rizzo Report<sup>1</sup> has been received and if the SIA understands the Government's intention to implement its recommendations correctly, those measures will bring a significant improvement in the sustainment area.
- The appointment of Mr John Coles to review the Collins capability is also a very positive step.

## **Main Points in Relation to Defence Procurement**

1. There is existing infrastructure and there are significant nonrecurring costs to be incurred as the industrial capability is ramped up to deliver and support the Future Submarines. There is evidence (Rand Study of 2009 "Determining When Competition is a Reasonable Strategy for the Production Phase of Defense Acquisition") that suggests when the NRE is high, there is better value for government to go directly to a single supplier.
2. Government may decide that it intends to enter and stay in the submarine building and sustainment business through its ownership of ASC, and if it does it needs also see that as a 100 year commitment. Alternatively, the ongoing sustainment and construction of Australian submarine capability may be undertaken by non government commercial entities. In any event consideration needs to be given to:
  - Timing (when is the best time to make a transition from government to commercial ownership of the submarine construction facilities).
  - Sovereignty. Australia needs to ensure that it has access to the most suitable technology for its needs and control over its own technology and capability.
  - The need to develop Australian industry that has the capacity to continuously build and maintain an ongoing and evolving fleet of submarines, that will change in design and type over the years...rather than be imported (as with Oberon) or as a one off build phase (as with Collins).

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<sup>1</sup> "Plan to Reform Support Ship Repair and Management Practices" Paul J Rizzo—July 2011

- Recognition that the Future submarine Project will initially be 12 submarines but the first will be replaced within the same industry structure rather than closing the industry down after the completion of the 12<sup>th</sup> submarine...and reopening the industry when the future submarines need to be replaced.
3. The validity of Military or Commercial off the Shelf procurement in a program of this complexity and longevity should be questioned.
- Australia has experience of Military-Off-The-Shelf (MOTS) procurement of submarines. The RAN bought Oberon class submarines off the shelf from the Ministry of Defence in the United Kingdom in the mid-1960s and, as an acquisition, they were a great success. The 'shelf' from which they were purchased, however started to get smaller very quickly as the class aged and the parent (British Royal) Navy first reduced their operational use and then ceased to operate them. As a result, for the last ten years of their lives, sustainment of the Australian Oberons was extremely difficult.
  - The challenges associated with maintaining submarines with no remaining 'parent', coupled with the submarines at the wrong end of a supply chain of 20,000 km were key contributors to the decision to build the Collins Submarines in Australia. It was thought that with a high proportion of local content, the supply chain issues could be ameliorated.
  - The sad fact is that (as we suspect Mr Coles will report) there has been insufficient investment for the local supply base to develop and survive.
  - Any procurement program MUST take a whole of life perspective (we say a 100 year perspective) and not be reduced to a simple acquisition;
  - Off the Shelf acquisition may appear to be a sound option. However, the acquired submarine would need to have been developed to meet an identical operational environment as our own, and have suitable Australian support arrangements and maintenance infrastructure that is to last as long as the submarines' life. These circumstances do not exist outside Australia.