

15 April 2011

SIA REF: 11/LET/0415

The Secretary
Senate Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

SUBMISSION TO THE SENATE STANDING COMMITTEE ON DEFENCE PROCUREMENT

Thank you for the opportunity to provide input to the Senate Standing Committee on Foreign Affairs, Defence and Trade (FADT).

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. Whilst not specifically focussed at procurement and contractual matters, our 300+ members include a broad cross section of representatives from Defence as well as the global and domestic defence industry, with significant experience with Australian and overseas procurement practices. The SIA also views the procurement process and the resulting contractual framework as critical elements in delivering the platforms that the RAN Submarine Force requires in order to fulfil its commitments to the Australian government.

The SIA's comments on Defence Procurement focus mainly on SEA 1000, the Future Submarine project, because sustainment of the Australian submarine capability is our particular interest area. We understand that our observations might also apply to other complex Australian procurement programs.

SIA's position on SEA 1000 project

The SIA supports the Government's decision to purchase 12 highly capable long-range submarines, and the capability described in the Defence White Paper (DWP) 2009. This will be one of the largest and most complex projects undertaken within Australia, and one that demands a cohesive and coordinated whole of government approach. Project SEA 1000 is very late, and this has very serious implications for a sustained and effective submarine capability in Australia.

SIA's response to questions raised

Q1. Assess the procurement procedures utilised for major defence capital projects currently underway or foreshadowed in the DWP, including the operations of the Capability Development Group and its relevant subcommittees.

- Clearly value for money in defence procurement is a fundamental principle. However, there are other means available to the Defence Materiel Organisation (DMO) to meet these criteria in addition to competitive tendering. In cases where there is a very high non recurring cost, competitive tendering is more likely to reduce the value for money.
- In so far as the Capability Development Group (CDG) supports the Defence White Paper of 2009, its submarine element appears to achieve a lot with very little resource.

- The CDG requires greater support and co-operation from the DMO to achieve the DWP requirement for 12 Australian made submarines, capable of meeting the challenges of Australia's strategic circumstances over the next 50 to 80 years. This support will include:
 - A proactive industry policy managed by CDG and executed with DMO support to establish a national shipbuilding capability, with:
 - A strong and efficient construction and maintenance backbone that is able to sustain and evolve the platform through life as technology develops, while not beholden to any particular overseas submarine designer. The development of an experienced and capable indigenous submarine design capability from the existing limited industrial base will necessitate heavy reliance on overseas partners and suppliers.
 - Access to unique and critical US submarine technology will be an essential consideration that will influence the structure of the procurement process and program.
 - Integration and evolution of US technology with the best that Europe has to offer will require considerable understanding and competency on behalf of the CoA.

This will only be achieved through harnessing the energy and commitment of Australia's science, technology, engineering and project management base and drawing upon the skills and expertise of Small-Medium Enterprises (SME's).

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 is not yet happening for SEA 1000.

Q2. Assess the timelines proposed for defence modernisation and procurement outlined in the DWP

The former clarity of the DCP has, in recent years, been undermined. This runs counter to the increasing demands for accuracy and detail in plans and schedules from industry. This establishes a challenging environment to measure progress in the initial stages of a project, develop and align workforce capabilities with project demands and ultimately achieve accountability and oversight. Reinforcing this is the high turnover of desk officers within CDG and the DMO which, in turn, creates difficulty for large primes and extreme, if not impossible, demands upon SME's.

Q3. Assess proposals arising from the Defence accountability reviews including the Mortimer Review, the Pappas Review and the McKinsey review (2010) in regards to enhancing accountability and disclosure for defence procurement

No Comment

Q4. Make recommendations for enhancing the availability of public information and parliamentary oversight and scrutiny of defence procurement in the context of the guaranteed 3 per cent real growth in the defence budget until 2018.

No Comment



Summary

As stated previously, the SIA is very concerned that SEA 1000 is now so late that unless extraordinary steps are taken in the next two to five years, the submarine capability Australia has spent so much to develop will be so diminished by 2028 that it will be virtually impossible to sustain the capability beyond 2035.

There seem to be two major contributing factors:

- In the case of SEA 1000, the Department does not appear to be following the procedures recommended by Kinnaird, Mortimer or any other recent consultant.
- The methods apparently employed by the DMO to minimise risk (e.g. very strict attention and adherence to the letter of each contract, at the cost of actual progress) do not bode well for a highly successful program in SEA 1000. That is unfortunate because it is fundamental to the submarine capability that the new boats are built in Australia.

Thank you for the opportunity to contribute to this discussion.

Yours sincerely

Peter Horobin MBE, FAICD

President

