

SENATE ECONOMICS REFERENCES COMMITTEE
Future of Australia's Naval Shipbuilding Industry

Parliamentary inquiry

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q1 - AusTender - Carr

Question reference number: 1

Senator/Member: Kim Carr

Type of question: 7 June 2018

Date set by the committee for the return of answer: Table Office Due Date

Question: Senator KIM CARR: There are two contracts associated with Mr Burgess's appointment. I can give you those details, if you wish. They're still listed on the AusTender website. They haven't been cancelled. Can you explain that to me?

Mr Fankhauser: Yes. Senator, those contract notifications that would appear on AusTender relating to Mr Burgess's appointment to the advisory board would relate to the contract that was in place. Obviously, that contract is no longer in force, given Mr Burgess's resignation. It is worth noting the AusTender amounts that are reported were for the total contract value over what was expected to be the term of that contract, which was through until December 2019. However, the expenditure against the total contract value would only reflect the number of days Mr Burgess served as a member of the advisory board.

Senator KIM CARR: What was the expenditure?

Mr Fankhauser: I don't have the exact figure in front of me. I can look into that.

Senator KIM CARR: Can you take it on notice?

Mr Fankhauser: Certainly.

Answer:

Burgess Strategic Consulting P/L was paid a total of \$69,000 for consultancy services related to Mr Burgess's tenure as a member of the Naval Shipbuilding Advisory Board.

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ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q3 - CDIC - Reynolds

Question reference number: 3

Senator: Linda Reynolds

Type of question: 12 June 2018, 55

Date set by the committee for the return of answer: Table Office Due Date

Question: Senator REYNOLDS: With the CDIC, for example, we had a little bit of evidence this morning that they are working through the various portals and organisations. But that doesn't guarantee that the content that ends up in a vessel or submarine is predominantly Australian fabricated and manufactured, with Australian components. I would refer you to the Hansard, where I went through four specific scenarios that had been put to me by industry, in a variety of ways, in terms of the devil and the detail. This is some of the concern that I and other colleagues share. We want to make sure we have got the system right. That is not a criticism of anybody; it is just that it is a very complex issue. We have a lot of large organisations who will comply with the letter of law, but that doesn't mean the spirit of the law is followed.

Mr Finlay: Can we take that on notice?

...

Ms Paul: We are interested in all four enablers—and industry is one of the four enablers. For example, I think I saw recently that Naval Group Australia has already had about 800 Australian companies express interest and Lockheed Martin has had more than 200.

Senator REYNOLDS: I will refer you to the Hansard of that—having people express interest and how that converts into widgets on equipment in terms of the initial piece and then its sustainment and maintenance. You could take that on notice. I had a discussion with ASC and Austal today. Both of them already have very large Australian supply chains for a large percentage of the widgets, possibly with some modifications in the future. How can we make sure that we can tap into those supply chains without having to reinvent the wheel?

Ms Paul: I will look forward to seeing the Hansard.

Answer:

The Government's Defence Industrial Capability Plan released on 23 April 2018 is focused on developing the defence industry to meet Australia's operational and defence capability needs. The Plan sets the Government's vision and strategic objectives for defence industry to 2028, highlights a range of opportunities for Australian industry to support the delivery of the Integrated Investment Program, and outlines how all of the defence industry and innovation initiatives will be used systematically to drive the achievement of the strategic objectives. The Plan also introduces the initial ten Sovereign Industrial Capability Priorities and an up to \$17 million per year grant program to support Small to Medium Enterprises (SMEs) that contribute to a Priority.

The fundamental premise of the Plan is to assist Australian companies to understand Australia's defence requirements, how they can become involved, and the range of support available to assist them, recognising that Defence procurement operates across most sectors of the Australian economy, it can take time to become established in the sector, and there are different approaches to major capital equipment, infrastructure, and non materiel procurement. The Government seeks to position Australian defence industry to help meet Australia's current defence needs and to increase the level of Australian industry involvement over the life of our major programs. This can not be achieved through any single initiative. It requires a coordinated approach across a range of activities to support defence industry to succeed.

Regular and wide ranging engagement with Australian industry is a critical element of that positioning so that industry better understands Defence's needs and when they need to be met, and Defence has greater awareness of the capabilities available within Australia. For example, as part of industry engagement under the Future Submarine Program, Future Submarine Program industry information sessions were held over 2017, including in Adelaide, Sydney, Melbourne, Perth and Brisbane. Defence officials and representatives from Naval Group and Lockheed Martin Australia briefed on Australian industry involvement opportunities with more than 1,000 people attending from Australian companies, research and development institutions and educational organisations.

Australian industry was invited to register on the Information Capability Network (ICN) database to highlight their interest in working with either or both primes as part of the Future Submarine Program. Registration through this portal enables the prime to build a better snapshot of capable Australian companies.. It provides greater depth and awareness of the supply chain available to the overall naval shipbuilding projects including for SEA5000, the Future Frigates.

Use of the existing ICN database will become increasingly important in building greater depth and awareness of the Australian supply chains that could support the acquisition and sustainment of defence capability in line with the Government's strategic and defence industry policy settings.

The Centre for Defence Industry Capability (CDIC) plays a significant role in the development of the naval shipbuilding supply chain. The CDIC works with the supply chain to provide business advisory services including:

- guidance on how to improve a business;
- skills development;
- export and supply chain support;
- innovation proposal facilitation;
- new air combat capability support;
- defence market preparedness;
- a supplier continuous improvement program; and
- information on working within the defence market.

The Australian Industry Capability (AIC) program requires tenderers to demonstrate how they will maximise opportunity for competitive Australian industry to participate in Defence material procurements of \$20 million or greater. This is done through the development of a draft AIC plan which is considered by Defence as part of the tender proposal.

Defence has strengthened requirements on tenderers in the AIC plan to demonstrate how they will maximise Australian industry capability over the life of the project and build enduring defence industry capability to meet Defence's broader needs. The commitments made in the successful tenderer's AIC plan form part of the resultant contract and are a binding contract deliverable.

As part of the 2016 Defence Industry Policy Statement's commitment to strengthening the AIC Program, an AIC assurance review process is currently being designed and piloted. The assurance review process will help ensure that AIC plans are effectively implemented and monitored and that the work that was committed to Australian industry, especially SMEs, under a contract was delivered by Australian industry. It will also enable Defence to assist industry to meet their contracted AIC deliverables where they are yet to do so.

Senate Economics References Committee

Parliamentary inquiry – Future of Australia's Naval Shipbuilding Industry
7 June 2018

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q4 - Cost of Future Submarine program in out-turn or constant dollars - Patrick

Question reference number: Q4

Senator: Rex Patrick

Type of question: Spoken, Hansard page 57

Date set by the committee for the return of answer: 15 June 2018

Question:

Mr Finlay: In the proposed arrangement for a contract between the Commonwealth and Naval Group, there are several processes for determining cost. One is a total cost estimate process; another one is a fixed-price concept. They haven't been concluded in the current negotiations as to whether the total cost estimate will apply to ships 1 and 2 or 1 to 4 and whether therefore the lump sum would apply to 2 to 12 et cetera.

Senator PATRICK: I'm just extremely surprised—shocked, actually—that, as the oversight of this \$89 billion program, you don't have any knowledge of the top-level costs of the Future Submarine.

Mr Finlay: We know that number.

Ms Paul: I think Mr Finlay is describing—

Mr Finlay: We know that number, Senator.

Senator PATRICK: Well, I just asked you what it was.

Mr Finlay: \$50 billion.

Senator PATRICK: Is it in out-turn dollars, or is it in constant dollars?

Mr Finlay: I don't know.

Senator PATRICK: There's a big difference between the two. It's \$50 billion versus \$79 billion if it's out turned. That surprises me.

Mr Finlay: We'll take that on notice, and we will come back to you.

Answer:

As stated by RADM Sammut at the Senate Budget Estimates hearing of 29 May 2018, the current estimated cost of the Future Submarine Program is \$50 billion in constant dollars. This includes:

- cost of designing and constructing the fleet of 12 submarines,
- cost of designing and integrating the combat system in each of the 12 submarines,
- the investment in science and technology that will be required,

- the delivery of logistic support (including documentation and initial sparing), and
- the design and build of the submarine construction yard and other land-based facilities (for example, wharves, training centre, crew facilities).

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Parliamentary inquiry

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q5 - Defence Advocate position - Carr

Question reference number: 5

Senator: Kim Carr

Type of question: 12 June 2018

Date set by the committee for the return of answer: Table Office Due Date

Question: Senator KIM CARR: I want to go back to some previous evidence that had been tendered regarding the defence advocate position. The former Minister for Defence has been appointed to that position, and it was indicated to us at the last estimates hearing that the standard contract was in place and that all the due conflict of interest provisions had been followed.

Mr Gillis: I wasn't actually involved in that contract.

Senator KIM CARR: Is there anyone here that can help me with that?

Mr Gillis: I also think, Senator, you asked that question and it was taken on notice.

Senator KIM CARR: Have the Hansard brought up if you like. But I want to know whether or not all the due questions, the conflict of interest provisions, have been applied?

Mr Gillis: As I said, I wasn't involved in that particular procurement.

Senator KIM CARR: Is there anyone here that can help me with that?

Mr Gillis: I'm not sure that there is. There isn't an officer, and that officer wasn't on the witness list. I'm happy to take that on notice.

Answer:

The Hon. David Johnston was engaged as the Australian Defence Export Advocate, using a standard Expert Engagement Agreement. This contract includes robust measures to help manage probity and potential conflicts of interest and reflect standard Defence processes for managing these issues.

Senate Economics Reference Committee

Parliamentary inquiry – Future of Australia's naval shipbuilding industry

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q6 - Saab contracts - Carr

Question reference number: 6

Senator: Kim Carr

Type of question: 07 June 2018, 68-69

Date set by the committee for the return of answer: 15 June 2018

Question: Senator KIM CARR: How many contracts has Saab got with the department?

Mr Gillis: I'm not sure.

Senator KIM CARR: You don't know?

Mr Gillis: I manage a fairly large portfolio. The individuals of Saab have a range of different contracts with us. I wouldn't be able to give you the specifics offhand.

Senator KIM CARR: And being a Defence advocate and being on the board of Saab, would that not be a conflict of interest?

Mr Gillis: Not directly, mainly because the person is an advocate for the whole of Defence industry. No, I don't think it would direct conflict.

Senator KIM CARR: You don't think other Defence companies might see that being involved with one company when you're supposed to represent the rest of the industry might be regarded as a conflict?

Mr Gillis: You'd have to ask those companies. If it was me and I was a company CEO and there was an eminent person with David Johnson's background, I wouldn't have an objection to it. But I can't comment on behalf of other companies.

Senator KIM CARR: The fact that the company has secured substantial contracts this year—

Mr Gillis: Which companies?

Senator KIM CARR: Saab. You don't see it as any conflict at all?

Mr Gillis: No. Why would it be? The fact that we've secured contracts in Australia on the basis of tenders in Australia as a conflict because somebody is a Defence advocate for international exports?

Senator KIM CARR: We're also told that these matters were not appointments. Information about rates of remuneration were commercial in confidence.

Mr Gillis: We don't have the appropriate officer here today. They weren't called at evidence. I'm happy to take that on notice. I manage 16,000—this is one that's not managed in my group. I'm very happy to get—

Senator KIM CARR: I'm just surprised that we were given assurances that all the conflict of interest on these boards and various other matters had been taken into account. Certainly that's how I read the Hansard.

Mr Gillis: I'm more than happy to take that on notice to get an answer back to you.

Answer:

As at 13 June 2018, Defence has 65 active contract notices with Saab in AusTender.

On 9 April 2018, the former Minister for Defence and Senator, the Hon David Johnston, was announced as the first Australian Defence Export Advocate. The Australian Defence Export Advocate will provide international advocacy and play an important role in delivering a national approach to export support. Mr Johnston was engaged using a standard Expert Engagement Agreement, including standard clauses and arrangements for areas such as conflicts of interest, confidentiality, code of conduct and security.

By virtue of the nature of the position, any Advocates engaged need to have a strong knowledge of, and experience with, the Australian defence industry. This means that an Advocate will have links to industry and may have pre-existing roles and relationships. These relationships, coupled with a keen knowledge and understanding of the industry are one of the key strengths that an Advocate will bring to the role.

The Department of Defence has a robust process for managing conflicts of interest and probity, and has undertaken its due diligence in contracting Mr Johnston into this position.

The Australian Defence Export Advocate will not be involved in tender processes for Australian defence capability procurement.

Senate Economics

Parliamentary inquiry –

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: SERC - Future of Australia's naval shipbuilding industry - 7 June 2018 - Q8 - Approach to naval shipbuilding - Patrick

Question reference number:

Senator: Rex Patrick

Type of question: 07 June 2018, 56-57

Date set by the committee for the return of answer: 15 June 2018

Question: Senator PATRICK: Chair, may I have this document provided to the witness?

CHAIR: Yes. It's a document that has been tabled.

Senator PATRICK: Have you seen that diagram before—the top one?

Ms Paul: No.

Mr Finlay: No, I haven't.

Senator PATRICK: We've heard in evidence that that is an industry summary of how modern First World navies conduct shipbuilding. You will see that the only country that is doing a local build with both a foreign designer and a foreign shipyard is in fact Australia. Does that surprise you based on the evidence you have just given me?

Mr Finlay: I am not aware of any capability in Australia to design and build frigates.

Senator PATRICK: I am referring to the diagram. Have a look at the diagram. It clearly sets out the distribution across the world of where the design and the build takes place and where it is done locally. We are an outlier in that diagram, we are unusual.

Ms Paul: I don't think I can even begin to comment on this diagram. I have not seen it before. I don't know where it is sourced from. I don't know what its provenance is. Actually, I can't even read it. I am happy to look at it but I'm not willing to give evidence on it here.

Senator PATRICK: I'm very surprised that you haven't seen it, knowing what you have just said about your strong view about those arrangements. Can you please take it on notice and come back and provide this committee with a view on that diagram. I am happy to give you some details as to its provenance.

Ms Paul: That would probably be helpful.

Answer:

The Board has not been able to satisfy itself about the provenance of the document, nor the accuracy of its content in the time available.