

NAVAL GROUP SUBMISSION

INQUIRY INTO OPPORTUNITIES FOR STRENGTHENING AUSTRALIA'S RELATIONS WITH THE REPUBLIC OF FRANCE

INTRODUCTION

The largest defence procurement in Australia's history, the Australian Future Submarine Program, is underpinning a rapid expansion in defence, economic, industrial and cultural ties between Australia and France.

Naval Group is proud to be playing our part as the international design and build partner for the Attack Class submarines, ushering in a new era of Australian sovereignty and industrial capability.

Although we are early in the Program, the economic benefits are already being achieved in Australia and will continue increasingly for decades to come.

Australia and France have much in common beyond our shared commitment to the rules based international order, democracy, liberty and the rule of law.

The Australia-France relationship has deep historical roots with consular and diplomatic links dating back to 1842. The strength of the relationship however was forged by the Australian soldiers who fought alongside French soldiers during World War 1. Side-by-side over a century ago, in places such as Pozieres, Fromelles, Bullecourt, Ypres, the Somme and Flanders, two nations became forever connected by blood and fate.

France is one of Australia's closest neighbours and has a presence in the Indian and Pacific Oceans with some 1.6 million citizens distributed across its overseas territories of New Caledonia, Polynesia, Wallis and Futuna and La Reunion.

Like Australia, France has Southern Ocean and Antarctic Territories and shares Australia's strategic objectives of achieving security and stability in the Indo Pacific region.

France and Australia are like minded in their approach to global economic and security challenges, evidenced by our cooperation in the Pacific and in the fight against Islamic State in Syria and Iraq. Our Defence Forces cooperate on intelligence and surveillance, disaster relief, joint operations and counter terrorism.

Naval Group recognises that Australia's security and prosperity relies on the Royal Australian Navy's ability to enjoy regional superiority at sea. Through the Australian Future Submarine Program, Naval Group supported by the French Government is delivering 12 regionally superior Attack Class submarines for the Royal Australian Navy. We are helping deliver sovereignty and industrial capacity into the 21st century for Australia.

But more than that, the partnership that has been formed between Naval Group and the Commonwealth is providing ballast to the France-Australia relationship and will result in extensive industrial and technical cooperation and considerable scope for growth in joint naval and military engagement between the two countries for decades to come.

ABOUT NAVAL GROUP

France, through Naval Group, is one of the few nations that possesses end-to-end capabilities to design, build and sustain advanced military submarines and is uniquely positioned as a naval design and construction partner for Australia.

Naval Group employs 15,200 people globally and is a proven exporter of submarines and surface ships. We design, build and maintain the French Navy's nuclear submarines and have supplied conventional submarines for navies in countries such as Brazil, Malaysia, India and Chile, with proven capability to transfer production, technology and know-how.

Naval Group is currently building the Suffren class for the French Navy, with six of the nuclear submarines to replace the six Rubis/Amethyste class boats currently in service. Naval Group and its predecessors have been building surface ships for over 400 years and submarines for more than a century. Submarines are in our DNA.

AUSTRALIAN FUTURE SUBMARINE PROGRAM UPDATE

After a competitive evaluation process, Naval Group (then DCNS) was selected in April 2016 to design and build the next class of submarines for the Royal Australian Navy.

In February 2019 Naval Group signed the Strategic Partnering Agreement (SPA), setting out the principles for cooperation over the life of the program.

The submarine design contract was signed at the beginning of March 2019 and this represents the first work scope under the SPA and will progress the basic concept design developed by Naval Group to a design that fulfils the Navy's functional, operational and performance requirements.

Subcontracts have been awarded for the five major subsystems on the Attack Class submarine. These critical equipment items are generally not produced in Australia however the companies awarded with the contracts, tier 1 suppliers, have undertaken to establish industrial capacity in Australia and will engage local industry to supply components along with opportunities for assembly, test and installation.

Naval Group has committed to a minimum of 60 per cent of Australian Industry Capability for the design and build phases for 12 submarines. From traditional defence suppliers through to other service providers, Naval Group will continue to offer Australian businesses of all sizes the opportunity to participate in the Program. The number of suppliers and jobs will significantly increase as we move towards the build phase from 2023.

As at February 2020, Naval Group Australia has sent 3,207 requests for information and 1,495 Australian companies have responded to an Expression of Interest for critical, main and standard equipment, direct services and submarine construction yard equipment.

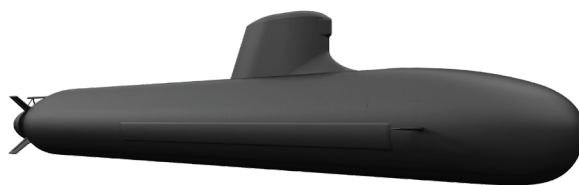
Naval Group is working closely with Australian Naval Infrastructure (ANI) on the submarine construction yard at Osborne in Adelaide, South Australia. We recently announced Australian suppliers Berendsen Fluid Power and H.H Machine Tools Australia will partner with international companies to deliver and sustain the Medium Capacity Press, High Capacity Press and Large Capacity Milling Machines.

These are huge and complex pieces of equipment and these partnerships will result in the creation of an enduring Australian capability, not currently in existence. The Australian companies will be transferred the knowledge, skills, documentation and tools to ensure they become in-country sustainment partners for at least the next 50 years.

Construction of the land based submarine propulsion testbed and the combat systems integration facility are progressing and work on the construction halls, blast and paint workshop, warehousing and other facilities continues throughout 2020.

On the workforce front, Naval Group currently employs over 200 people in Australia within Naval Group's subsidiary in Adelaide and a further 500 skilled personnel are working on the program in France. The program is presenting an exciting opportunity for Australians to contribute to ushering in a new era of sovereignty and to develop technical skills and capabilities never achieved before in Australia. Our direct workforce will grow to 1,800 employees in Naval Group Australia at the height of the program in 2028-29.

Nineteen Naval Group Australia engineers are currently living in Cherbourg, learning the know-how, and know-why of submarine design and there are more planned to join them. They will return to Australia and oversee the detailed design and build phases of the Attack class and contribute to the settlement in Australia of the future design authority for sustainment of the submarines.



TRANSFER OF TECHNOLOGY

When France agreed to transfer much of its sensitive and complex submarine technologies to Australia it committed to providing a sovereign submarine capability that will enable Australia to sustain the fleet for decades to come.

The transfer of technology taking place between France and Australia as a result of the program takes many forms. It encompasses person-to-person knowledge transfer via the Australian engineering teams travelling to France to develop the necessary engineering know-how to return home to form the design authority and implement the build program in Australia.

It is also evident in the firm to firm context via the partnerships being forged between Naval Group's existing suppliers, international suppliers and Australian firms. French and Australian businesses are joining forces to support the in-country development and production of primary and secondary equipment for the submarine.

Companies like Jeumont, which won a sub-contract to design the electric propulsion system for the Future Submarine will establish an Australian subsidiary providing Australian job opportunities. Schneider Electric France which was awarded the contract for the main DC switchboards has also committed to transferring elements of that work package to its Australian subsidiary.

These relationships will take various forms from contractual arrangements to manufacture, distribution or maintenance of equipment to the opening of new subsidiaries and the creation of joint ventures.

Furthermore, there will be opportunities for competitive Australian firms to not only win work on the Attack Class Program, but become part of Naval Group's global supply chain, offering entry into Naval Group's other international markets.

A. INCREASING BILATERAL TRADE AND INVESTMENT, INCLUDING FUTURE GROWTH AREAS FOR EXPORTS AND IMPORTS, AND OPPORTUNITIES IN THE MINING INDUSTRY.

Although the Australian Future Submarine Program is still in the design phase, it is already having a significant impact on the French and Australian economies.

According to a McKinsey report, since DCNS (now Naval Group) won the bid for the Future Submarine Program in February 2016, there has been a significant increase in trade flows between Australia and France. The report found, since 2016, imports from Australia to France increased by 14 per cent and from France to Australia by nine per cent.

According to the Australian Department of Foreign Affairs and Trade, in 2017-18, Australia's two way goods and services trade with France was valued at \$9.9 billion, making France Australia's 17th largest trading partner.

The same year Australia's total investment stock in France was worth \$51 billion making France the ninth ranked market for Australian investment. France's total investment stock in Australia was worth \$28.8 billion.

Australia's merchandise exports to France led by coal, but also including aircraft and parts, amounted to A\$1.6 billion in 2019 while Australia imported from France around A\$5.3 billion in merchandise led by medicines, luxury goods and engineering equipment.

As an expression of faith in the Australian market and to further support the Australia-France economic partnership, Naval Group has established a separate subsidiary, Naval Group Pacific. Naval Group Pacific focusses on opportunities beyond the Future Submarine Program in the areas of research and development and is looking to pursue further defence opportunities in Australia, New Zealand and the Pacific.

The Australia-France trade relationship will continue to grow and Naval Group is proud to be playing our role in helping boost this two-way economic activity.

B. ENHANCING POLITICAL AND DEFENCE COOPERATION INCLUDING THROUGH INITIATIVES SUCH AS THE JOINT STATEMENT OF ENHANCED STRATEGIC PARTNERSHIP BETWEEN AUSTRALIA AND FRANCE SIGNED IN 2017 AND THE STRATEGIC PARTNERING AGREEMENT SIGNED FOR THE FUTURE SUBMARINE PROGRAM

Joint Statement of Enhanced Strategic Partnership 2017

Engagement between France and Australia at the political, defence, industrial, research and economic levels has surged since the signing of the Enhanced Strategic Partnership Agreement between the President of France, Emmanuel Macron, and former Australian Prime Minister Malcolm Turnbull.

The Partnership agreement promotes two-way visits and cooperation in priority areas such as government to government links, defence, security, intelligence, energy, transport and infrastructure, technology and culture and innovation.

Since 2016 the two governments have also signed formal agreements to boost cooperation on military exercises, disaster relief and humanitarian assistance and the sharing of classified information.

The exchanges between Australia and France have lifted significantly since the signing of this partnership, with the McKinsey report finding diplomatic exchanges in the areas of defence, business and research increasing nine-fold.

It is in this context the French and Australian governments committed in December 2016 to the intergovernmental Framework Agreement on the Future Submarine Program.

The agreement commits Australia and France to a long term strategic partnership, recognising the two countries' enduring commitment to the success of the program and the importance of maximising Australian industry involvement.

The French State acknowledges as part of the agreement that it is critical for Australia to achieve an enduring, self-reliant capability for the Future Submarine, and to independently operate, sustain and maintain the capability over the decades ahead.

Strategic Partnering Agreement

The recently released Australian National Audit Office report, Future Submarine Program – Transition to Design, found that the formal arrangements necessary for the effective administration of the Australian Future Submarine Program has been established.

Through the Strategic Partnering Agreement, a fit-for-purpose strategic partnership framework with Naval Group has been achieved and addresses the Government's objectives for the Program.

These objectives include delivering a regionally superior submarine capability and maximising Australian industry involvement through all phases of the program.

The audit found the key formal requirements for a successful long term partnership have been met, including governance, collaboration, the allocation of risk and reward, incentives and remedies, knowledge transfer, cost control and Australian industry objectives.

The audit confirms there is no change to the delivery timeframe or the budget and that appropriate steps are being taken to mitigate risk.

CONCLUSION

Naval Group, with our partners Lockheed Martin Australia and the Commonwealth, will deliver Australia a regionally superior submarine capability to be operated and sustained with sovereignty.

The Future Submarine Program is a nation building project which will contribute to the Australian Government's plan to create a sustainable maritime industry and create thousands of Australian jobs.

The program is already boosting defence, economic and trade ties between France and Australia and will continue to do so well into the future.

