

## Chapter 3

### Competitive tender does not mean a capability gap

#### Recommendation 2

**The committee recommends that the competitive tender process for the future submarines begins immediately.**

**As noted by several independent witnesses, there remains sufficient time to conduct a competitive tender for the future submarines while avoiding a capability gap. This is due to the work on the future submarines undertaken by the previous government.**

**In his evidence, Dr John White set out a timetable that included a competitive tender process, contracting, construction, testing and introduction to service without a capability gap.**

**If followed, this timetable would allow the government obtain the best submarine capability at the best price, while avoiding a capability gap.**

3.1 The firm proposal to purchase 12 conventionally-powered submarines dates back to the 2009 White Paper. In this chapter the committee, considers whether there is sufficient time to conduct a competitive process.

3.2 In his evidence, Dr White submitted that there was still sufficient time 'with adequate contingency' for a competitive PDS to be undertaken. He stated:

Based on analysis confirmed by international reputable shipyards, a 12-year time frame is adequate to implement the entire Future Submarine program for the first of class and to deliver the lead submarine, fully tested and accepted, into Australian service—this fits within the window that we have remaining, which I understand is until 2028—provided that the recommended acquisition strategy is followed, along with experienced industry team members to assist Defence and DMO in timely implementation.<sup>1</sup>

3.3 Having considered the sequence of events and the projects milestones, Dr White formed the view that while there was still time for a competitive process, 'we would have to get on with it—stop investigating things endlessly'.<sup>2</sup>

3.4 Rear Admiral Briggs informed the committee that two years before the first of the Collins goes off the line is now a known date for the future submarines. According

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1 *Committee Hansard*, 13 October 2014, p. 28.

2 *Committee Hansard*, 13 October 2014, p. 31.

to Rear Admiral Briggs, there was enough time to undertaken a competitive PDS.<sup>3</sup> He was of the view that 12 months would be adequate for the government to announce a competitive open tender process.

3.5 He was of the view that the four potential bidders were basically doing designs and indicated that there would be serious doubts if they were not able to give a sensible answer in 12 months.<sup>4</sup>

3.6 In Rear Admiral Briggs' view, there was enough time to complete the acquisition phase including a PDS. He told the committee that 'if we make the right call in the first quarter next year, there is just enough time to do this' and avoid a capability gap.<sup>5</sup>

3.7 According to Commodore Greenfield, the end of Collins' operational life sets the delivery date for the future submarines. He also said that there was enough time to design a submarine specifically for Australia and moreover for the boats to be built in Australia, without there being a capability gap. In his view, there was time to do this, even with a due diligence process, including a funded project definition study:<sup>6</sup>

...the first Collins will complete its next 10-year operational period in mid 2026, and of course the Navy will want to refine that. With Collins, there was a two-year funded project definition study phase, then nine years of design and build before delivery, from 1987—contract award—to 1996. That is nine years plus two for PDS; that is 11 years. Between next year and 2026 is 11 years, and 2028 is 13 years away. I believe there does not have to be a capability gap, provided we just get on with it.<sup>7</sup>

3.8 In addressing the matter of transition and timing and whether there was time to avoid a gap, Commodore Greenfield was convinced that:

As long as work begins immediately, with the assistance of a carefully chosen overseas design/build partner, Australian industry can build a fleet of submarines to world class quality standards, within a period from contract award for the first of class to avoid a capability gap.<sup>8</sup>

3.9 Likewise, Mr Hamilton-Smith argued that there was still time to go through a proper process, to make the right decisions and to have ships in service by the time the Collins was withdrawn.

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3 *Committee Hansard*, 30 September 2014, p. 19.

4 *Committee Hansard*, 30 September 2014, p. 19.

5 *Committee Hansard*, 30 September 2014, p. 10.

6 Commodore Greenfield, *Committee Hansard*, 30 September 2014, p. 24.

7 *Committee Hansard*, 30 September 2014, p. 22.

8 *Submission 18*, p. 2.

3.10 He estimated that a full competitive tender would take 12 to 18 months and that the submarines would be in the water within 10 years. He understood that 'the first of the Collins goes out of life around 2027, so, in his view, there was time to get the process right rather than to rush into an expensive mistake.'<sup>9</sup>

3.11 Mr Stuart Whiley, ASC, drew on the Collins class process to demonstrate that it was possible to have a competitive PDS and still not risk a capability gap. Based on his experience and that of ASC, he stated:

...from contract to delivering Collins was 10 years. The PDS was two years. There is a process to get into the PDS. There is a process to get into contract. In theory you do have enough time to do it before Collins pays off.<sup>10</sup>

3.12 Mr King noted that the timeframe 'would be very quick for a full PDS tender'. He went further to indicate that 'you still have to do the detailed design', telling the committee that a tender 'is still just a promise; it is not a delivered fact'.<sup>11</sup>

## Conclusion

3.13 Evidence overwhelmingly supported a competitive selection process for the future submarine which was anchored in the firm belief that such a process was the only way whereby Australia could truly select the best option for its future submarines.

3.14 A contest between potential bidders challenges them to produce the best product at the most competitive price for Australian taxpayers.

3.15 It also provides the opportunity for Defence not only to compare and validate the various claims but to question its own assumptions about what is deliverable.

3.16 Most witnesses agreed that decisive action must be taken to get the process moving but insisted that there was time for a competitive process where all proposals could be tested and claims validated.

3.17 While the committee agrees that timeliness is of the essence, the risk posed by not undertaking a competitive tender process would be ill-considered and highly risky.

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9 *Committee Hansard*, 14 October 2014, p. 11.

10 *Committee Hansard*, 14 October 2014, p. 28. Mr Whiley is the interim CEO of ASC Pty Ltd.

11 *Committee Hansard*, 30 September 2014, p. 48.

