

The Senate

Economics References Committee

Australia's Sovereign Naval Shipbuilding
Capability: Interim Report

Future Submarine Program: Ringing of Bells,
Wringing of Hands

May 2021

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Terms of Reference

That the following matter be referred to the Economics References Committee for inquiry and report by the last sitting day in June 2020:

Developing and delivering Australia's sovereign naval shipbuilding capability, with particular reference to:

- (a) oversight and scrutiny of the national shipbuilding plan, to support a continuous build of vessels in Australia;
- (b) progress of the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia;
- (c) progress of the Naval Shipbuilding College in building workforce capability, and developing the required skills and infrastructure to design, build, maintain, sustain and upgrade current and future naval fleet;
- (d) ongoing examination of contracts and scrutiny of expenditure;
- (e) the implementation of Australian Industry Capability Plans;
- (f) the utilisation of local content and supply chains;
- (g) the transfer of intellectual property and skills to Australian firms and workers;
- (h) the prospect of imminent job losses and redundancies;
- (i) opportunities and multiplier effects to local jobs and the economy; and
- (j) any related matters.

List of Recommendations

Recommendation 1

2.63 The Commonwealth Government and the Department of Defence report to the Parliament on what discussions were or are being undertaken with Saab/Kockums, or any other alternative submarine builder, about the provision of a *Collins-class* derivative boat, or any other design, as part of a 'Plan B' should the Naval Group agreement be cancelled.

Recommendation 2

2.67 That the Department of Defence provide the Senate Economics References Committee, on a confidential basis, an un-redacted version of the renegotiated Strategic Partnership Agreement with Naval Group for scrutiny.

Recommendation 3

3.69 With the aim of increasing its staff's awareness of their democratic responsibilities:

- the Department of Defence re-examine its induction and training programs and corporate culture regarding its role as a department answerable to the Australian people through the processes of the Australian Parliament; and
- report back to the Parliament on the progress it making on those induction and training programs.

Recommendation 4

3.70 That the Department of Defence provides to the committee in un-redacted form all the documents requested under the Senate's Order of Production of Documents (General Business Motion, No. 786).

Chapter 1

Introduction

Referral to the committee

- 1.1 On 19 September 2019, the Senate referred an inquiry into Australia's sovereign naval shipbuilding capability to the committee for inquiry and report by 25 June 2020. On 24 February 2020, the Senate granted the committee an extension to report by 3 December 2020.
- 1.2 On 12 November 2020, the committee agreed to again extend the inquiry until 30 June 2021. This has been subsequently extended to 2 December 2021.
- 1.3 The Terms of Reference for the inquiry are:

That the following matter be referred to the Economics References Committee for inquiry and report by the last sitting day in June 2020:

Developing and delivering Australia's sovereign naval shipbuilding capability, with particular reference to:

- (a) oversight and scrutiny of the national shipbuilding plan, to support a continuous build of vessels in Australia;
- (b) progress of the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia;
- (c) progress of the Naval Shipbuilding College in building workforce capability, and developing the required skills and infrastructure to design, build, maintain, sustain and upgrade current and future naval fleet;
- (d) ongoing examination of contracts and scrutiny of expenditure;
- (e) the implementation of Australian Industry Capability Plans;
- (f) the utilisation of local content and supply chains;
- (g) the transfer of intellectual property and skills to Australian firms and workers;
- (h) the prospect of imminent job losses and redundancies;
- (i) opportunities and multiplier effects to local jobs and the economy; and
- (j) any related matters.

Conduct of the inquiry

- 1.4 Details of the inquiry were placed on the committee's website. The committee also contacted a number of relevant individuals and organisations to notify them of the inquiry and invite submissions. All submissions received are listed at Appendix 1.
- 1.5 As at the date of tabling, the committee has received a total of 36 submissions and has conducted four public hearings in Canberra:
 - 24 February 2020;

- 14 August 2020;
- 13 November 2020; and
- 5 February 2021.

1.6 Participants at those public hearings are listed at Appendix 2.

1.7 References to *Hansard* in footnotes and other places refer to the Proof versions and may be different to the final Official versions.

This Interim Report

1.8 With the extended reporting date, the committee had been moving towards producing a full report by the end of 2021.

1.9 However, the committee has resolved to produce this Interim Report as it has become increasingly concerned about the status of the Future Submarine Program (FSP) and at the Department of Defence's lack of responsiveness in terms of providing information on that project and others that fall under the scope of this inquiry.

1.10 The report's title, 'Ring of Bells, Wringing of Hands', is derivative of Sir Robert Walpole's famous quote.¹ But unlike Walpole, the bells the committee are referring to are not that of joy—rather that of alarm. As described by former Prime Minister, Malcolm Turnbull MP, the FSP is the largest and most complex defence acquisition Australia has ever undertaken.² Media reports that the Commonwealth government is now considering a 'Plan B'—that is, cancelling the agreement with Naval Group and engaging a new submarine builder is, to the committee, a loudly-ringing alarm bell on the status of this long-term, multi-billion dollar acquisition. Accordingly, the committee feels compelled to share its findings and views with the Australian people through this report.

1.11 At the same time, the committee has also become increasingly frustrated by the Department of Defence's lack of responsiveness to its requests for information. The committee now feels that Defence has impeded its work in examining Australia's sovereign naval shipbuilding program—an inquiry authorised by the Australian Senate. This is not only an affront to the committee but a contempt of the Parliament and, by extension, the Australian people. The committee has now raised a Matter of Privilege through the President of Senate regarding the Department's continued obstructionism.

¹ Walpole made his remark regarding the war against Spain being declared in the mid-18th century. It was also used as a chapter title in Wilson, T., *The Myriad Faces of War: Britain and the Great War, 1914-1918*, Polity Press, 1986.

² Joint Statement by the Prime Minister and Minister for Defence, 26 April 2016, <https://defencesa.com/wp-content/uploads/2020/09/Future-Submarine-Announcement.pdf>, (accessed 20 May 2021).

1.12 This report consists of three chapters: this introductory chapter; a second examining the FSP with the third critically examining Defence accountability and transparency. Although there are only four recommendations, the message of this report is clear—the Commonwealth Government and the Department of Defence must cease obfuscating and inform the Parliament, and thus the Australia people, on the true status of the Future Submarine Project.

Chapter 2

Future Submarines Program: Up the Creek without a Canoe

Introduction

- 2.1 The acquisition of the *Attack-class* submarines through the Future Submarine Program (FSP) has become increasingly problematic since the announcement was made in April 2016 that France's Naval Group (then *Direction des Constructions Navales Services* (DCNS)) had won the bid to partner with Australia to build the future submarine force.
- 2.2 Even prior to that announcement, there had been a great deal of angst on how to proceed with the selection process for an international partner to produce the new boats. Behind closed-doors political discussions with the Japanese Government had produced an expectation by Australia and Japan alike that Japan would be the chosen partner for the project. However, that changed as the then Prime Minister, Mr Tony Abbott MP, came under pressure to consider a wider range of options. From this, the Competitive Evaluation Process (CEP) was born which eventually selected Naval Group as Australia's international partner for the project.
- 2.3 This chapter will review the timeline and the decision making process that brought us to this point. It will also then review the current status of the project and provide committee comment and recommendations.

Timeline

- 2.4 On 26 April 2016, then Prime Minister Malcolm Turnbull announced DCNS would be the preferred international design partner for Australia's FSP. The successful design was Naval Group's Shortfin Barracuda Block 1A conventional submarine, which is based on the French *Barracuda-class* nuclear powered submarine design.¹
- 2.5 On 30 September 2016, a contract worth in the order of \$450–500 million was signed between the Australian Government and Naval Group for the 'design and mobilisation' of Australia's 12 Future Submarines.² This includes the

¹ Naval Group, '[The Shortfin Barracuda Block 1A](#)', Naval Group website, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1920/AttackClassSubmarines, (accessed 24 February 2021).

² Mr Christopher Pyne, then Minister for Defence Industry, '[DCNS submarine contract and combat system integrator announcements](#)', transcript, press conference, Adelaide, 30 September 2016, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

construction of Adelaide's Osborne North submarine facility for this purpose.³ The Turnbull Government also announced Lockheed Martin, following a limited tender process, as the successful tenderer for the combat system integrator contract worth around \$1.4 billion over the life of the project.⁴

- 2.6 The 2016 Defence White Paper (DWP) explained the decision to replace the Royal Australian Navy's (RAN) existing fleet of six *Collins-class* submarines with 12 future submarines, noting that approximately 'half of the world's submarines will be operating in the Indo-Pacific region' by 2035.⁵ The decision to acquire 12 future submarines was developed as part of the white paper preparations under the Force Structure Review (FSR).⁶ An FSR process is typically conducted by the Department of Defence in the development of a new White Paper but is not a public document. However, the key elements of an FSR are integral to a new White Paper.⁷ These elements include an assessment of 'Defence's future capability needs' and the force structure needed 'to achieve Australia's defence objectives'.⁸
- 2.7 The Commonwealth government's Naval Shipbuilding Plan (the Plan) was released on 16 May 2017 (it was originally intended for release in 2016) and was expected to contain further details about the FSP.⁹ However, the Plan

³ Mr Christopher Pyne, then Minister for Defence Industry, '[DCNS submarine contract and combat system integrator announcements](#)', transcript, press conference, Adelaide, 30 September 2016, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁴ Mr Christopher Pyne, then Minister for Defence Industry, '[DCNS submarine contract and combat system integrator announcements](#)', transcript, press conference, Adelaide, 30 September 2016, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁵ Australian Government, [2016 Defence White Paper](#), p. 90, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁶ Department of Defence, [Defence capability plan 2009](#), p. 171, Australian Government, [Defending Australia in the Asia Pacific century: Force 2030](#), pp. 70–71, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁷ Mr Bob Moyse, '[Winning battles and losing wars: the next force structure review](#)', *The Strategist*, Australian Strategic Policy Institute blog, 19 September 2018, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁸ Australian Government, [2016 Defence White Paper](#), p. 14, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

⁹ Following the release of the 2016 Defence White Paper, the Government agreed to an additional Senate Estimates hearing to discuss the white paper. Hansard shows the Government explaining why the *Naval Shipbuilding Plan* was not released with the White Paper as originally intended but was expected at that time to be released later in 2016. Foreign Affairs, Defence and Trade Legislation Committee, [Official committee Hansard](#), 17 March 2016, pp. 3–4; Mr Malcolm Turnbull then Prime Minister, Senator Marise Payne, then Minister for Defence and Mr Christopher Pyne, then Minister for Defence Industry, '[Securing Australia's naval shipbuilding and sustainment](#)

mostly confirmed details already released in the 2016 DWP; notably that the program will be a rolling acquisition rather than a continuous build program and the first submarine is likely to begin construction in 2022–23 and enter service in the early 2030s.¹⁰ The Commonwealth government promised to review the Plan and provide regular updates on its implementation, including through national security statements and naval shipbuilding updates to the Parliament.¹¹

- 2.8 In December 2018, the Morrison Government announced that negotiations between the Commonwealth and Naval Group on the Strategic Partnership Agreement (SPA) had concluded, although the agreement had not been signed. This announcement coincided with the news that the Future Submarines would be called the *Attack-class*, with the first boat named HMAS *Attack*.¹²

The failed contenders

- 2.9 Given the difficulties currently being experienced with Naval Group, it is worth recounting why DCNS/Naval Group was selected ahead of the other contenders: Japan's *Soryu-class* boats; and the German company Thyssen-Krupp Marine Systems' (TKMS) *Type 216* proposal.

Japan: the Soryu-class

- 2.10 The Japanese *Soryu-class* was the initial front-runner for the FSP, due to the apparently good relationship between Prime Ministers Shinzo Abe and Tony Abbott. It would not be unfair to refer to it as the 'Captain's Call' option.
- 2.11 On 9 February 2015, a party room challenge to Tony Abbott's leadership was reported to have resulted in the introduction of the Competitive Evaluation Process (CEP):

The announcement of the long-awaited 'competitive evaluation process' for Australia's \$50 billion submarine project has done little to ease anxiety over the future of the country's naval construction industry.

[industry](#)', Media Release, 16 May 2017, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

- ¹⁰ Australian Government, [Naval shipbuilding plan](#), Department of Defence, May 2017, p. 26; and Australian Government, [2016 Integrated Investment Program](#), Department of Defence, February 2016, p. 82, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.
- ¹¹ Australian Government, [Naval shipbuilding plan](#), Department of Defence, May 2017, p. 112, cited in 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.
- ¹² Mr Christopher Pyne, then Minister for Defence, '[Attack class Future Submarines](#)', Media Release, 13 December 2018. 'Managing SEA 1000: Australia's *Attack-class* submarines', *Parliamentary Library*, Research Paper, 26 February 2020.

The project was thrust to the centre of the national political debate after Prime Minister Tony Abbott was alleged to have promised South Australian Liberal Senator Sean Edwards the project would go to competitive tender in return for Edwards' vote in a leadership spill.

Abbott has since denied any change of policy occurred – other than he was stating the obvious, that government-owned ASC [Australian Submarine Corporation] would be able to bid for the project, probably as partner to the Japanese, the French and the Germans.

But what seems clear is that while initially Mr Abbott was wedded to a 'Made in Japan' approach, which would have had dire consequences for jobs in Australia, Japan's offer to enter a joint partnership with Adelaide-based ASC has given him a political lifeline.¹³

- 2.12 Following that, the *Soryu-class* option remained the favourite boat. An article from May 2015 noted:

Japan, with its brand new 4,000-ton *Soryu-class* stealth submarines all outfitted with a new lithium-ion battery propulsion system, appears to be the frontrunner, with the German company ThyssenKrupp AG (TKMS) the second choice, mostly due to its experience in submarine exports.¹⁴

- 2.13 Interestingly, the same article says: "France is not seen as a serious contender."¹⁵

- 2.14 After Mr Abbott's removal as Prime Minister, the Japanese option became less of a favourite. Media reporting noted:

Once Abbott was ousted from power, Japan was merely one of three bidders and no longer received the political support it was accustomed to from the new Australian government under Malcolm Turnbull and had to revamp its strategy to win the bid. Japanese defence industry representatives were simply out-manoeuvred by their French and German counterparts.¹⁶

- 2.15 The same article went on in some detail on why the Japanese bid failed. The article noted the following:

¹³ 'Submarine program: Abbott and the competitive evaluation process', *Australian Financial Review*, 27 February 2015, <https://www.afr.com/companies/submarine-program-abbott-and-the-competitive-evaluation-process-20150226-13p9rl>, (accessed 3 March 2021).

¹⁴ 'Tokyo's Subs Might Not Be Best Option for Australia', *The Diplomat*, 7 May 2015, <https://thediplomat.com/2015/05/tokyos-subs-might-not-be-best-option-for-australia/>, (accessed 2 March 2021).

¹⁵ 'Tokyo's Subs Might Not Be Best Option for Australia', *The Diplomat*, 7 May 2015.

¹⁶ 'Why Japan Lost the Bid to Build Australia's New Subs', *The Diplomat*, 27 April 2016, <https://thediplomat.com/2016/04/why-japan-lost-the-bid-to-build-australias-new-subs/> (accessed 3 March 2021).

- Picking DCNS over the Japanese proposal was politically more opportune for the then PM Malcolm Turnbull. With an election planned for 2 July 2016, the announcement that the 12 submarines in their entirety (save some specialised parts) will be built in Adelaide was seen as politically advantageous.
 - Japan, however, initially was reluctant to build the submarines in Australia, given Tokyo's general reluctance to transfer sensitive military technology abroad. Although Japan softened its stance in the months prior to the announcement it was, apparently, unconvincing.
- Japan's defense industry was not enthusiastic about selling *Soryu-class* submarines overseas. The two companies producing the boat had only the capacity to meet the domestic Japanese demand for submarines.
 - Due to the Japanese defence industries' inexperience in dealing with international clients, there was also a growing concern in Australia that this could lead to a work culture clash, which would make collaboration on the project unnecessarily difficult.
 - There were also apparently concerns by Australian Defence officials that any deal signed with Japan could be negated by the powerful Japanese bureaucracy, which allegedly was not enthusiastic for the deal and could undo it in the long run.
- The United States had tacitly been supporting the Japanese bid, but then reneged on its opposition to the European contenders. There had, apparently, been opposition by the United States in terms of allowing its most advanced weapons systems to be installed on European-made submarines, but that opposition was dropped.
- There was also an argument that the Naval Group boat would better meet Australia's needs than the Japanese submarines, although it remains to be seen how difficult a swap from nuclear power to a conventional system will be.
 - Concerns were raised over the shorter patrol range of the *Soryu-class* sub in comparison to the current *Collins-class* and the *Soryu's* lower transit speed, as well as the integration of a US combat system and weapons into the Japanese hull.
- The Australian submariner community was, apparently, sceptical of the *Soryu-class* submarines throughout the bidding process as, on average, Japanese submarines are constructed to last for around 19 years, whereas the Australian government expects at least a 30-year active service life span. Furthermore, the Japanese boats also have much less accommodation space than *Collins-class* boats.¹⁷

¹⁷ 'Why Japan Lost the Bid to Build Australia's New Subs' *The Diplomat*, 27 April 2016.

Germany: TKMS and the Type-216

2.16 TKMS is a long-standing submarine manufacturer and has constructed 161 boats for 20 navies around the world including more than 50 built in customer countries that have also benefited from a philosophy of technology transfer.¹⁸

2.17 According to media reporting, the TKMS proposal was rejected mainly because of noise issues with the boat's design. Reporting in *The Australian* from 2016 indicates that their proposed submarine was 'too noisy' and at a particular frequency. However, this was met with some scepticism from the TKMS designers. Indeed:

The Germans were told that the 'critical issue' was that their submarine was too noisy.

Specifically they were told, with deliberate vagueness, that the boat would be too noisy at a particular frequency that was very important to the Royal Australian Navy [RAN]—an apparent reference to the submarine's ability to collect close-to-shore intelligence without detection.

The Germans countered by asking what the frequency was and why it was not emphasised in the bidding process.

The Australians responded that this information was classified, but that they were not convinced TKMS understood the significance of this issue for Australia. They said the problems with stealth meant that the German proposal could never have delivered a regionally superior submarine for Australia.

The Germans persisted, asking 'where the excess noise was coming from —internal machinery, the propellers, the hull?'

Again the Australian officials declined to comment.

One German observer said: "The might of Germany's military-industrial complex could easily solve a technical issue like this if only the Australians had been more forthcoming about the issue itself before we submitted the bid."¹⁹

2.18 While the Australian officials did, apparently, agree that TKMS had put forth an excellent plan for the local defence industry to sustain the boats, they also pointed to other issues:

¹⁸ 'Why German company ThyssenKrupp Marine Systems wants Australia's Future Submarines contract', *The Australian*, 23 May 2015, <https://www.news.com.au/technology/innovation/inventions/why-german-company-thyssenkrupp-marine-systems-wants-australias-future-submarines-contract/news-story/e3c91bf78671e213421e4e44d8de21c4>, (accessed 2 March 2021).

¹⁹ 'The Sound of Silence – why Germany lost its subs bid', *The Australian*, 30 May 2016, <http://www.theaustralian.com.au/national-affairs/defence/the-sound-of-silence--why-germany-lost-its-subs-bid/news-story/4b3d69b49a8371e9837ed59e4f0faac2>, (accessed 30 March 2018).

The Australians told them [TKMS] the pre-concept design submitted to Defence at the end of November last year was 'not balanced' and design optimisation 'was not achieved'.

They said they had reservations about the safety of the proposed lithium ion batteries that were to be installed on both the German and the Japanese submarines...

The Australians also expressed scepticism about the ability of TKMS to upscale the size of both its Siemens motors and its submarine hulls to build a 4,000-plus tonne submarine—almost double the size of previous submarines built by the company.

[TKMS's] cost projections were overly optimistic, including their claim that there would be only a negligible premium for building all of the submarines in Australia.

Germany's bid claimed that the price of building eight submarines (not including the combat system) would be just less than \$12 billion, while 12 submarines including the combat system would cost \$20 billion.

Defence sources say the Australian delegation told the Germans in the Kiel debriefing that this cost estimate did not reflect the technical challenges and was 'well below expectations'.

TKMS had argued that building all 12 submarines in Australia would cost no more than building them all in Germany. This contrasted with internal [Australian] government estimates of about a 15 per cent premium on costs for an Australian build.²⁰

Vive la France: Why the French boat won

2.19 Kym Bergmann, writing in June 2016 for the Australian Strategic Policy Institute (ASPI), produced a succinct summary on why the DCNS/Naval Group proposal was successful. In doing so, Mr Bergmann noted that:

...the CEP was more about selecting a long-term design partner able to help Australia develop sovereign capability than it was about a particular product. The combination of the expertise in DCNS itself, coupled with the French Navy, the highly influential and well-resourced *Direction générale de l'armement* (DGA), and the military research community is a formidable pool of talent.²¹

2.20 Mr Bergmann commented that the French enjoy a technology advantage over the German and Japanese designers is their familiarity with issues around propelling large submarines, having built boats with up to 14,000 tonnes displacement.

2.21 Further, while their German and Japanese counterparts continue to rely on conventional propellers France—together with the US and Britain—are

²⁰ 'The Sound of Silence – why Germany lost its subs bid', *The Australian*, 30 May 2016.

²¹ Kym Bergmann, 'SEA 1000: why the French won', 15 June 2016, *Australian Strategic Policy Institute* (ASPI), <https://www.aspistrategist.org.au/sea-1000-french-won/>, (accessed 18 March 2021).

moving or have moved to pumpjet or propulsor technology. Mr Bergmann explained:

...at higher speeds propellers are prone to cavitation—basically water boiling at the edges of the blades due to the enormous pressure being generated—which in turn makes a distinctive noise that enemy sonars are able to detect. While conventional submarines spend most of their time on station at slow speeds—where the acoustic performance of propellers and propulsors is similar—when they do need high speed it's typically at a moment of crisis. To be able to accelerate to maximum speed silently, while simultaneously turning and changing depth, is a great advantage for a big submarine if it is trying to escape in a hostile environment.

Because of the limitations of propeller technology for large submarines, we can likely conclude that the approach of DCNS in utilising their access to the most sensitive nuclear submarine technologies gave them a distinct advantage.²²

2.22 More nebulously, there has been a suggestion that the French option also opened the door to the RAN to eventually acquire nuclear-powered submarines:

...while Germany and Japan are excellent builders of conventional submarines, France is a first-class builder of conventional and nuclear boats.

Several commentators, including Peter Jennings, have raised the possibility of Australia eventually moving to nuclear powered submarines and a consensus is slowly emerging that at the very least this possibility needs to be open to discussion. If that does come to pass, having DCNS as part of the team will make an eventual transition relatively easy.²³

2.23 The move towards lithium-ion batteries was also an area of concern. Although lead-acid batteries are 'old-technology', they are still seen by many as the safer option when it comes to submarines:²⁴

While Germany and Japan are planning to move to lithium ion batteries in their conventional submarines, France is leery of doing so. This suspicion of lithium ion storage is shared by the USN [United States Navy] and could have had an influence on the decision.²⁵

²² Kym Bergmann, 'SEA 1000: why the French won', 15 June 2016, *Australian Strategic Policy Institute*

²³ Kym Bergmann, 'SEA 1000: why the French won', 15 June 2016, *Australian Strategic Policy Institute*.

²⁴ See: 'Lithium-ion Batteries (LIB): Opportunities and Threats', *Naval Technology*, 12 June 2020, <https://www.naval-technology.com/comment/lithium-ion-batteries-lib/>; 'Lithium-ion Batteries: Weaknesses', *Naval Technology*, 4 June 2020, <https://www.naval-technology.com/features/lithium-ion-batteries-weaknesses/>; and Paul Greenfield, 'The *Attack-class* submarine battery debate: science fiction or engineering?', 31 August 2019, *Australian Strategic Policy Institute (ASPI)*, <https://www.aspistrategist.org.au/the-attack-class-submarine-battery-debate-science-fiction-or-engineering/>, (all accessed 18 March 2021).

²⁵ Kym Bergmann, 'SEA 1000: why the French won', 15 June 2016, *Australian Strategic Policy Institute*.

2.24 Moreover, the initial decision to use lead-acid batteries doesn't necessarily mean that this will remain the case during the entire project. Mr Greg Sammut, General Manager, Submarines, at Senate Estimates explained:

We are using proven technology in these submarines to meet the capability requirements of Navy. I think that is what we must understand in the first instance. We are not making compromises to meeting capability requirements by simply choosing technologies. We are also being very mindful of the risks that attend the use of new technologies in something as complex as a submarine. So if we were to take the battery as an example, yes, the first future submarine will be delivered with a lead acid battery. We need to make that decision now because, if we don't make that now, the boat's design will not be completed and, if the boat's design isn't completed in sufficient time, we won't be able to commence building and to deliver the boat by the early 2030s.

What's important to understand is that, in choosing the battery technology that we've chosen, we are still meeting Navy's capability requirements when it comes to parameters such as dive endurance, range and so forth. We will continue, as we are currently doing now, to look at new battery technologies. Indeed, we have an established and funded science and technology program that is looking into a number of battery chemistries, including lithium-ion, but there are other promising technologies out there, such as nickel-zinc. When these are sufficiently mature and we agree they can be safely incorporated into the submarine to meet the seaworthiness requirements of Navy, which go to the safety of our crews at sea as well as meeting capability requirements or expanding the capability of the boat because of the advantages that new technology might bring, we will have the option to incorporate that, because, as I said earlier, we are building a submarine with margins to be able to incorporate new technology into the future.²⁶

2.25 Australia has, according to Mr Bergmann, had a positive experience with French companies through the *Collins-class* submarines:

Major French companies such as Thales and Sagem are already on the *Collins*, supplying a number of critical hi-tech items such as the entire sonar suite and the ring laser inertial navigation systems. Those companies have met or exceeded all of their targets for industry development, technology transfer and, in the case of Thales, re-export of sonar technology to France and Britain.²⁷

2.26 Finally, France was also very pro-active in promoting its bid with high-level engagement from both the French Government and industry. Reporting from March 2016 explained that:

France has sent its largest business delegation in nearly two decades to Australia, spruiking the economic benefits of its bid for the [US]\$38 billion contract to build a fleet of 12 stealth submarines for Australia.

²⁶ *Hansard*, Senate Estimates, Wednesday, 24 March 2021, p. 63.

²⁷ Kym Bergmann, 'SEA 1000: why the French won', 15 June 2016, *Australian Strategic Policy Institute*.

Executives from French corporate giants Airbus, BNP Paribas, Thales and dozens more arrive in Canberra on Tuesday for meetings with top Australian government and business figures.

...

The French visit, which includes top officials from state-controlled naval contractor DCNS, is part of a process of growing strategic and economic ties with Australia, said French ambassador Christophe Lecourtier, and not limited to submarines.

"We're not just offering a submarine design, but also a broader alliance between our business communities, between our governments, to face some of the most tricky challenges of this century."²⁸

Issues with the French boat

The Pumpjet

- 2.27 The French boat would appear to have been chosen primarily on its pumpjet propulsion system which is reputedly quieter than the conventional propellers that drive their Japanese and German counterparts.
- 2.28 The pumpjet, however, has a larger power requirement at low speed than conventional propellers and the *Attack-class* will be one of the few diesel-electric powered boats that use this propulsion system. The use of pumpjets on diesel-electric boats has been limited: the Russian Navy has one *Kilo-class* submarine in their Baltic fleet that is fitted with a pumpjet;²⁹ and the French also fitted a pumpjet to an *Agosta-class* submarine³⁰, though it is understood to have been part of a test program that was later removed. This has raised questions on their efficiency and suitability for the *Attack-class* design.
- 2.29 Trendlock Consulting published a detailed analytical paper specifically about the pumpjet for the *Attack-class*:

Much has been made of the significance of the pumpjet in the DCNS (now Naval Group) bid for the submarine, to the extent that it has been claimed that the pumpjet rendered propellers obsolete, and features extremely prominently in all the marketing and literature. It seems to be accepted knowledge that the proposal from Naval Group (formerly DCNS) was

²⁸ 'France sends team to push \$38-billion sub deal with Australia', 14 March 2016, *The Hindustan Times*, <https://www.hindustantimes.com/world/france-sends-team-to-push-38-billion-sub-deal-with-australia/story-YnrDPHL0LaI66zZ77TKxgN.html>, (accessed 19 March 2021).

²⁹ 'Repair of Pump-Jet Equipped *Kilo-class* Diesel-Electric Submarine *Alrosa* to be completed in 2015', *Naval Recognition* website, 22 October 2015, <https://www.navyrecognition.com/index.php/naval-news/naval-news-archive/year-2015-news/october-2015-navy-naval-forces-defense-industry-technology-maritime-security-global-news/3182-repair-of-pump-jet-equipped-kilo-class-diesel-electric-submarine-alrosa-to-be-completed-in-2015.html>, (accessed 28 May 2021).

³⁰ Morrison, A., 'A comparison of pumpjets and propellers for non-nuclear submarine propulsion', Trendlock Consulting, January 2018, p. 3 & p. 41., <https://s3-ap-southeast-2.amazonaws.com/submarines-paper/Final.pdf>, (accessed 29 March 2021).

selected because of its acoustic superiority with the pumpjet apparently comprising the jewel in the crown.³¹

2.30 Trendlock's analysis concluded:

...it is extremely unlikely that at some very low speeds, where conventional propellers experience no cavitation and enjoy steady, smooth flows over the blades, that a pumpjet could actually have a lower acoustic signature, even in terms of radiated noise. Flow separation demands that two or three times as much energy is wasted by a pumpjet creating and destroying these unsteady vortexes than a propeller would require to create equal thrust. Consequently, the claim that pumpjets are generally acoustically superior should be treated with some caution. This claim has strong grounds wherever a conventional propeller might experience cavitation, such as at higher speeds. But at some very low speeds it is unlikely to be true.

Overall, it seems unlikely that the full range of consequences of pumpjet choice have been fully comprehended by the Australian government. The scale of the probable impact on range and endurance is quite probably so substantial that it is difficult to see how such a performance penalty is consistent with the government's stated aim of acquiring a regionally superior submarine.³²

2.31 Other analysts also raised questions on the effectiveness and suitability for a pumpjet on a diesel-electric submarine.³³

2.32 Defence responded to these concerns on 7 September 2018 through a six page response to a Question on Notice. They stated:

Pumpjets were not common on small diesel-electric submarines as they were heavier than conventional propellers and therefore not compatible with the weight balance of these smaller vessels. However, as the size of the submarine increases, a pumpjet can be accommodated, bringing its attendant advantages over conventional propellers....

The predicted performance of a submarine pumpjet needs to be assessed with regard for the hydrodynamic performance of the submerged submarine, having considered how the design of the pumpjet has been matched to the hull design to optimise the overall performance of the submarine for its intended roles...

³¹ Morrison, A., 'A comparison of pumpjets and propellers for non-nuclear submarine propulsion', *Trendlock Consulting*, January 2018, p. 3.

³² Morrison, A., 'A comparison of pumpjets and propellers for non-nuclear submarine propulsion', *Trendlock Consulting*, January 2018, pp. 7–8.

³³ McMahon, A., 'Uncertainty over Future Submarine design', *Defence Connect*, 13 October 2017, <https://www.defenceconnect.com.au/maritime-antisub/1383-uncertainty-over-future-submarine-design> (accessed 1 April 2021); Davies, A., 'Pump up the pumpjet?', ASPI, *The Strategist*, 3 November 2017, <https://www.aspistrategist.org.au/pump-up-the-pump-jet/> (accessed 1 April 2021).

Notably many of these characteristics are classified and must remain so to protect all of the benefits that Australia will leverage to promote the regional superiority of the Future Submarine...

Australia's geostrategic circumstances continue to require a larger conventional submarine than those currently produced for export to other parts of the world. The design of the Future Submarine is progressing to plan, and its size remains appropriate to the inclusion of a pumpjet that can be designed to optimise the performance of the submarine for its intended roles...

Its size remains appropriate to the inclusion of a pumpjet that can be designed to optimise the performance of the submarine for its intended roles.³⁴

- 2.33 Moreover, as noted in the 2018 committee report, Naval Group and Defence officials further dismissed concerns about the pumpjet. Naval Group's Chairman Hervé Guillou stated that pumpjet propulsion means the submarine can 'move more quietly than those with obsolete propeller technology'.³⁵ Similarly, the Head of the FSP, Rear Admiral Greg Sammut commented that pumpjet propulsion 'can be efficient across the entire speed range, taking account of submarine's size, the speed required and stealth'.³⁶

FSP as a 'high-risk' project

- 2.34 The Australian National Audit Office (ANAO) noted that the design and construction of the Future Submarine fleet represents the largest Defence procurement in Australia's history. Defence has described it as a 'megaproject' by all international standards and the most challenging acquisition program it has undertaken, the success of which will be driven by preparations during the design phase. The decision not to acquire a military-off-the-shelf submarine platform, and instead engage a 'strategic partner' to design and deliver the

³⁴ Document 40: Answer to questions on notice (Q8) from a public hearing in Canberra on 7 June 2018, received from Defence on 7 September 2018, pp. 5–6, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Navalshipbuilding45th/Additional_Documents, (accessed 1 April 2021).

³⁵ Nicole Brangwin and David Watt, Parliamentary Library, Future submarines – pump-jet, 27 February 2018, p. 3. Brendan Nicholson, 'The Strategist Six: Hervé Guillou', Australian Strategic Policy Institute, The Strategist, 25 October 2017, <https://www.aspistrategist.org.au/the-strategist-six-herve-guillou/>, (accessed 20 April 2018) cited in 'Future of Australia's naval shipbuilding industry', Senate Economics References Committee Report, June 2018, p. 14, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Navalshipbuilding45th/Report, (accessed 29 April 2021).

³⁶ Brendan Nicholson, 'The Strategist Six: Greg Sammut', Australian Strategic Policy Institute, The Strategist, 31 October 2017, <https://www.aspistrategist.org.au/the-strategist-six-gregsammut/> (accessed 20 April 2018) cited in 'Future of Australia's naval shipbuilding industry', Senate Economics References Committee Report, June 2018.

submarines with significant Australian industry input, has, according to ANAO, increased the risk of this acquisition.³⁷

2.35 The ANAO report also noted that Defence, too, has concluded that the overall assessment of risk for the FSP is 'high'.³⁸

2.36 The *Attack-class* will effectively be a new design, and not simply a re-engined boat:

Gerard Autret, chief naval architect of the *Shortfin Barracuda*, emphasised that the Future Submarine would not be a conversion of the nuclear-powered *Barracuda*, but a new design using the *Barracuda* as its design reference....

'One submarine is not converted to another. Rather, a design reference is selected and an iteration of a new design is developed to meet the requirement with interpolation of known data and the re-use of proven technologies,' Autret said.³⁹

2.37 At Senate Estimates on 24 March 2021, Vice-Admiral William Hilarides, Naval Shipbuilding Expert Advisory Panel Member, acknowledged that:

All new shipbuilding programs, particularly the lead ship when you are doing design and then construction—everyone that I have ever been associated with in the US, in UK, in Australia—have had very high risks to be managed, yes.⁴⁰

Australian industry and content

2.38 The commercial relationship between Defence and Naval Group commenced with the FSP Design and Mobilisation Contract which was signed on 30 September 2016. The overarching arrangements with Naval Group in relation to the FSP were subsequently set out in the Future Submarine Strategic Partnering Agreement (SPA) signed by Defence and Naval Group on 11 February 2019.⁴¹

2.39 Defence identified 12 specific goals that the rights, remedies and incentives in the SPA aim to achieve.⁴²

2.40 Goal 10 of that agreement states:

³⁷ Australian National Audit Office (ANAO), *Future Submarine Program — Transition to Design*, <https://www.anao.gov.au/work/performance-audit/future-submarine-program-transition-to-design>, pp. 7–8, (accessed 16 March 2021).

³⁸ ANAO, *Future Submarine Program — Transition to Design*, p. 9.

³⁹ Julian Kerr, 'Attack-class—Plan of action', *Australian Defence Magazine*, 10 October 2019, <https://www.australiandefence.com.au/defence/sea/attack-class-plan-of-action>, (accessed 13 April 2021).

⁴⁰ *Senate Hansard*, Wednesday 24 March 2021, p. 14.

⁴¹ ANAO, *Future Submarine Program — Transition to Design*, p. 7.

⁴² ANAO, *Future Submarine Program — Transition to Design*, p. 28.

The contractual framework promotes the establishment of a sustainable industry base in Australia with maximum opportunities for involvement in the delivery and sustainment of the *Attack-class* fleet without unduly compromising cost, capability or schedule.⁴³

2.41 ANAO analysis of the Strategic Partnering Agreement provisions states that:

Naval Group is required to:

- deliver an Australian Industry Program and to prepare an Australian Industry Capability strategy and Australian industry capability plans for each stage of the Future Submarine Program detailing plans, procedures, responsibilities and timeframes for the development of Australian industry; and
- utilise Australian industry, and develop an Australian industry base; and establish and maintain a sustainable supply chain.⁴⁴

2.42 On Thursday 13 February 2020, *The Australian* reported the following story based on comments by the Chief Executive Officer of Naval Group Australia, Mr John Davis:

Mr Davis was unable to say whether the boats' Australian industry content would reach 50 per cent. He said the company, which is set to begin construction in 2022, was encountering "specific challenges" regarding Australian industry that were "new to Naval Group".

"We didn't know the Australian market before we joined the program," he said. "Now we have a much deeper insight, and we recognise there is a lot more work to be done than we anticipated."

Rather than maximising Australian content in the finished submarines, the first of which is scheduled for delivery in 2032, Mr Davis said the contractor was obliged to develop the capabilities of the local industry.

"I don't have the ability to prophesise on (content)," Mr Davis said. "What I will say is we have a commitment to Australian industry capability, and we will deliver on that."⁴⁵

2.43 Also on Friday 14 February 2020, the ABC published an article detailing responses to Mr Davis' comments.⁴⁶ Defence Minister Reynolds is quoted as being 'disappointed', and the article notes the original commitment in 2016 by Naval Group Australia (then DCNS) to 90 per cent of construction in

⁴³ ANAO, *Future Submarine Program — Transition to Design*, p. 31.

⁴⁴ ANAO, *Future Submarine Program — Transition to Design*, p. 31.

⁴⁵ 'French tell subs firms to shape up', *The Australian*, 13 February 2020, <https://www.theaustralian.com.au/nation/defence/french-tell-subs-firms-to-shape-up/news-story/9fe9d2d67ca9f4877b86bfdd21140de9>, accessed 18 February 2020.

⁴⁶ 'Defence jobs in limbo as industry faces uncertainty over future submarines build', *ABC News*, 14 February 2020, <https://www.abc.net.au/news/2020-02-14/future-submarines-job-uncertainty-for-australian-companies/11961886>, accessed 18 February 2020.

Australia,⁴⁷ compared with a figure of 'well above 60' given by former Defence Minister, Mr Christopher Pyne, in 2018:

Senate Estimates has also heard the submarine replacement project does not include a set percentage for the amount of Australian content that would be included.⁴⁸

Mr Pyne last year declared the percentage of 'Australian content' in the submarine deal would be well above 60 per cent.

But Defence's submarines general manager, Stephen Johnson, told the Senate it was too early to set a percentage.

"It's a sequential event so it's a flawed strategy to set a per cent before you have enough information," he said.

Mr Johnson said a percentage had never been put on the table in discussions with the Naval Group.⁴⁹

- 2.44 In response to Mr Davis' original remarks, a Joint Statement by the Department of Defence and Naval Group on the amount of Australian industry content in the *Attack-class* submarine program was published on 13 February 2020.⁵⁰
- 2.45 On Thursday 20 February 2020, the *Adelaide Advertiser* reported the Chief of Navy, Vice-Admiral Michael Noonan, stating that while the Navy was committed to 'striving' to have the greatest possible amount of local content, a percentage target was not helpful.
- 2.46 In August 2020, six months after the commitment by Naval Group was given, there had still been no formal agreement for that figure.
- 2.47 On 24 February 2021, the ABC reported that Defence Minister Linda Reynolds has expressed 'frustration' and 'disappointment' with Naval Group over its handling of the FSP. A year after Naval Group pledged to spend 60 per cent of

⁴⁷ "More than 90 per cent of the work to construct 12 new naval submarines will be done in Australia and will require a new factory bigger than Adelaide Oval, an executive from the French firm that will build the vessels says.

'Submarines: 90 per cent of build to occur in Australia, DCNS says after securing \$50bn contract', *ABC News*, 26 April 2016, <https://www.abc.net.au/news/2016-04-26/submarines-factory-to-be-bigger-than-adelaide-oval/7360906>, accessed 18 February 2020

⁴⁸ The relevant Senate Estimates testimony is from 20 February 2019 before the Foreign Affairs Defence and Trade Committee

⁴⁹ 'All Collins Class submarines likely need upgrade before \$50b French-built replacements arrive', *ABC News*, 20 February 2019, <https://www.abc.net.au/news/2019-02-20/navy-chief-collins-class-submarine-upgrades-future-subs/10829580>, accessed 18 February 2020.

⁵⁰ 'Naval Group and Defence issue joint statement', *Australian Defence Magazine*, 13 February 2020, <https://www.australiandefence.com.au/defence/sea/naval-group-and-defence-issue-joint-statement> (accessed 14 April 2021).

the contract value on local suppliers, the Naval Group had yet to enshrine that figure in a formal agreement with the Australian Government.⁵¹

- 2.48 On 17 March 2021, the *Australian Financial Review* (AFR) reported that deal between Defence and Naval Group had been completed, but that the details were to be kept secret.⁵²

An agreement obliging French submarine builder Naval Group to spend 60 per cent of its funding with local suppliers will be kept secret, angering the defence industry that would like to track progress against the company's promises.⁵³

- 2.49 At Senate Estimates on 24 March 2021, Defence officials testified that there had been no specific commitment in the original SPA and that the re-negotiated SPA now has a commitment is to get to a minimum of 60 per cent by the end of the 12 boats.⁵⁴ The first boat may have less than 60 per cent, with a steady increase in the remaining boats so that, at the end of the project in the 2040s or 2050s, there will be a total of 60 per cent local industry content.⁵⁵

- 2.50 Moreover, it was also revealed that the Minister hadn't seen the SPA revisions:

Senator WONG: Mr Pommellet, was there an intention that there be a joint announcement between the minister and him?

Mr Sammut: No.

Mr Moriarty: Not to my knowledge.

Senator WONG: Senator Payne, have you seen the updated contract?

Senator Payne: I haven't seen the contract itself.

Senator WONG: Have you seen the new clauses?

Senator Payne: No.

Senator WONG: Has the minister seen the new clauses?

Senator Payne: I've taken advice from the department on the clauses and I was in consultations with the secretary over the weekend on it.

Senator WONG: Has the minister—not the acting minister but the minister—seen the new clauses?

⁵¹ 'Government frustrations and concerns grow over Australia's multi-billion-dollar submarine and warship programs', *ABC News*, 24 February 2021, <https://www.abc.net.au/news/2021-02-24/government-frustrations-future-frigate-warship-fleet-program/13184064>, (accessed 24 February 2021).

⁵² 'Submarine local content deal to remain secret', *Australian Financial Review*, 17 March 2021, <https://www.afr.com/politics/federal/submarine-local-content-deal-to-remain-secret-20210315-p57ar9>, (accessed 17 March 2021).

⁵³ 'Submarine local content deal to remain secret', *Australian Financial Review*, 17 March 2021.

⁵⁴ Mr Greg Sammut, General Manager, Submarines, Foreign Affairs and Defence, *Senate Estimates Hansard*, 24 March 2021, p. 89.

⁵⁵ Mr Greg Sammut, *Senate Estimates Hansard*, 24 March 2021, pp. 90–91.

Mr Sammut: Not to my knowledge, no. We haven't sent the clauses to the minister for approval.⁵⁶

So it goes...

- 2.51 In late November 2020, Mr Jean-Michel Billig, executive director of the FSP, left the position after three years. The AFR reported that his departure came after several years of tension with the Defence Department—Mr Billig had reportedly 'clashed' with Australian officials. The AFR also reported that at one point during the negotiating of the Strategic Partnering Agreement the Australian Government had wanted Mr Billig removed.⁵⁷
- 2.52 The AFR had earlier reported that Prime Minister Scott Morrison was also exasperated over the FSP's status, with tensions rising between the Department of Defence and the Naval Group. The catalyst for the government's frustration was the next phase of the contract, which involves carrying out detailed design of the future submarine. While the Department of Defence had anticipated this stage would cost about \$2.5 billion to \$3 billion, it is understood Naval Group's costing is about 50 per cent higher, 'shocking' the government.⁵⁸
- 2.53 In response, the AFR reported that:

While the government has been frustrated over delays completing Naval Group's promise to spend 60 per of its contract value with local suppliers, the two parties had also been unable to reach agreement over the detailed design phase of the contract which is worth between \$2 billion and \$3 billion.

One source said an in-principle agreement has been reached, with a view to signing the contract by April 1, after Naval Group instructed its departments to pare back spending.

One area cut is training. About 150 welders from Australia had been expected to go to France to learn the specialist welding techniques required for the hull to withstand the stresses of underwater pressure, but this has been cut right back.

⁵⁶ *Estimates Hansard*, 24 March 2021, p. 92.

⁵⁷ 'French submarine boss exits troubled \$80b project', *Australian Financial Review*, 24 November 2020, <https://www.afr.com/politics/federal/french-submarine-boss-exits-troubled-80b-project-20201124-p56hdj> (accessed 24 February 2021). See also: 'Defence torpedoes French submarine boss', *Australian Financial Review*, 25 November 2020, <https://www.afr.com/politics/federal/defence-torpedoes-french-submarine-boss-20201125-p56htm> (accessed 24 February 2021).

⁵⁸ 'Shot across the bows on submarine contract', *Australian Financial Review*, 18 January 2021, <https://www.afr.com/politics/federal/shot-across-the-bows-on-submarine-contract-20210117-p56uo9>, (accessed 24 February 2021).

Some of this hands-on training will now be taught using a simulator, with just supervisors travelling to France. This could add to construction costs and delays because welders would need to redo work not up to scratch.⁵⁹

2.54 The AFR also reported that the Department of Defence considered entering talks with Swedish defence company Saab, which owns the *Collins-class* submarines designer, Kockums, about doing an evolved design known as 'Son of Collins' as a contingency plan.⁶⁰

2.55 On 27 April 2021, the AFR further reported that:

The Defence Department is refusing to sign new contracts with French shipbuilder Naval Group over the troubled future submarine project, as Prime Minister Scott Morrison and Defence Minister Peter Dutton stamp their authority by demanding all major strategic decisions be routed through their offices.

Sources have told *The Australian Financial Review* the Morrison government is refusing to pay Naval Group's profit margin on the project and is covering just the company's costs, forcing the shipbuilder to shed contractors and threatening to see work grind to a halt...

While the government and Naval Group finally secured an agreement last month for the company to spend at least 60 per cent of the total contract value on local suppliers, the two sides remained deadlocked over the next stage of the project, the detailed design.⁶¹

Committee comment

Overall comment

2.56 It seems abundantly clear that all is not well with the FSP. There has been little good news since the April 2016 announcement that DCNS (now Naval Group) had been selected as the international partner to design and build the nation's new fleet of submarines. Since then, here has been nothing but delays, cost blow-outs, changes of personnel driven by dissatisfaction with the program's outcomes, secret agreements on local industry content way below the level

⁵⁹ 'Submarine skills training suffers as Naval Group cuts costs', *Australian Financial Review*, 2 March 2021, <https://www.afr.com/politics/federal/submarine-skills-training-suffers-as-naval-group-cuts-costs-20210226-p57621>, (accessed 2 March 2021).

⁶⁰ 'Shot across the bows on submarine contract', *Australian Financial Review*, 18 January 2021.

The AFR article infers that the *Collins-class* submarines were built by Swedish company Kockums, now Saab/Kockums, which is incorrect. Kockums were the designer of the *Collins-class* submarines and originally the design authority. The six submarines were built by the Australian Submarine Corporation (ASC) in Osborne, South Australia. Kockums did construct some sections which were incorporated into the first submarine of the class, *HMAS Collins*.

⁶¹ 'Fresh fight over contracts another blow for \$90b submarine project', *Australian Financial Review*, 27 April 2021, <https://www.afr.com/politics/federal/fresh-fight-over-contracts-another-blow-for-90b-submarine-project-20210426-p57mcp>, (accessed 27 April 2021).

initially promised, and a strained relationship between Defence and Naval Group.

The decision to go with Naval Group

- 2.57 In reviewing the reasons why the French proposal was chosen, and the others not, there seems to be some credible reasons why the Japanese boat was not chosen. Its anticipated 19 year lifespan compared to the 30 required by the RAN and the lack of experience Japan has in exporting its military technology worked against the Japanese proposal.⁶² Indeed, the Senate Economics Reference Committee recommended in 2014 against any Military-Off-The-Shelf (MOTS) option for the FSP, including the Japanese *Soryu-class* boats.⁶³
- 2.58 The rejection of the German option appears less obvious. A long-standing and experienced builder and exporter of quality submarines,⁶⁴ TKMS offered an apparently good package including a fixed-price of no more than \$20 billion.⁶⁵

⁶² A contrary point of view was ventured by Mark Dodd, senior media adviser to the former Minister for Defence, David Johnston, in 2014-15, who argued that the Japanese option remained a better option than that of Naval Group:

"Billions of dollars would be returned to the taxpayer if the government selects Japan's *Soryu*, a 4200-tonne boat which will more than adequately meet the 2016 Defence White Paper requirements for 12 "regionally superior" conventional submarines. The financial penalty to be paid would be less than the \$1.4 billion cost of cancelling the acquisition of the Super Seasprite helicopter in 2008...

The submarine contract offered us a great opportunity to invest in those ideas by buying from a close friend and our most important regional security partner. Acquiring the *Soryu-class* submarine would deepen our current strong security ties, achieve even greater levels of interoperability between the ADF and JSDF, while enhancing and underpinning both countries long term strategic and economic interests at a time of great uncertainty in our region."

'Australia's Next Submarine: Did we get it right?', *Asialink*, University of Melbourne, 13 July 2020, <https://asialink.unimelb.edu.au/insights/Australias-Next-Submarine-Did-We-Get-It-Right>, (accessed 8 April 2021).

⁶³ Senate Economics Reference Committee, Report - Part 2, 'Future of Australia's naval shipbuilding industry Future submarines', 17 November 2014, pp. 37–61, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Naval_shipbuilding/Report_part_2, (accessed 20 May 2021).

⁶⁴ TKMS has also partnered with Italy to produce new Type 212 boats for the Italian Navy: <https://www.defensenews.com/global/europe/2021/02/26/fincantieri-to-build-two-new-german-design-submarines-for-the-italian-navy/> (accessed 8 April 2021).

⁶⁵ On 20 June 2018, Senator Rex Patrick noted in the Senate that on 29 February 2016, TKMS wrote to the Defence Minister and offered a fixed maximum cost of no more than \$20 billion for 12 submarines built in Australia. TKMS had first made that \$20 billion offer to the then Prime Minister, Tony Abbott, in 2014 and reaffirmed it at the end of the CEP when they were fully aware of Australia's Future Submarine capability requirements. The German Federal Government also offered to allow an open-book audit of TKMS's price. See *Senate Hansard*, 20 June 2018, p. 3486.

Moreover, two highly regarded and capable defence forces—that of Israel⁶⁶ and Singapore⁶⁷—are TKMS customers.

2.59 As discussed above, media reports indicated that the TKMS proposal was rejected mainly because of the perceived risk of a new scaled-up design, and because of perceived noise issues. Given that the now accepted French proposal is a re-work of an existing nuclear design—essentially a new class of boat with all the inherent risks—and that Australian Defence did not, apparently, inform TKMS of the sensitive noise frequency and its importance during the CEP, TKMS may well feel justified in their disappointment.

2.60 *Das Boot*, however, has sailed. Naval Group won the bid and there is, apparently, no appetite within the government to revisit the previously offered proposals.⁶⁸

2.61 It has not gone unnoticed in other quarters as to how much the FSP has stumbled. One German analyst wrote as early as September 2019 that:

Those who have contacts within the Japanese and German CEP competitors in industry and the public sector are not unaware that the shock of defeat experienced in April 2016 has long since gone and slowly been replaced with a quiet relief that they failed to win the *Attack-class* tender.⁶⁹

2.62 For the government to have considered or be considering asking Saab/Kockums to provide a design an improved 'Son of Collins' boat has the smell of desperation about it. This is quite extraordinary, given that the Swedish boat-builder was not invited to be part of the CEP in 2016.⁷⁰ One must ask: having been excluded initially, is Saab/Kockums suddenly expected

⁶⁶ 'New Israeli submarine', *Australian Naval Institute*, <https://navalinstitute.com.au/new-israeli-submarine/>, (accessed 8 April 2021).

⁶⁷ 'Invincible-class Submarines', *Naval Technology*, <https://www.naval-technology.com/projects/invincible-class-submarines/>, (accessed 8 April 2021).

⁶⁸ "The options study will also look at how quickly a shift could be made to bring in Saab Kockums, how it would tap into local supply chains, and the involvement of the Australian government-owned shipbuilder ASC. It is not expected to canvass reopening the door to the German and Japanese bidders that missed out in 2016." Andrew Tillett, '\$90b French submarine project could sink', *Australian Financial Review*, 24 February 2021, <https://www.afr.com/politics/federal/90b-french-subs-project-could-sink-20210224-p575e5>, (accessed 18 May 2021).

⁶⁹ Raimund Wallner, 'Das australische U-Boot Neubauprogramme: Grund für kalte Füße?', 19 September 2019, p. 7, <https://www.dmkn.de/das-australische-uboot-neubauprogramm-grund-fuer-kalte-fuesse/> (accessed 16 March 2021), "Wer Kontakte zu den japanischen und deutschen CEP-Konkurrenten in Industrie und Amtsseite besitzt, dem blieb nicht verborgen, dass der Schock über die Niederlage im April 2016 längst verflogen ist und stillschweigender Erleichterung Platz gemacht hat darüber, den Zuschlag für die ATTACK-Klasse verfehlt zu haben."

⁷⁰ See Graeme Dobell, 'The strange submarine saga: Son of Collins to son of Collins', ASPI, <https://www.aspistrategist.org.au/the-strange-submarine-saga-son-of-collins-to-son-of-collins/>, (accessed 2 March 2021).

to be the project's saviour? That such an outcome was even being considered is a poor indictment of the decision to go with the Naval Group's proposal.

Recommendation 1

2.63 The Commonwealth Government and the Department of Defence report to the Parliament on what discussions were or are being undertaken with Saab/Kockums, or any other alternative submarine builder, about the provision of a *Collins-class* derivative boat, or any other design, as part of a 'Plan B' should the Naval Group agreement be cancelled.

Local industry content

2.64 With much fanfare it was announced in April 2016 that Australian industry content for the FSP was to be at 90 per cent. Indeed, this was one of the great selling points for the decision to go with the French boat.

2.65 But, as has been shown, by early 2020 Naval Group and the Defence Department were speaking of 50–60 per cent local industry involvement. The SPA didn't include a specific target and the 60 per cent was only included in 2021 after the SPA had had new clauses inserted into it. 60 per cent is not 90 per cent and local industry also have a right to feel justified in their disappointment.

2.66 Moreover, that agreement is now being kept secret on the grounds of commercial-in-confidence. This is unsatisfactory. Given the amount of taxpayer money being spent—tens of billions of dollars—an agreement of this nature should be available for parliamentary scrutiny and the committee requests this document be made available to it.

Recommendation 2

2.67 That the Department of Defence provide the Senate Economics References Committee, on a confidential basis, an un-redacted version of the renegotiated Strategic Partnership Agreement with Naval Group for scrutiny.

Final comment

2.68 Defence continue to insist that despite a few teething troubles and relatively short-term slippages, the project remains on track and on budget at \$50 billion in 2016 constant dollars—not out-turned.⁷¹ If this is true, the project is looking something like Bismarck's observation on laws and sausages—a good result in

⁷¹ See Marcus Hellyer, 'What would it take for Australia to walk away from the French submarine deal?', *ASPI*, 26 February 2021, <https://www.aspistrategist.org.au/what-would-it-take-for-australia-to-walk-away-from-the-french-submarine-deal/> (accessed 14 April 2021).

the end but it's perhaps best that one not look too closely at how they're being produced.

- 2.69 But it is the committee's job to examine those 12 sausages and to look closely at how they are being produced. What we are seeing is unappetising and the committee is yet to be persuaded that the results will be good.
- 2.70 The committee notes the importance of the pumpjet propulsion system's performance in the final decision to go with Naval Group but also notes that the stated price for the Naval Group proposal is \$50 billion in constant 2016 dollars. Given that TKMS's credible proposal was \$20 billion, is Australia paying a \$30 billion premium for that pumpjet propulsion system?
- 2.71 Moreover, the fact that after 5 years and \$1.7 billion of expenditure, a 'Plan B' with a possible boat from a Swedish supplier is seriously under consideration is an alarm bell that shows the project has run into serious problems. However, the committee finds it difficult to believe that the Naval Group commitment will be cancelled as the political cost for the government will be too high.⁷² For better or worse, Australia is now committed to the *Attack-class* boats.
- 2.72 Given that, and the problems currently being exhibited by the project, it is now more important than ever for the Parliament to scrutinise this expensive and risky endeavour. To understand how the project is proceeding, the committee needs to be accurately informed by Defence on the project's status. However, the committee is not convinced that it's getting sufficient information through which to make informed judgements. Transparency and accountability on this project is at a premium and repeated requests for information from Defence are going unheeded. The following chapter will discuss the Defence Department's transparency and accountability.

⁷² Robert Gottliebson noted in his article in *The Australian* on 17 March 2021, p. 20, 'Truthful answers about the submarine contract' that however financially appealing it may be to cancel the commitment with Naval Group, it would be politically untenable. See also Marcus Hellyer, 'What would it take for Australia to walk away from the French submarine deal?', *ASPI*, 26 February 2021, <https://www.aspistrategist.org.au/what-would-it-take-for-australia-to-walk-away-from-the-french-submarine-deal/> (accessed 14 April 2021).

Chapter 3

Defence Transparency and Accountability

- 3.1 The question of Department of Defence's transparency and accountability has been a theme that has repeatedly surfaced during this inquiry—and not just in regard to its naval shipbuilding expenditure.
- 3.2 Defence has a history of opaqueness, obfuscation and a lack of accountability. Given the revelations in the earlier chapter of this report about the out-turned costs of the *Attack-class* submarines, it is opportune to address Defence's accountability—specifically in regard to providing information requested by the committee.
- 3.3 This chapter outlines the context for the committee's grievance against Defence by reviewing the powers of the Senate and the obligations of government departments and ministers to provide honest and accurate information on how taxpayers' funds are managed and expended and reviews the numerous examples of Defence's lack of responsiveness and accountability—not just in this inquiry but through other parliamentary inquiries and over a period of years.

Powers of the Senate

- 3.4 The power of the Senate to require the production of information is one of the most significant powers available to a legislature to enable it to carry out its functions of scrutinising legislation and the performance of the executive arm of government.

Source of the power

- 3.5 The Senate possesses this power through Section 49 of the Constitution which provides that the powers of the Houses of the Commonwealth Parliament are, until declared by the Parliament, the powers of the UK House of Commons at the time of the establishment of the Commonwealth in 1901. Those powers undoubtedly included the power to call for documents. In 1987, the Commonwealth Parliament declared its powers through the *Parliamentary Privileges Act 1987*, Section 5 of which provided for the continuation of those powers in force under Section 49 of the Constitution (except to the extent varied by that Act).

What information can the Senate ask for?

- 3.6 There are no limits on the documents which may be ordered to be tabled. There are no exemptions or exceptions for cabinet submissions or national security documents or other classes of documents for which governments have

traditionally claimed public interest immunity (for the meaning of this term, see below).

What can the Senate do if a minister refuses to produce information?

3.7 It is clear that the Senate has the power to enforce its orders (see Senate Committee of Privileges, 49th Report). The refusal of a Minister to comply with an order of the Senate may ultimately be dealt with as a contempt of the Senate, with penalties applied in accordance with the *Parliamentary Privileges Act 1987*. On most occasions, however, ministerial refusals to produce information are resolved through political means, according to the circumstances of the case.¹

Defence's opaqueness, obfuscation and a lack of accountability

Historic example – Joint Committee of Public Accounts and Audit (JCPAA)

Review of ADF's Medium and Heavy Vehicle Fleet Replacement

3.8 Although not part of this shipbuilding inquiry, the following example demonstrates Defence's continuous obfuscation when it comes to answering difficult questions on their procurement errors. It is included in this report to demonstrate that Defence's recalcitrance to provide information is not exclusive to this inquiry and has been occurring over a lengthy time-frame.

3.9 Thursday 25 June 2015, ANAO published its *Audit Report No. 52 (2014-15)* which reviewed the acquisition of the Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (Land 121 Phase 3B).²

3.10 ANAO's assessment of Defence's initial tender process to acquire a replacement medium and heavy vehicle fleet was that this was flawed, resulting in a failed tender and a second approach to market, which contributed to long delays in the acquisition of a modern medium and heavy vehicle capability.³

3.11 ANAO reported that Defence conducted a more effective tender resubmission process from 2008, but the process was protracted and Defence did not enter

¹ This section on the Senate's powers is from: *No. 12 - Orders for production of documents*, Parliament of Australia website: https://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/Brief_Guides_to_Senate_Procedure/No_12, (accessed 25 January 2021).

² Australian National Audit Office (ANAO), *Audit Report No. 52 (2014-15), Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (Land 121 Phase 3B)*, <https://www.anao.gov.au/work/performance-audit/australian-defence-forces-medium-and-heavy-vehicle-fleet-replacement-land-121> (accessed 20 November 2020).

³ Joint Committee on Public Accounts and Audit (JCPAA), Report 456, p. 9, https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Reports_Nos_52_3_and_9/Report_456, (accessed 20 November 2020).

into contracts to supply the replacement fleet until July 2013. The aborted initial tender process and the time taken to finalise the tender resubmission process have delayed the scheduled achievement of Final Operational Capability by seven years to 2023. In the intervening period, Defence will continue to rely on an aged fleet of medium and heavy vehicles that is increasingly costly to operate, maintain and repair.⁴

3.12 As part of its review of the ANAO report, the Joint Committee on Public Accounts and Audit asked Defence two particular questions on notice.

3.13 Firstly, former Member for Canberra, Ms Gai Brodtmann MP, in a written question on notice asked:

Could Defence please provide the Committee with the total estimated cost of the result of the LAND 121 Phase 3B acquisition delay? This figure should be broader than just the sustainment costs of the individual vehicles.

3.14 The answer provided by Defence was: "approximately \$25 million (excluding GST)".⁵ The ANAO report, however, makes quite clear that this figure deals only with an increase in the annual sustainment budget for the fleet.⁶

3.15 This was a deliberately misleading answer by Defence.

3.16 The JCPAA concluded:

...therefore the total cost of sustaining the existing fleet remains unknown. The Committee is disappointed that a comprehensive answer was not provided by Defence given that the total sustainment costs can be assumed to be in the hundreds of millions.⁷

3.17 Secondly, the Deputy Chair, Mr Pat Conroy, asked during the public hearing of 3 March 2016, what were the consequences for those managers who had made the decisions that resulted in the cost blow-out. The Deputy Chair did not want names named, rather an understanding of accountability within Defence:

ACTING CHAIR: Yes, if you do not mind doing so. My final question—and I am not asking for names; I do not want to know names—is that often this committee tries to explore, or with the Department of Defence, whether there were ramifications for the individuals involved when mistakes have been acknowledged. Do we know what happened to the people in charge of this project? Were they promoted? Are they still within the organisations? Have they retired?

⁴ JCPAA, Report 456, p. 9.

⁵ Department of Defence, Answer to Question on Notice, *Submission 4.1*, p. 1. https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Reports_Nos_52_3_and_9/Submissions, (accessed 20 November 2020).

⁶ ANAO, *Audit Report No. 52* (2014-15), para 5.23.

⁷ JCPAA, Report 456, pp. 21–22.

Air Vice Marshal Hupfeld: I am not able to answer that.

Mr Gillis: I would have to take that on notice.

ACTING CHAIR: Yes, I am trying to be careful. I do not want to identify the individuals, but—

Mr Gillis: The reality is that I would prefer not to be naming individuals—

ACTING CHAIR: No, and I am not asking for names.

Mr Gillis: So, I would have to take that on notice. I am not aware. This was more than 10 years ago. And the other one is, as the audit identified, there was a process. That process was not successful. We acknowledge that...

So yes, I cannot defend something that happened 10 years ago, but I will take on notice what the history of that process was.⁸

3.18 Although Defence agreed to take the question on notice, no answer was ever provided. The Department simply ignored the question and acted as if it had not been asked.

3.19 The JCPAA concluded:

Defence did not provide information on whether there were any ramifications for the individuals involved. This exposes Defence to criticism that there are no ramifications.⁹

Defence's opaque reporting to Parliament on submarine and frigate procurements

3.20 As part of the review of government expenditure through the Senate Estimates process, other examples of Defence's lack of transparency can be found without difficulty. Below are examples with regard to both the *Hunter-class* future frigates and the *Attack-class* submarines.

Attack-class submarines

3.21 At the Supplementary Budget Estimates 2015-2016, Defence were called to answer questions on the FSP. On 21 October 2015, Secretary of the Department of Defence, Mr Dennis Richardson, and Deputy Secretary Strategic Policy, Mr Peter Baxter, responded to question on the project's cost by stating clearly that the cost of the acquisition was \$50 billion in out-turned dollars – i.e. the cost that takes into account inflation:

Mr Baxter: Yes, you would have seen rough order of magnitude costs for the acquisition of the submarine program that takes up the remainder.

Senator CONROY: Fifty billion dollars for the acquisition of submarines?

⁸ JCPAA, *Committee Hansard*, Canberra, 3 March 2016, p. 5.

<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22committees%2Fcommjnt%2F0fce1d4-0de6-46a3-b8aa-215a66b72459%2F0000%22>

⁹ JCPAA, Report 456, p. 22.

Mr Baxter: The acquisition and some of the sustainment costs as well.

Senator CONROY: You said 'acquisition' before, so that is what I am trying to drill-down to.

Mr Baxter: It is an out-turn cost as well.

Senator CONROY: Fifty billion dollars for acquisition of submarines sounds a little high.

Mr Richardson: It is an out-turn cost.

Mr Baxter: It is on an out-turn cost basis.

Mr Richardson: It is inflation into the 2040s et cetera.

Mr Baxter: The last of the submarines is likely to be built into the 2040s.

Mr Richardson: For the last of the submarines—if they were built, say, in the early 2040s—it is the out-turn cost of what the submarines would cost in 2040 dollars.¹⁰

3.22 However, in an answer to a Question on Notice from the Chair, Senator Gallacher, the Department of Finance reported:

Defence officials at the 21 October 2015 Senate Estimates hearing explained that details of the Future Submarine Program, including refined costs, remained subject to the outcomes of the then ongoing Competitive Evaluation Process. The classified funding provision which was not made public due to commercial sensitivities, was \$78.9 billion (out-turned).

Cost estimates are updated over the life of a project to reflect movements in inflation and foreign exchange rates. Other than these movements there has been no real cost increase in the Future Submarine Program. The projected total acquisition cost for the Future Submarine Program in out-turned dollars is \$88.5 billion (2020-21 Pre-ERC out-turned price and exchange).¹¹

3.23 Thus, there is a \$38.5 billion dollar discrepancy between the \$50 billion (out-turned dollars), reported by Defence in 2015 and the \$88.5 billion (out-turned dollars), projected by Finance in 2020.

3.24 Moreover, the Department of Finance answer makes it clear that it was already known in October 2015 that the out-turned cost was \$78.9 billion.

3.25 *Prima facie*, it appears that Defence misled the Parliament.

¹⁰ Senate Committee on Foreign Affairs Defence and Trade, 21 October 2015, *Committee Hansard*, p. 120.
<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22committees%2Festimate%2F6662254f-7408-419c-b81e-4a2e7981ccea%2F0000%22> (accessed 23 November 2020).

¹¹ Answers to QoNs can be found here: 'Department of Finance: Answers to Written Questions on Notice from Monday 7 September 2020, received 2 October 2020 - Q1-29'
https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Navalshipbuilding/Additional_Documents.

Hunter-class frigates

- 3.26 Answers provided by the Department of Finance to questions on the cost of the *Hunter-class* future frigates also indicate that figures released earlier may have been understated:

The Future Frigate Program was estimated to cost more than \$35 billion (2016-17 Pre-ERC out-turned price and exchange) in acquisition (capital investment) in the 2017 Naval Shipbuilding Plan (para 2.42, page 33). The actual acquisition cost estimate was not publicly released, consistent with standard practice, to protect the commercial position of the Commonwealth in negotiations. The out-turned total acquisition cost estimate in 2018 was \$44.3 billion (Budget 2018-19 out-turned price and exchange). This cost factored in a deliberate and continuous construction schedule as part of the Government's continuous naval shipbuilding program.

The further variance between this figure and the 2020 Force Structure Plan (FSP) acquisition cost estimate of \$45.6 billion (Pre-ERC 2020-21 out-turned price and exchange) reflects updated inflation and foreign exchange rate assumptions.¹²

- 3.27 When questioned at Senate Estimates on 27 October 2020, Defence did not provide a clear explanation on the discrepancy:

Senator STEELE-JOHN: The frigate program, yes. Again, I'm trying to square the same circle, really. We've got an estimated cost revealed by the ANAO of about \$44.3 billion, which seems to have been known by yourselves in November 2018, and yet the Hansard states that when the department gave evidence, late in that same month, we got a price tag of \$35 billion. So we've got a differential there of about 9.3. Again, as someone who works in not small programs, like the NDIS and other spaces where we deal with massive figures of money chucked around, a \$9.3 billion difference still pricks people's eyebrows. How do you account for the differences here between what you knew in that month and what you said to estimates in that same month?

Ms Lutz: I wasn't at estimates, so, sorry, I can't—

Mr Dalton: At second pass, for the Future Frigate program in mid-2018, there was an awareness of the total projected acquisition cost for the frigate. We still needed to negotiate the head contract with the preferred tenderer. That figure was still commercially sensitive until that contract was put in place. That contract was put in place on 14 December 2018.

Senator STEELE-JOHN: But again—and maybe this is a Moriarty question—between the two programs, between your submarines and your future frigates, you've got a \$65 billion discrepancy between what you are now revealed to have understood, via the ANAO report, and what you reported to this committee in those same months. How can you possibly

¹² Answers to QoNs can be found here: 'Department of Finance: Answers to Written Questions on Notice from Monday 7 September 2020, received 2 October 2020 - Q1-29' https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Navalshipbuilding/Additional_Documents.

defend such a discrepancy, particularly without an apology thrown somewhere in the mix?

Mr Moriarty: The department is managing the costs of those programs within the provision that was provided by government.

Senator STEELE-JOHN: Thank you very much.¹³

3.28 On the *Hunter-class* frigates, Defence has again provided information that has not stood up to scrutiny.

Australian Industry Capability Plans – Order for the Production of Documents.

3.29 As part of this inquiry, Defence consistently refused to provide a series of documents related to the various naval shipbuilding projects. What began as a routine request for further information, turned into a particular saga which is recounted below.

3.30 Following on from the 24 February 2020 public hearing, a request was made by the committee that the following un-redacted documents be received from Defence:

- Naval Group's Australian Industry Capability (AIC) plan submitted under the Competitive Evaluation Process; and
- Naval Group's Draft AIC Plan and AIC Strategy.

3.31 On 5 May 2020, a further set of documents were requested by the committee. These were:

In relation to the SEA1000 project please provide the committee with:

- (a) A non-redacted copy of the draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender) by Naval Group;
- (b) A clean copy of the draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender) by Lockheed Martin;
- (c) A copy of the AIC plans delivered to the Commonwealth by Naval Group and Lockheed Martin under their respective contracts.

In relation to the SEA1180 project please provide the committee with:

- (a) A clean copy of the draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender) by Luerssen;
- (b) A copy of the AIC plan included in the Contract at Effective Date.

¹³ Senate Foreign Affairs, Defence and Trade Committee, Senate Estimates, *Committee Hansard*, Tuesday 27 October 2020, pp. 55–56.
<https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22committees%2Festimate%2Ff714d311-39d2-4f05-97db-8b595281e700%2F0000%22>, (accessed 30 November 2020).

In relation to the SEA3036 project please provide the committee with:

- (a) A clean copy of the draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender) by Austal;
- (b) A copy of the AIC plan included in the Contract at Effective Date.

In relation to the SEA5000 project please provide the committee with copies of:

- (a) the draft AIC Plan (including AIC Schedules) submitted as part of the response (as per the applicable ASDEFCON Conditions of Tender) by BAE Systems;
- (b) the overarching AIC strategy included in the Head Contract (at Effective Date).
- (c) the AIC Plan included in the Head Contract at Effective Date.
- (d) the public AIC plan, which Defence has advised was to be released in quarter 1 of 2020—this would not be held confidential to the Committee.

3.32 Following a series of email requests to Defence during May/June 2020 regarding the request for documentation on AIC Plans, a hard deadline for the production of the documents was set for Tuesday, 9 June 2020.

3.33 On Friday 12 June 2020, the committee received correspondence from Defence regarding the documents. The Department declined to provide the documents.

3.34 On 18 June 2020, a further request signed by the Chair was sent to the Secretary of the Department of Defence, Mr Moriarty.

3.35 On 26 June 2020, the committee received a further response from Defence again declining to provide the documents.

3.36 On behalf of the committee, the Chair, Senator Gallacher, lodged an Order for the Production of Documents (OPD) for the above listed papers on 2 September 2020, and it was passed by the Senate on 6 October 2020 with a deadline of 5pm, Friday 16 October 2020.

3.37 At 4.50pm on Friday, 16 October 2020, the committee received two letters:

- (a) from the Secretary of Defence, Mr Moriarty, to the Committee Chair, Senator Alex Gallacher; and
- (b) from the Minister of Defence, Senator Linda Reynolds, to the President of the Senate.

3.38 These letters declined to provide the requested documents on the grounds of a public interest immunity claim.

3.39 On 11 November 2020, Senator Gallacher moved—that the Senate—

- (a) notes that:

-
- (i) on 6 October 2020, the Senate ordered the Minister for Defence to provide to the Senate Economics Reference Committee all of the Australian Industry Capability (AIC) plans supplied to Defence by prime contractors in the future submarine, future frigate, offshore patrol vessel and pacific patrol boat programs and the Department of Defence's AIC strategy plans,
 - (ii) the documents are highly relevant to the committee's inquiry into Australia's sovereign naval shipbuilding capability,
 - (iii) on 19 October 2020, the Minister advanced a public interest immunity claim on grounds centring around commercial-in-confidence concerns, and
 - (iv) the bar to correctly advance a claim over commercial-in-confidence is high, particularly noting the documents are to be returned to the committee, not to the Senate;
- (b) affirms that:
- (i) the balance of the public interest lies in permitting the committee to conduct oversight of the conduct of the Department of Defence in delivering on the Government's commitment to maximise AIC in Australia's \$139 billion shipbuilding program, and
 - (ii) the Senate does not accept the public interest immunity claim advanced by the Minister for Defence; and
- (c) orders the Minister for Defence to comply with the order agreed to by the Senate on 6 October 2020 by providing the documents to the Senate Economic References Committee by 12 November 2020.
- 3.40 In response, Minister Reynolds wrote to the Senate President, the Hon. Scott Ryan, on 12 November 2020 indicating that further time was required to consider the content of the documents.
- 3.41 On Thursday, 3 December 2020, a letter was received by the secretariat from Minister Reynolds to the Senate President explaining that the documents would be provided to the committee on Monday, 7 December 2020.
- 3.42 On Monday, 7 December 2020, the 13 documents were provided. All were redacted to some point – some heavily. The committee estimates that 25–33 per cent of the total documents had been redacted.
- 3.43 The most egregious examples were:
- Document 2, *Austal – Redacted Australian Industry Capability Plan* (2 May 2016);
 - Document 6, *Lockheed Martin's Australian Submarine Combat System (ACSS) RFR Stage 2* (7 April 2016); and
 - Document 9, *Lürssen's SEA 1180 Phase 1 Offshore Patrol Vessel, Appendix B to C-9 Australian Industry Capability Plan* (27 March 2017).

- 3.44 These were heavily redacted with approximately 75–90 per cent of the script made unreadable. Of note, none of the 13 OPD documents carried a national security classification of 'Confidential'; 'Secret'; or 'Top Secret'. The majority are 'Commercial-in-Confidence' and four were, in fact, 'Unclassified'.
- 3.45 Of particular note was a document that had already been provided to the committee in February 2020 as part of a previous FOI request and now on the committee's webpage – the *DCNS Australian Industry Plan* (Document 13 of the OPD batch). The newly provided version under the OPD had even more redactions than that provided in February 2020. There were approximately 15 extra redactions—some small, some large. One page (p. 47) in the February 2020 version was clear, while the December 2020 OPD version was fully redacted. In short, information that was already in the public domain had been re-provided to the committee in a redacted form.
- 3.46 On Tuesday, 8 December 2020, the Defence Department sent through a letter of clarification re: Document 13 of the OPD batch—the DCNS Australian Industry Plan. Defence identified a 'version control issue' and have re-supplied to the committee the document that was already supplied in February 2020.

Evidence of Defence delay and obfuscation

- 3.47 At the public hearing of 5 February 2021, which was specifically called to question Defence on the lack of responsiveness to the Order of Production of Documents, further evidence was presented by committee members on Defence's obfuscation with regard to the provision of information.
- 3.48 During that hearing, one of the committee's members, Senator Rex Patrick, tabled or referred to a series of documents a number of which had been denied to the Parliament for one reason or another but had been provided to him through Freedom of Information (FOI) requests. These included:
- *The preliminary analysis of the economic impact of future submarines based on the experience of the Collins program* conducted by macroeconomics.com.au.
 - This had been ordered in April 2016 and denied the Senate on the grounds of 'Cabinet-in-Confidence'. Through an FOI request, the Information Commissioner judged that the document did not comply with the 'Cabinet-in-Confidence' requirements and ordered it be released publicly.¹⁴
 - *Design and Mobilisation Contracts* signed between the Commonwealth of Australia and DCNS on 30 September 2016.
 - On November 2016, the Senate made an order for the production of this document and it was refused to the Senate on the grounds that it was

¹⁴ *Committee Hansard*, 5 February 2021, Canberra, p. 5.

‘Commercial-in-Confidence’ and involved national security elements. On 1 December 2016 an application for access to the relevant sections of the documents was made under FOI, the document, in a redacted form, was then tabled in the Senate by the Minister on 9 December 2021.¹⁵

- *Future Frigate Tender*
 - On 4 September 2017 the Senate made an Order for the Production of the document which was refused. Defence initially denied access to the document under FOI, but subsequently chose to release the document after a review was commenced by the Information Commissioner.¹⁶
- *Auditor-General’s report No. 6 of 2018-19, Army’s protected mobility vehicle—light.*
 - This was a confidential report issued under Section 37 of the *Auditor-General Act*. In 2017, the Auditor-General commenced an audit into the Hawkei vehicle. In early 2018, Thales Australia made an application to the Federal Court, for an injunction, and, secondly, to the Attorney-General, seeking the issuing of a Section 37 certificate to prevent certain information in the audit report being tabled in the Senate.
 - The Attorney-General, having sought advice from the then Minister for Defence and the Minister for Defence Industry issued a Section 37 certificate on the basis that:
 - (a) it was commercially sensitive and
 - (b) it was national security sensitive.
 Defence advocated for a certificate to be issued, and it was duly issued, which meant that the Parliament, and thus the public, could not have access to this document.
 - Deputy President Britton Jones of the Administrative Appeals Tribunal, through an FOI appeal process, found that the claim for confidentiality on national security grounds was not justified and had the document released publicly.¹⁷

Further attempts by Defence to stymie access to information

3.49 In June 2018, Senator Patrick began an FOI process to discover what Naval Group’s total price was for the contract. Two months later in August 2018 Defence formally blocked the request, and Senator Patrick sought an Information Commissioner review.

¹⁵ *Committee Hansard*, 5 February 2021, Canberra, p. 5.

¹⁶ *Committee Hansard*, 5 February 2021, Canberra, p. 5.

¹⁷ *Committee Hansard*, 5 February 2021, Canberra, pp. 5–6.

- 3.50 In August 2020, Australian Information Commissioner, Ms Angelene Falk, found in favour of Senator Patrick, ordering the Department of Defence to release details from Naval Group's successful bid documents.
- 3.51 In September 2020, Defence appealed Commissioner Falk's decision to the Administrative Appeals Tribunal (AAT), with Naval Group joining the proceedings.
- 3.52 In response to questions asked during a Senate Estimates hearing in March 2021, Defence has now confirmed it is covering Naval Group's legal expenses at the AAT.¹⁸
- 3.53 The case is on-going, and Senator Patrick, and by extension the committee, is yet to ascertain what the actual price was for the Naval Group's contract.

A Matter of Privilege

- 3.54 On 7 May 2021, Senator Alex Gallacher, as Chair of this committee and committee member Senator Rex Patrick raised, in a letter to the Senate President, a matter of privilege alleging interference with the Economics References Committee inquiry into Australia's sovereign naval shipbuilding capability.
- 3.55 Referring to the Order of Production of Documents, the letter outlined the numerous occasions on which the Department of Defence, the Secretary of Defence and the former Minister for Defence, Senator Linda Reynolds, had declined or refused to provide documents to the committee in response to committee requests and Senate orders. Senators Gallacher and Patrick contended that 'the committee's ability to progress the inquiry has been severely and deliberately impeded by the department'.
- 3.56 The letter raises three grounds on which the conduct complained of may amount to an improper interference with the functions of the Senate and should be investigated as a possible contempt. They are:
- improper interference with the free exercise by the committee of its authority or functions (contrary to privilege resolution 6(1))
 - disobedience of a lawful order of the Senate (contrary to resolution 6(8)) and
 - refusal or failure to produce documents in accordance with an order of the Senate (contrary to resolution 6(13)).¹⁹
- 3.57 In his address to the Chamber on 12 May 2021, the President stated that the Senate as a whole would need to decide what action to take.²⁰

¹⁸ 'Taxpayers footing French legal bills to keep original price of \$90 billion future submarine project secret', *ABC News* website, 9 May 2021, <https://www.abc.net.au/news/2021-05-10/taxpayers-paying-french-submarine-naval-group-legal-fees/100127510>, (accessed 17 May 2021).

¹⁹ *Senate Hansard*, Wednesday 12 May 2021, pp. 1–2.

²⁰ *Senate Hansard*, Wednesday 12 May 2021, pp. 1–2.

- 3.58 Later that day, Senator Patrick gave notice that he would move that the matter be referred to the Senate Committee of Privileges for inquiry and report.²¹
- 3.59 At the time of this report being published, the Senate has yet to resolve if it will support Senator Patrick's motion.

Committee comment

- 3.60 This chapter has reviewed critically the Department of Defence's responses to parliamentary requests for information—a right of the Parliament.
- 3.61 Through the Senate's reference, this committee has sought to examine Australia's sovereign naval capability and how it is being developed by the Department of Defence in the context of the naval shipbuilding program. In order to achieve this, the committee has sought to examine what each of the tenderers promised during the tender in terms of industry capability and then what was contracted and then try to understand the difference.
- 3.62 There is significant evidence that Defence is not as responsive as it should be and, on more than one occasion, it can be observed that the Department has deliberately provided misleading answers to legitimate questions. The committee has been frustrated in its goals by a recalcitrant Department in conjunction with its Minister so much so that a Matter of Privilege has been raised with the Senate through its President.
- 3.63 It also appears that the Department is misusing legitimate grounds for withholding information—such as national security considerations—to hide information that is politically embarrassing or information that, on the face of it, demonstrates incompetency and/or inefficiency. In the process, it is impeding the work of this committee and others in discharging our duty to the Australian people.
- 3.64 One argument proffered by Defence is the concern about the inadvertent disclosure of the provided information. This again sounds like an excuse. Parliamentary committees frequently hold commercially sensitive material. For example, in the Veterans' Affairs area, large amounts of material have been provided *in-camera*. Senators sign in to view the material and strictest confidentiality is observed. The Senate's secretariat staff are all parliamentary professionals with many of them having previously worked in government departments and having held high-level security clearances. It seems extraordinary to the committee that through its examination of public expenditure, which is a whole lot less sensitive than Veterans' Affairs issues, the committee cannot get the information it has requested.
- 3.65 The Defence budget in 2020/21 is approximately \$42 billion²² and the ongoing naval shipbuilding program is estimated to cost between \$168 – 183 billion.²³

²¹ *Senate Hansard*, Wednesday 12 May 2021, p. 29.

These are extremely large sums of money and it is the Australian taxpayer who provides these funds. Through Senate processes, committees scrutinise, on behalf of the Australian taxpayer, the behaviour of Departments and the expenditure of taxpayer funds. Australians deserve to know how their money is being spent and the committee is at a loss to understand Defence's attitude at the provision of information to the Australian taxpayer via this committee.

- 3.66 This brings us to the fundamental point: the Senate, and the House of Representatives, are the democratically elected representatives of the Australian people. Through the separation of powers, the Senate and the Parliament as a whole have oversight of the executive government and the various departments and other statutory authorities to ensure that the government and its agencies act lawfully, and that Australian taxpayers' money is being spent wisely.
- 3.67 The powers of the Senate and its committees are anchored in the Constitution—a fact that appears to be forgotten. The Parliament does not operate at the behest of the executive government. Rather the opposite—it is only through the Parliament's confidence that the executive government can exist and govern. Similarly, it is not the role of departments and agencies to set the conditions under which the Parliament and the committees perform their duties. The opposite is the case—it is the duty of the departments and agencies to respond to the requests of parliamentary committees as they stand. Only when those agencies can provide a legitimate and compelling argument agreed to by the committee can they withhold information from the public they serve. As demonstrated here, Defence's performance has consistently been disappointing—even disgraceful. It is, quite frankly, outrageous and an affront to the Parliament that Senators have more success receiving information through FOI requests, than through the fundamental processes embedded in the Parliament.
- 3.68 This is not acceptable, and cultural change is needed in the Department of Defence's accountability practices and its approach to its democratic responsibilities.

²² "The 2020–21 Budget delivers the funding promised by the government in the 2020 DSU and, indeed, before that in the 2016 DWP. Despite the pandemic, the defence budget grows by around 9 per cent this year, to \$42.7 billion." *ASPI*, <https://www.aspi.org.au/report/cost-defence-2020-2021-part-2-aspi-defence-budget-brief>, (accessed 19 February 2021).

²³ "The Australian Government has announced a planned investment of between \$168 and \$183 billion to establish a secure, sustainable, continuous, National Naval Shipbuilding Enterprise, as laid out in the 2017 Naval Shipbuilding Plan, and expanded under the 2020 Force Structure Plan." 'National Naval Shipbuilding Enterprise', *Department of Defence* website, <https://www1.defence.gov.au/business-industry/naval-shipbuilding>, (accessed 19 February 2021).

Recommendation 3

3.69 With the aim of increasing its staff's awareness of their democratic responsibilities:

- **the Department of Defence re-examine its induction and training programs and corporate culture regarding its role as a department answerable to the Australian people through the processes of the Australian Parliament; and**
- **report back to the Parliament on the progress it making on those induction and training programs.**

Recommendation 4

3.70 That the Department of Defence provides to the committee in un-redacted form all the documents requested under the Senate's Order of Production of Documents (General Business Motion, No. 786).

**Senator Anthony Chisholm
Chair
Labor Senator for Queensland**

Additional Comments - Coalition Senators

- 1.1 Coalition Senators note the findings in the Senate Economics References Committee's interim report on Australia's sovereign naval shipbuilding capability, but do not agree with its recommendations.
- 1.2 The naval shipbuilding industry plays a pivotal role in securing Australia's economic, political and strategic security.
- 1.3 Whilst the interim report was informed by a limited range of sources, the sheer complexity of the topic and inevitable national security implications of much of the potential source material, undermines the validity of the recommendations.
- 1.4 In particular, Coalition Senators make the following points as regards to the recommendations:

Recommendation 1

- 1.5 Coalition Senators do not believe it would be in either Australia's national interest, or the commercial interests of participants, for such material to be publicly released.

Recommendations 2 – 4

- 1.6 Coalition Senators believe the long-standing practice governing the roles, responsibility and privileges of parliament and its committees be adhered to by all government departments, and that a claims of public interest immunity should be correctly made at all times. However, Coalition Senators do not agree with the majority report that the department and executive have been deficient in this regard, particularly considering that the topics under discussion directly address matters of national security.

Conclusion

- 1.7 Coalition Senators note the importance of continual and active engagement with the Australian shipbuilding industry. A robust and efficient procurement process will ensure that we continue to have a vibrant naval shipbuilding industry, without the 'valley-of-death' left behind by previous Labor governments.

1.8 Coalition Senators support the Government's commitment to a strong and sustainable shipbuilding pipeline in Australia.

Senator Slade Brockman
Deputy Chair
Liberal Senator for Western Australia

Senator Andrew Bragg
Member
Liberal Senator for New South Wales

Additional Comments - Senator Rex Patrick

Urgent Culture Change Required

Delays to the inquiry

- 1.1 COVID-19 has, as in many aspects of our lives, negatively impacted the progression of this inquiry. A number of site visits and hearings were delayed as direct result of the response to COVID-19, I'm hopeful that efforts to constrain the virus are successful and the Inquiry can proceed unfettered in the near future.
- 1.2 Unfortunately, that's not the end of the story. The inquiry has also suffered delays as a consequence of the culture of deliberate and inappropriate frustration of the committee's work, driven from the very top of the Defence organisation.

A troubled culture

- 1.3 Defence as an organisation, encapsulating the uniformed services and the department, is most comfortable when its activities are conducted under a veil of secrecy with very limited oversight or scrutiny. Many aspects of Defence's work and activities are appropriately security classified, but habitual secrecy goes far beyond the legitimate requirements of security.
- 1.4 Defence Industry is a term that encapsulates the businesses that provide the equipment and services that are unique to Defence, they are often quite specialised and, in almost all cases, details of their full capabilities are largely unknown outside their own or their customer's organisations.
- 1.5 This combination results in a sector that the majority of the population has a very limited understanding of, and if anything this makes the oversight role of the Parliament and agencies such as the Australian National Audit Office all the more important than is the case for other areas of government spending.
- 1.6 The obfuscation that has occurred to date towards this inquiry has been covered quite extensively in chapter 3 in the main report. However, what that chapter does not cover is the similar behaviour that's occurred through the course of normal Parliamentary business, including Question Time, Questions on Notice and the Estimates program.
- 1.7 This behaviour has created the overall impression that Defence is undertaking significant efforts to mislead and indeed hide 'stuff' from Parliament and the public, with the desire or belief that it will remain a secret or that if processes of scrutiny are so drawn out, that by the time there is any significant disclosure any information released will be of limited interest, relevance or too late to provide a basis for action.

- 1.8 The lack of accountability within Defence has also been raised in chapter 3 and it's impossible not to conclude that this is a significant contributing factor, and one which in all likelihood is encouraging those that are engaging in the art of providing 'false and misleading' information, or withholding relevant information. These behaviours are unacceptable. They denigrate Defence's credibility and the reputation of the people within. This culture and habit of concealment and obfuscation poisons the relationship between Defence and the Parliament. It must change.

Persecution of truth tellers

- 1.9 An additional and highly concerning issue that has come to light through the Inquiry to date, that will likely never be able to fully reported on, is the 'fear and apprehension' that has been expressed by many members of Australia's defence industry if they participated in this inquiry. Their strongly held concern arises from a belief that if they outline their experiences, concerns and/or issues they will get the department and/or prime contractors 'offside', which will result in the loss of work or any potential for securing work, in an environment whereby they are of the view that they are already being or at risk of being displaced by foreign suppliers.
- 1.10 This self-censorship has the effect of biasing the 'industry perspective' of the naval shipbuilding programs presented to the committee and denying the public the ability to maximise the benefit of the Inquiry.
- 1.11 What makes this situation so disappointing is that the picture outlined in 2016 by the Defence White Paper, the Integrated Investment Program and the Defence Industry Policy Statement, was very different. Those policies and frameworks set new expectations within Australia's Defence Industry. Understandable with statements such as:

Key to the successful delivery and sustainment of our enhanced defence capabilities will be a new level of collaboration with Australian defence industry;¹

...the Government recognises that an internationally competitive Australian defence industry is a fundamental input to Defence capability;²and

Australia's defence industry – our critical partner in success.³

- 1.12 Since then, beyond the favoured prime contractors, Australia's defence industry has been progressively and systematically betrayed by the Defence organisation that was supposed to be their partner.

¹ Defence White Paper, 2016, p 10.

² Integrated Investment Program, 2016, p 10.

³ Defence Industry Policy Statement, 2016, p 5.

- 1.13 It's highly doubtful that encouraging foreign businesses to enter the market and displace the local capabilities was the foundation vision behind the new industry relationship envisioned in those aforementioned documents. It most definitely would not have extended to contracting directly to a foreign competitor, which is something Defence has also done.
- 1.14 In what is probably the most overt example of the betrayal, in 2019 Defence bypassed the onshore Australian boat builders and signed a contract for sea boats for the *Arafura-class* Offshore Patrol Vessels directly with a Finnish boat supplier.⁴
- 1.15 This could be described as a breach of the Commonwealth's Procurement Rules. It's clearly inconsistent with a policy to maximise Australian industry involvement. Equally bad was the message it sent to Australian industry, that being 'we don't have your back'.
- 1.16 In the context of the shipbuilding programs, the focus of this inquiry, the 'actual' activities of Defence towards maximising the involvement of Australia's Defence Industry, are demonstrable of an organisation that lacks any genuine commitment to collaborating with the local Defence industrial base. Defence has effectively outsourced the engagement, utilisation, development and ultimately direction of Australia's defence industry to the prime contractors, all of which are 'foreign' owned and first and foremost answer to their foreign headquarters.
- 1.17 This has squarely put the direction of Australia's defence industry, a Fundamental Input to Capability as announced by the Government through the Defence White Paper, into the hands of foreign HQ's:
- ... the Government will recognise the vital role of an internationally competitive Australian defence industry as a Fundamental Input to Capability. The Fundamental Inputs to Capability are those essential inputs which together combine to achieve capability—reflecting that it requires more than simply purchasing equipment to achieve capability.⁵
- 1.18 That is an abrogation of Defence's responsibility and could never have been the intent or vision.
- 1.19 All is not lost, yet, however meaningful change is required and unfortunately I doubt it can change in the current environment and structure. The organisational culture comes from the people and this starts at the top and that is the best place to start the change.

⁴ Austender Contract Notice - CN3638444, published 4 November 2019, <https://www.tenders.gov.au/Cn/Show/83b1fbd6-7d0a-4786-a4f4-eb591a2fd645>, (accessed 28 May 2021)

⁵ Defence White Paper, 2016, p 109.

Recommendation

- 1.20 Officials at Defence ultimately owe their duty to the people of Australia through the Parliament. This is a fundamental feature of our responsible system of government. Failure to answer questions that go to matters within the scope of the inquiry raises questions as to the appropriateness of officials to hold public office.
- 1.21 The culture described in the main report and these additional comments is driven from the very top of the Defence organisation and that is where the blame must lie. It is also where the remedy must lie.
- 1.22 The Secretary of Defence, Mr Moriarty, has conspicuously failed in his role. He should stand aside and make way for a more experienced and stronger person who doesn't shirk responsibility through opaqueness and obfuscation, and who can reset the Defence-Parliamentary relationship.

Recommendation 1:

The Secretary of Defence should resign.

Senator Rex Patrick

Member

Independent Senator for South Australia

Appendix 1

Submissions and additional information

- 1 Weld Australia
- 2 Gibbs & Cox (Australia)
- 3 Office of the Leader of the Opposition, South Australia
- 4 Department of Defence
- 5 Department of Finance
- 6 *Confidential*
- 7 Australian Maritime College
- 8 Australian National Audit Office
- 9 Mr Jon Primrose
- 10 Government of Western Australia
- 11 Australian Shipbuilding Federation of Unions
- 12 Department of Home Affairs
- 13 Tasmanian Government
- 14 Professionals Australia
- 15 *Confidential*
- 16 Royal Institution of Naval Architects
- 17 Centre for Future Work at the Australia Institute
- 18 Naval Shipbuilding College
- 19 Australian Small Business and Family Enterprise Ombudsman
- 20 Submarine Institute of Australia
- 21 DMTC
- 22 Naval Group Australia
- 23 ASPI
- 24 Australian Manufacturing Workers' Union
- 25 Defence Teaming Centre
- 26 Ai Group Defence Council
- 27 Australian Industry & Defence Network Incorporated
- 28 BAE Systems - ASC Shipbuilding
- 29 ASC Pty Ltd
- 30 Government of South Australia
- 31 Government of the Northern Territory
- 32 Victorian Government
- 33 Mr Benjamin Cronshaw
- 34 Submarines for Australia
 - 34.1 Supplementary to submission 34
- 35 Mr Robert Bourke
- 36 NSW Government

Answer to Question on Notice

- 1 QON1 - SEA 1000 Attack Class - Responses by Department of Defence from December 2019 Questions on Notice
- 2 QON1 - SEA 1000 Attack Class Attachment A - Additional Information provided by Department of Defence from December 2019 Questions on Notice
- 3 QON1 - SEA 1000 Attack Class Attachment B - Additional Information provided by Department of Defence from December 2019 Questions on Notice
- 4 QON1 - SEA 1000 Attack Class Attachment C - Additional Information provided by Department of Defence from December 2019 Questions on Notice
- 5 QON1 - SEA 1000 Attack Class Attachment D - Additional Information provided by Department of Defence from December 2019 Questions on Notice
- 6 QON1 - SEA 1000 Attack Class Attachment E - Additional Information provided by Department of Defence from December 2019 Questions on Notice
- 7 Q2 - SEA 1180 - Arafura Class - Responses by Department of Defence from December 2019 Questions on Notice
- 8 Q3 - SEA 3036 - Guardian Class - Responses by Department of Defence from December 2019 Questions on Notice
- 9 Q4 - SEA 5000 – Hunter Class - Responses by Department of Defence from December 2019 Questions on Notice
- 10 Naval Group Australia: Answers to Questions on Notice from Hearing in Canberra on 24 February 2020
- 11 Naval Group Australia: Opening Statement to Hearing in Canberra on 24 February 2020
- 12 Department of Defence: Answer to Question on Notice from Hearing in Canberra on 24 February 2020
- 13 Department of Defence response to Question on Notice from the public hearing in Canberra, Friday 14 August 2020 - Q1 Future Frigate Program Budget
- 14 Australian Naval Infrastructure (ANI) responses to Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
- 15 Department of Finance responses to Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
- 16 Australian Strategic Policy Institute (ASPI) response to Question on Notice from the public hearing in Canberra, Friday 14 August 2020
- 17 Department of Defence: Answer to Question on Notice from the public hearing in Canberra, Friday 14 August 2020 - Q2 Cross Project Harmonisation with Supplier (Penske)
- 18 Ai Group response to Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
- 19 AIDN response to Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
- 20 Australian Strategic Policy Institute (ASPI) response to follow up Question on Notice from the public hearing in Canberra, Friday 14 August 2020

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- 21 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 21 September 2020 - Q3, 5, 6, 8, 12, 13, 14, 21-25, 27-33
 - 22 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 21 September 2020 - Q4
 - 23 Ai Group response to additional Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
 - 24 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 22 September 2020 - Q26
 - 25 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 24 September 2020 - Q7
 - 26 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 24 September 2020 - Q17
 - 27 Department of Defence: Answers to Written Questions on Notice from Monday 7 September 2020, received 25 September 2020 - Q18
 - 28 Centre for Future Work - Dr Jim Stanford: Answers to Questions on Notice from the public hearing in Canberra, Friday 14 August 2020
 - 29 Department of Finance: Answers to Written Questions on Notice from Monday 7 September 2020, received 2 October 2020 - Q1-29
 - 30 Department of Defence and CDIC: Answers to questions on notice from the public hearing in Canberra, Friday 13 November 2020, received 27 November 2020
 - 31 Department of Defence and CDIC: Answers to questions on notice from the public hearing in Canberra, Friday 13 November 2020, received 27 November 2020
 - 32 Department of Defence and CDIC: Answers to questions on notice from the public hearing in Canberra, Friday 13 November 2020, received 27 November 2020
 - 33 Department of Defence: Answers to a question on notice from the public hearing in Canberra, Friday 13 November 2020, received 7 December 2020
 - 34 Department of Defence and CDIC: Answers to questions on notice from the public hearing in Canberra, Friday 13 November 2020, received 27 November 2020
 - 35 Department of Industry, Science, Energy and Resources: Answer to a question on notice from the public hearing in Canberra, Friday 13 November 2020, received 23 December 2020
 - 36 Department of Defence: Answer to a question on notice from the public hearing in Canberra, Friday 5 February 2021, received 19 February 2021
 - 37 Department of Defence: Answer to a question on notice from the public hearing in Canberra, Friday 5 February 2021, received 19 February 2021

Tabled Documents

- 1 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 2 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 3 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 4 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 5 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 6 Senator Rex Patrick: Tabled document from the public hearing in Canberra on Friday, 5 February 2021
- 7 Department of Defence: Secretary's opening statement from the public hearing in Canberra on Friday, 5 February 2021

Appendix 2

Public hearings

Monday, 24 February 2020

Parliament House
Canberra

Naval Group Australia

- Mr John Davis, Chief Executive Officer
- Mr Jean-Michel Billig, Executive Vice President

Department of Defence

- Mr Greg Moriarty, Secretary
- Vice Admiral Michael Noonan, Chief of Navy
- Rear Admiral Gregory Sammut, General Manager—Submarines
- Mr Tony Dalton, Deputy Secretary—National Naval Shipbuilding Office
- Mr Tony Fraser, Deputy Secretary—Capability and Sustainment Group

Friday, 14 August 2020

Parliament House
Canberra

Centre for Future Work at the Australia Institute

- Dr Jim Stanford, Director and Economist
- Ms Alison Pennington, Senior Economist and Main Submission Author

Australian Strategic Policy Institute (ASPI)

- Mr Michael Shoebridge, Defence and Strategy Program
- Dr Marcus Hellyer, Senior Analyst—Defence Economics and Capability

Department of Finance

- Mr Andrew Jagers, Deputy Secretary—Commercial and Government Services
- Mr Sacha de Re, Assistant Secretary—Defence Investments Branch, Commercial and Government Services
- Ms Stacie Hall, First Assistant Secretary—Commercial Division, Commercial and Government Services

Australian Industry & Defence Network Incorporated

- Mr Brent Clark, Chief Executive Officer

Ai Group Defence Council

- Ms Kate Louis, Head of Industry Development and Executive Director Ai Group Defence Council

Department of Defence

- Mr Tony Dalton, Deputy Secretary—Capability and Sustainment Group
- Mr Martin Halloran, Head of Australian Industry Capability
- Mr Gregory Sammut, General Manager—Submarines
- Ms Sheryl Lutz, First Assistant Secretary—Ships
- Rear Admiral Wendy Malcolm CSM, Head of Maritime Systems
- Mr Andrew Byrne, First Assistant Secretary—Naval Shipbuilding Office
- Rear Admiral Peter Quinn, HNC—Navy

Australian Naval Infrastructure

- Mr Phil Cornish, Project Director

Friday, 13 November 2020

Parliament House

Canberra

RAND

- Mr Paul DeLuca, Director of Navy and Marine Forces Centre—National Security Research Division, and Senior Engineer
- Mr John Schank, Management Scientist

Centre for Defence Industry Capability

- Mr Tony Fraser AO CSC, Chair
- Dr Peter Sawczak, First Assistant Secretary—Defence Industry Policy (Advisor)
- Mr Martin Halloran, First Assistant Secretary—Australian Industry Capability (Advisor)
- Mr Peter Chesworth, CDIC Transition Manager

Department of Defence

- Dr Peter Sawczak, First Assistant Secretary—Defence Industry Policy
- Mr Tony Fraser AO CSC, Deputy Secretary—Capability Acquisition Sustainment Group
- Mr Peter Tesch, Deputy Secretary Strategy—Policy and Industry
- Rear Admiral Peter Quinn AM CSC RAN, Head of Navy Capability
- Mr Steven Moore, Assistant Secretary—Defence Industry
- Mr Tony Dalton, Deputy Secretary—National Naval Shipbuilding

Friday, 5 February 2021

Committee Room 2S3

Parliament House

Canberra

Department of Defence

- Mr Greg Moriarty, Secretary
- Mr Gregory Sammut, General Manager—Submarines, Capability Acquisition and Sustainment Group
- Ms Sheryl Lutz, First Assistant Secretary—Ships, Capability Acquisition and Sustainment Group
- Mr Tony Dalton, Deputy Secretary—National Naval Shipbuilding
- Ms Fran Rush, Assistant Secretary—Commercial General Counsel, Capability Acquisition and Sustainment Group