

# **AUSTRALIAN INDUSTRY CAPABILITY (AIC) PLAN: GUIDELINES FOR SUPPLIERS**

Document ID NAVALDOCS-901407152-211 / Version 5

Published date: 17/01/2020

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## Future Submarine Program (FSP) Objectives

The FSP aims to deliver to Australia a regionally superior submarine capability that provides the Commonwealth of Australia (CoA) with enduring control over the operation and sustainment of the Future Submarine (FSM).

The FSP has the following strategic objectives (FSP Objectives):

- To deliver a regionally superior submarine capability that provides the CoA with enduring sovereign control over FSM operation and sustainment
- To address Australian regulatory safety and environmental obligations in the submarine design and through developing a sound Mission System Seaworthiness Case
- To deliver an affordable Future Submarine capability within the agreed timeframe and with the knowledge and skills to understand and control sustainment cost drivers for the life of the class
- To maximise Australian industry involvement through all phases of the FSP without unduly compromising capability, cost and schedule.

The Commonwealth of Australia defines sovereignty as having enduring control over the operation and sustainment of the whole warship, including the ability to upkeep, update and upgrade the whole warship in Australia. The Australian Government Department of Defence [2018 Defence Industrial Capability Plan](#) (section 1.15 to 1.17) provides further information on the intent and meaning of sovereignty.

## Suppliers Contributing to FSP Objectives

Via their individual commitments to maximising Australian Industry Capability (AIC) and achieving sovereign control, suppliers will be key contributors to the achievement of the FSP Objectives and to the success of the Program.

Suppliers' AIC intent and, eventually, commitment are sought and managed (where specified by the procurement process) through the drafting, submission, iteration, agreement and implementation of an AIC Plan. Suppliers' AIC Plans outline their strategies and plans to meet or contribute to relevant FSP Objectives, specifically:

- [To] Provide the CoA with enduring sovereign control over FSM operation and sustainment
- To maximise Australian industry involvement through all phases of the FSP without unduly compromising capability, cost and schedule.

AIC Plans will support this by defining what opportunities will be provided to Australian Industry, what capabilities will be developed, enhanced, maintained and sustained in Australia and how. As an articulation of suppliers' commitment and intended contribution to the relevant FSP Objectives, AIC Plans are evaluated as part of the procurement process.

Suppliers AIC Plan must cover the lifecycle of the equipment, including, design, build, operation and sustainment to ensure the FSP objectives of creating sovereign capability to operate & sustain the Future Submarines can be met. The AIC Plan is not limited to the initial scope of supply of the initial contract and will be enduring across all potential program contracts the supplier may be awarded. It will be updated to address any material change in contract scope.

## Suppliers AIC Plans

Suppliers' AIC Plans will vary in terms of level of detail provided, depending on:

- The potential scope of supply the Plan is related to, the expected value of the contract(s)
- The current stage of the procurement process
- The impact the scope of supply has on ensuring a sovereign capability to operate and sustain the FSM
- How Australian the supplier's capability and its supply chain are today.

The procurement representative engaging with a supplier can provide guidance on the expected level of detail relative to the above factors. It is expected, where an overseas based Original Equipment Manufacturer (OEM) and an Australian supplier jointly produce an AIC Plan, there will be a clear commitment to the content of the plan from both entities.

Stakeholders with an interest in, or potentially reviewing, suppliers AIC Plans range from Naval Group representatives (both technical and non-technical), Commonwealth FSP representatives, Commonwealth Industry Division representatives and members of parliament. In addition and after contract signature, public versions of the AIC Plans will be made available to the Australian community and to Australian suppliers seeking opportunities.

The AIC Plan documentation suite, of which these guidelines are a part, provides the templates to be used by suppliers to produce, execute and monitor their AIC Plans, as well as report on the information required to capture the Australia Industry outcomes for the Program. It is relevant to both Australian and overseas suppliers, although it is acknowledged that sections may demand different content from each.

## AIC Plan Documentation Suite

Document Name
AIC Plan Guidelines (This document)
Local Industry Activities (LIA) Schedule Template*
LIA Description Sheet Template*
Public AIC Plan Template*
Suppliers' AIC Delivery Report Template*
Australian Contract Expenditure Achieved Reporting Template*
Full-Time Equivalent (FTE) Reporting Template*

*\*these templates will be communicated to shortlisted suppliers as part of the RFP pack.*

## AIC Development process

Naval Group will work with suppliers to iterate their AIC Plans through the procurement process, via the provision of feedback to Preliminary AICPs, Draft AICPs and Final AICPs.

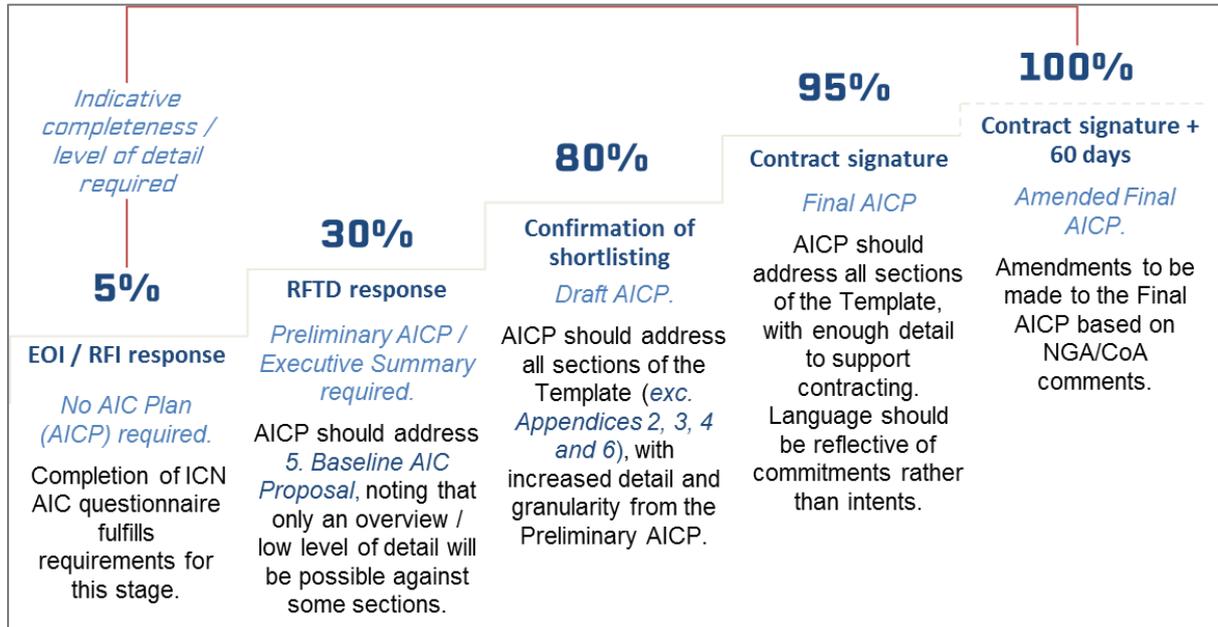


Figure 1: AIC Plan Development Process

## AIC Plan Execution and Reporting

Suppliers' ongoing obligations regarding their AIC Plans and associated documentation after a contract is executed and the AIC Plan is approved by Naval Group are outlined below. Suppliers are required to:

- Nominate and maintain their key point of contact for AIC Plan execution
- Update their AIC Plan, with appropriate version control, in accordance with the agreed update periodicity (see Section 8 of the AICP Template below)
- Update existing LIA Description Sheets and LIA Schedule on a quarterly basis to reflect any increase or decrease to the work packages awarded in contract to an Australian Company
- Provide additional LIA Description Sheets on a quarterly basis for further work packages awarded to Australian companies, as those commitments are made
- Provide ongoing Australian Contract Expenditure achieved information in the format required by Naval Group
- Update their AIC Delivery Report periodically or as required by Naval Group
- Report on their progress against the AIC Plan by indicating the status of milestones, providing supporting evidence and access for verification of capability audits
- Provide (on a quarterly basis) FSP related FTE information in the format required by Naval Group.

## AIC Plan Template

The following section outlines the expected content of a complete AIC Plan.

The suppliers AIC Plan should be appropriately labelled with the title, supplier's name, equipment addressed, revision number and date created.

### 1. ASSUMPTIONS

The supplier should list any assumptions upon which the baseline AIC Proposal is developed.

### 2. TECHNICAL AND CAPABILITY CONTEXT

#### 2.1 Equipment Technical Overview

*Note: The audience of AIC Plans is wide and varied and reviewers and approvers include persons who are not technical experts in the scope of supply. In this section the supplier provides the technical context required for a less informed audience to understand the AIC proposal.*

The supplier shall provide an overview of the equipment, including outlining its key components, systems and sub-systems. No classified information should be included.

#### 2.2 Capability Needs

The supplier shall provide an overview of the capabilities and inputs required (e.g. skills/competencies, infrastructure, tools, IP, raw materials, supplies) to execute the anticipated scope of supply and services through the whole of submarine life. The description of the capability needs should be broken down into those needed for each of the FSP phases: design, build and sustainment.

### 3. COMPANY CAPABILITIES

The supplier shall provide an overview of its (and any key supply chain partners critical to the scope of supply) industrial capabilities in relation to the scope of supply, and where those capabilities reside geographically (i.e. in which country and province/state). This should include:

- A small amount of contextual information on the company's journey to develop those capabilities
- The collective volume of business and customers that support the continuity and ongoing development of that capability.

### 4. AUSTRALIAN INDUSTRY CAPABILITIES

*Note: This section may not be relevant for Australian respondents with wholly Australian supply chains, who have already covered their company capabilities in section 3.*

The supplier should outline the capabilities needed for the whole of life scope of supply, which are present within Australian Industry and which are not (i.e. where they've identified a capability gap in Australian Industry). This should align with the information presented in Section 2.2 and be broken down into the capabilities needed for each of the FSP phases: design, build and sustainment.

The supplier should explain how this market intelligence was obtained, including if relevant when and how the Australian market was engaged.

### 5. BASELINE AIC PROPOSAL

#### 5.1 Executive Summary

The supplier shall provide an executive summary (no more than 1 page) of its baseline AIC proposal to meet the FSP Objective, including opportunities for Australian Industry, the approach to developing and sustaining capabilities in Australia and how sovereign operation and sustainment will be

achieved. At a minimum this must include, at a level of detail commensurate with the stage of the procurement process:

- What core activities will be undertaken in Australia?
- What core activities will be undertaken overseas?
- [*Overseas-based suppliers only*] Will the supplier be partnering with any Australian industry to provide its scope? If so who?
- Where relevant, how does the supplier propose to achieve Transfer of Technology?
- [*Shortlisted suppliers only*] What is the proposed LIA Value?
- [*Shortlisted suppliers only*] How many Australian FTE positions will this work support?

## **5.2 Workshare and Opportunities for Australian Industry**

The supplier shall outline which aspects of the scope of supply (through life) are proposed to be delivered in or transitioned to Australia, including outlining which of the opportunities are based upon existing capability and which are based upon capabilities to be developed.

The supplier shall indicate who are the Australian companies being considered or selected to perform the relevant aspects of the scope of supply in Australia. When further market engagement is required to identify Australian suppliers or partners, the supplier shall outline how and when this will be done.

## **5.3 Work not transitioning to Australia**

The supplier shall outline which elements of the scope of supply are proposed not to transition to or be undertaken in Australia. Appropriate explanation, including the associated business justification, covering cost, quality or schedule considerations, should be included.

## **5.4 Transfer of Capability to Australian Industry**

*Note 1: As this section relates to the development of capability in Australia, responses to this section from Australian companies with already established capabilities in Australia will not be extensive; however the response should still cover as a minimum how the capability to operate the equipment will be transferred to the relevant recipient (e.g. Royal Australian Navy, Naval Group Australia, etc.).*

*Note 2: The supplier should review the transfer of capability definitions provided in the Definitions section prior to completing this section. Naval Group adopts a consistent language and approach throughout the program to describe transfer of capability activities. The supplier should adopt the same terminology.*

The supplier shall outline its commercial model to be adopted in relation to its proposed approach to develop capability in Australia (e.g. joint venture, subsidiary, sub-contracting etc.).

Where capabilities are proposed to be developed in Australia, the supplier shall outline:

- The description of the capability to be developed or transferred
- The rationale for establishing that capability in Australia (e.g. critical for sovereign operation or sustainment, contributes to maximising Australian Industry Involvement, business decision to have a subsidiary in Australia etc.)
- Whom the recipient(s) of the transfer of capability are (e.g. Naval Group Australia, an Australian supplier xyz or the Royal Australian Navy)
- For each recipient identified (for each capability), what the transfer's components (IP, skills development, supplies, technical assistance, oversight, data, tools and infrastructure) are and when in the program the transfer will occur.

## **5.5 Business Continuity and Development**

The Supplier shall outline their strategy to sustain, enhance or further develop their Australian capabilities (extant or those which will be established). This section may include:

- Percentage of revenue investment in Australia on R & D

- Specific research & development projects involving Australian Industry
- Apprenticeship and skills pipeline orientated programs
- Business strategies
- Export opportunities;
- Opportunities (current or future) to utilise capabilities on other defence projects or similar work in adjacent industries.

This section should contemplate any significant gaps in the FSP demand for the Australian capability and how continuity and maintenance of skills would be achieved in this context.

## **5.6 Strategic Opportunities**

*Note: This section will not be relevant for every supplier and should only be used where deemed appropriate.*

The supplier may utilise this section to outline any strategic opportunities in relation to either securing work packages on other Defence programs or further work packages for the FSP. Where this section is populated the supplier must clearly identify the impact on the FSP as a result of the suppliers increased volume of work and the associated benefits.

Such impacts may include: making it feasible to transition and sustain further capabilities in Australia; increased throughput enabling retention of skills; and changing the value for investment proposition on proposed infrastructure and special tools, etc.

## **6. ALTERNATIVE AIC PROPOSAL OPTIONS**

In addition to the supplier's baseline AIC proposal, the supplier shall detail any identified alternative options for performing more or less work in Australia including any cost, capability, sovereignty or schedule implications.

## **7. RISK ANALYSIS**

The supplier is required to undertake a risk assessment of their baseline AIC plan, identifying risks to schedule, quality, cost and achievement of the FSP Objectives, as well as, describe the associated mitigation actions.

## **8. AIC PLAN MANAGEMENT AND EXECUTION**

The supplier shall describe the key roles and responsibilities within their Program organisation structure responsible for the execution (and associated reporting) of their AIC Plan. This includes if relevant how specifically the Transfer of Capability program will be managed (organisation and roadmap).

It is anticipated that the supplier would be able to define any major expected milestones which would trigger an update to their Plan. The updates required by Naval Group Australia are:

- Contract Effective Date + 60 days (to cover any additional information required by the Commonwealth)
- At each new contract stage [if a multi-stage contract]
- Based on any emergent programmatic need

Naval Group would expect confirmation from the supplier every 6 months that their AIC Plan remains current. This would be listed as an AIC General milestone in the AIC Delivery Report.

## APPENDICES

*Appendix 2 is only required if the supplier has been provided with sovereignty requirements by NGA as part of a RFX.*

*Appendix 3, 4, and 5 are only required from shortlisted suppliers, as part of the RFP process.*

*Appendix 6 and 7 are only required from contracted suppliers.*

### APPENDIX 1: COMPLIANCE MATRIX

The supplier should include in their AIC Plan a compliance matrix against these Guidelines to demonstrate alignment with the AIC Plan requirements.

### APPENDIX 2: COMPLIANCE TO SOVEREIGNTY REQUIREMENTS

The supplier shall include a table (in the format outlined below) describing their compliance to the sovereignty requirements outlined in the RFX documentation (where provided).

Ref #	Defined sovereignty objective or artefact	Compliant (C), partially compliant (PC), alternative (A), not compliant (NC)	Description of alternative or justification for non-compliance

### APPENDIX 3: LOCAL INDUSTRY ACTIVITY SCHEDULE

The Local Industry Activity (LIA) Schedule provides an overview of the local industry activities (which are detailed further in Appendix 3) and local overheads. The template for the LIA Schedule is to be provided as part of the RFP pack, but at a minimum it will require:

- LIA Title (Work Package Title)
- Name and location of the Australian Company undertaking the LIA
- LIA value (estimated dollar value of the work package)

Whether the nominated Australian Company is a Small-to-Medium or Indigenous Enterprise

### APPENDIX 4: LOCAL INDUSTRY ACTIVITY DESCRIPTION SHEETS

The supplier shall provide Local Activity Description Sheets for any Local Industry Activity work packages awarded to an Australia Company using the template provided as part of the RFP (one per work package). The Local Industry Activity (LIA) Description Sheet provides a detailed explanation of the summary information contained in the LIA Schedule.

### APPENDIX 5: AIC DELIVERY REPORT TEMPLATE

The supplier shall provide their AIC Plan milestones and associated evidence that will be supplied to Naval Group to substantiate achievement against the suppliers AIC Plan for the first phase of the contract, using the template provided by Naval Group. The Delivery Report will also cover reporting on the number of Full-Time Equivalents (FTEs) expected to be utilised on the FSP, with a breakdown of which positions have been created specifically for the Program.

### APPENDIX 6: TRANSFER OF CAPABILITY ROADMAP

Where the supplier proposes to transfer capability to Australia, a roadmap outlining high-level activities, milestones and dates should be provided in the format preferred by the supplier.

### APPENDIX 6: PUBLIC AIC PLAN

The supplier shall provide a public version of their AIC Plan, using the template published on the Naval Group Australia website (<https://naval-group.com.au/suppliers/> > Tools / References).

## Definitions

### 1. GENERIC DEFINITIONS

Term	Definition
<b>Australian Industry</b>	Is a collective term to describe Australian entities that are registered with an Australian Business Number (ABN), where the work is performed in Australia with Australian based employees. This includes Australian based subsidiaries of overseas companies/primes/original equipment manufacturers who are registered in Australia with an ABN and New Zealand entities where the work is performed in New Zealand with New Zealand based employees consistent with the Commonwealth's obligations under the Closer Economic Relationship agreement.
<b>AIC Options</b>	The suppliers AIC Option(s) are potential alternative approaches to that outlined in their baseline approach. The options are an alternative for doing more or less work in Australia and include the associated analysis of cost, quality, risk and schedule for that option.
<b>Baseline AIC Approach</b>	Suppliers baseline AIC approach, is their primary and proposed approach to contributing to the achievement of the FSP Objectives. This is the basis for their AIC Plan and relates to the approach that will be implemented if the AIC Plan is approved.
<b>Engineering Design Authority</b>	An organisation / individual with sufficient competency and authority to make engineering decisions and advise on the risk to technical integrity, particularly with respect to design changes, design certification and judgement of significance.
<b>GST</b>	Has the meaning given to it in <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Imported Content</b>	Is defined as the value of any supply, work or service which is either imported from or is undertaken/performed overseas (a country other than Australia or New Zealand).
<b>Indigenous Enterprise</b>	Is an organisation that is 50 percent or more Indigenous Australian owned that is operating as a business. Supply Nation is a membership body that validates and promotes Indigenous Australian enterprises.
<b>Local Industry Activity (LIA)</b>	Is defined as Australian industrial base work performed in Australia in support of the Future Submarine Program design, build or sustainment activities. LIAs directly create, enhance or maintain defence capability and are performed by Australian industry.
<b>Local Industry Activity Value (LIA Value)</b>	Is the dollar value (GST exclusive) of the LIA.
<b>Local Overheads Value</b>	Represents the dollar value (GST exclusive) of expenditure on custom duties, insurances, bank fees, software, computer and office supplies, infrastructure, corporate overheads and indirect goods and services within Australia. Any local expenditure that does not fall within the Local Industry Activity Value is classified as Local Overheads Value. This excludes any Imported Content.
<b>RFx</b>	Is a term used to define an approach to the market where RF means Request For and x is a placeholder to be replaced with (I) Information, (P) Proposal, (Q) Quotation or (T) Tender as applicable.
<b>Sub-Capability</b>	A sub-capability is a subset of the master level capabilities defined by Naval Group. This allows the supplier to more discretely describe the capabilities proposed to be developed, recipients and associated components, whilst being consistent with the Naval Group Transfer of Capability program definitions and language.

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Term	Definition
<b>Small to Medium Enterprise (SME)</b>	Is a company with fewer than 200 full-time employees.
<b>Transfer of Capability Recipient</b>	A transfer of capability recipient is the Australian Company receiving the technical know-how, know-why and associated Components to develop the defined capability.

**2. TRANSFER OF CAPABILITY: CAPABILITY AND RECIPIENT DEFINITIONS**

Capability	Sub-capability	Definition / objective	Recipient
<b>Capability to Design</b>	To be defined by supplier (There may be more than 1 sub-capability)	To be defined by supplier	To be defined by supplier
<b>Capability to Build</b>	To be defined by supplier (There may be more than 1 sub-capability) <i>e.g Capability to perform final assembly, capability to perform final test &amp; qualification, capability to perform end-to end manufacturing of xyz</i>	To be defined by supplier	To be defined by supplier
<b>Capability to Operate</b>	/	To be able to operate the FSM, including Organisational level of Maintenance (OLM) To be able to regenerate FSM crew skills	Royal Australian Navy
<b>Capability to sustain</b>	Upkeep	To be able to conduct OLM, Intermediate Level of Maintenance (ILM) and Depot Level of Maintenance (DLM) To be able to conduct Manufacturer Level of Maintenance (MLM) To be able to provide spare parts To be able to provide services to support the sustainment of the FSM To be able to carry out upkeep design activities (including ILS design activities)	To be defined by supplier
	Update	To be able to address emerging obsolescence and supportability issues  To be able to carry our update design activities (including ILS design activities)	To be defined by supplier
	Upgrade	To be able to implement upgrades (changing design to enhance capability)  To be able to carry upgrades	To be defined by supplier

Capability	Sub-capability	Definition / objective	Recipient
		design activities (including design activities)	

### 3. TRANSFER OF CAPABILITY: COMPONENTS

Component	Description
<b>Skills Development</b>	<p>This component is divided by three sub-components as follow.</p> <p><u>Skills Requirements</u>: the skills required to perform the transfer of capability and the number of people to be trained.</p> <p><u>Training</u>:</p> <ul style="list-style-type: none"> <li>• Theoretical: Classroom lectures;</li> <li>• Practical: Practical classroom exercises and practical work in workshops on dedicated materials; and</li> <li>• On the Job Training (OJT): This involves the direct involvement of trainees on a submarine job.</li> </ul> <p><u>Regenerate Skills</u>: to be able to regenerate skills for industry or a navy.</p>
<b>Tools</b>	The tools required to be transferred to achieve the capability objectives (examples: test benches). It also includes IT Tools if necessary.
<b>Data</b>	The technical data packages required to be transferred to achieve the establishment and regeneration of capability.
<b>Technical Assistance</b>	Technical Assistance required to achieve the establishment and regeneration of the capability
<b>Oversight</b>	Oversight of the Transfer of Capability recipient(s), to ensure complete, effective and consistent implementation of the principles, recommendations, and standards specified by the Transfer of Capability Program owner.
<b>Infrastructure</b>	The infrastructure required to support establishment of the capability
<b>Intellectual Property</b>	IP required to be transferred to achieve the establishment and regeneration of the capability, as well as, support the sovereignty objectives of the FSP