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Ms Lena Erixon
Director General
Swedish Defence Materiel Administration
SE-115 88 Stockholm
SWEDEN

Dear Ms Erixon *Lena*

AUSTRALIA'S FUTURE SUBMARINE PROGRAM

Thank you for your letter of 2 March 2015. I appreciate your respect for Australia's decision, and the right we have exercised over the direction of our Future Submarine Program. I also feel it is important that I address various concerns you have expressed.

In relation to Swedish submarine technology and industrial capability, we do understand and acknowledge the work that Sweden has done to update and upgrade submarines since delivery of the Gotland class in 1996-97. This includes the insertion of an air-independent propulsion section into two Västergötland class submarines to form the Södermanland class, the last of which was delivered in 2003. We also note the modifications of the remaining Västergötland class from 2006 to 2013, forming the Archer class for Singapore, which replicated similar work along with other upgrades that you mention.

Nevertheless, the fact is that Sweden has not had the opportunity to complete a full submarine design and build program since 1996, particularly following the acquisition of Kockums AB by HDW in 1999. Such a hiatus in submarine design and construction gives rise to capability, cost and schedule risks for a new submarine program because of the inability to continually exercise skills across all elements of the submarine design and build process. At this critical juncture in Australia's Future Submarine Program, there is a clear imperative for Australia to minimise such risks.

Importantly, based on the recent work we undertook with TKMS AB/SAAB, we do not believe that an evolution of the Collins as the concept for Australia's Future Submarine would have been beneficial, nor a low cost or low risk solution. As you know, in December 2013 we contracted the then TKMS AB to study the evolution of Collins as an option for the Future Submarine. The outcomes of this study demonstrated that the design effort involved would be similar to a new design. Moreover, the capability of an evolved Collins would have been compromised by original constraints on design changes that were intended to limit the volume of new design work. Even a new design based on Collins would have been challenging noting that only a small percentage of design artefacts might have been used without

modification, few items could have been qualified because of legacy issues, and the corporate memory relating to the original Collins design is limited.

In relation to intellectual property (IP) rights, I can confirm that IP issues were not among our considerations surrounding further submarine cooperation with Sweden. However, I cannot agree with the comment in your letter that IP was a matter resolved long ago. While I remain grateful for FMV's considerable efforts during the course of 2013 to help us achieve signature on an *Implementing Arrangement (IA)* and *Licence Deed*, the IP rights that were granted to Australia under the IA and Deed related only to the Collins program and Australia's assessment of an evolved Collins as an option for the Australian Future Submarine. The IA and Deed did not provide Australia any rights to access and use Swedish Submarine technology during future stages of the program as these negotiations were not considered possible at the time.

In relation to the expertise of our various delegations to Sweden, again I cannot agree with your claim that 'not one of the delegations visiting Sweden has had the expertise necessary for either technical or industrial analysis'. First, our teams have included people with significant operational, engineering, legal, government and industrial experience. Second, our assessments and decisions were not solely based on the visits to Sweden, but included information and analysis from a range of sources, including the contracted work on the evolved Collins option.

We acknowledge the long-standing relationship between our countries on defence materiel matters, and continue to see a vital role for SAAB in supporting Australia's Defence capabilities into the future. We also wish Sweden every success in its future submarine programs

Yours sincerely,



Harry Dunstall
Acting Chief Executive Officer

20 March 2015