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~~CONFIDENTIAL AUSTEO~~

Smith/2011:
Schedule No: 14647
Reference:



Australian Government
Department of Defence

MINISTERIAL SUBMISSION

Priority

Date Dept Approved:

Date Rec in Office:

Date Due:

For Action: Minister for Defence

For Info: Mr Clare

Copies to: DEPSEC S, VCDF, CAF, A/CEO DMO, CPO, FASMECC, A/FASIP

Subject: Gifting of C-130H aircraft to Indonesia

Purpose:

To seek your agreement to progress the proposal to gift surplus ADF C-130H aircraft to Indonesia.

Key Points:

- On 11 August 2011, we updated you on the proposal to gift four surplus ADF C-130H aircraft to Indonesia (Attachment A). We advised you that Defence was reviewing airlift capability and that these four aircraft were part of the deliberations. The review confirmed that the C-130H aircraft are not required to remediate any deficiency under the current Defence Capability Plan and are available for gifting.

Indonesian participation and costs

- [Redacted]
- Although the full cost of refurbishing and delivering the four C-130H airframes is a commercial matter to be agreed between Indonesia and their chosen commercial partner. [Redacted] Separate to this amount, Indonesia would also need to fund the initial support system costs – distinct from through life costs – such as spare parts, training, publications, support equipment and operational and technical airworthiness assistance. [Redacted]

Imperative to gift and respond

- Australia has a direct interest in an effective Indonesian airlift capability. Since 2004, Australia has frequently deployed aircraft to Indonesia to provide airlift support to humanitarian assistance and disaster relief (HADR) operations. These deployments are costly for an airlift capability already in high demand. For example, in 2009 during Operation PADANG ASSIST, ADF C-130 aircraft flew 111 sorties costing nearly A\$12 million. [Redacted] Gifting C-130H aircraft would substantially boost these efforts, enhancing bilateral military relations and potentially reducing the call on Australian aircraft in future emergencies.

s33(a)(iii)
s33(b)

s47G

s33(a)(iii)
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s33(a)(iii)

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s33(a)(iii)

5. [REDACTED] CDF and Secretary wrote to their counterparts on 7 and 13 September respectively advising that the Australian Government was yet to make a decision to dispose of any surplus aircraft (Attachment C).
(Attachment D). [REDACTED]

6. [REDACTED]

7. [REDACTED]

Way ahead

8. [REDACTED]

9. [REDACTED]

10. [REDACTED]

11. [REDACTED]

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12. [REDACTED]

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Bilateral gifting

13. We recommend that Australia conduct the gifting on a bilateral basis. [REDACTED]

s33(a)(iii)

14. We recommend seeking Government agreement to advise Indonesia that four C-130H airframes are available, but that a further allocation of US\$50 million would be inadequate to cover the full cost of refurbishment and initial support system costs. This approach would allow Australia to meet our interests and Indonesian expectations while ensuring Indonesia is in a position to decide to fund the refurbishment of some or all of the airframes. Australia would specify in any subsequent bilateral international arrangement and Deed of Gift that our contribution would be strictly limited to the gifting of airframes and that our involvement would cease at the point where they are provided to [REDACTED]

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Risks

15. There are risks associated with the gifting proposal [REDACTED]

s33(a)(iii)

16. There are also financial and political risks if we proceed with the gifting. [REDACTED] of cost escalation during the refurbishment of the airframes. [REDACTED] To ensure the limits of our involvement are clear, as stated above, the bilateral international arrangement and Deed of Gift should strictly limit our involvement to the delivery of airframes [REDACTED]

s33(a)(iii)

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17. [REDACTED]

s33(a)(iii)

Recommendations:

That you:

i. [REDACTED]

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Noted / Please Discuss

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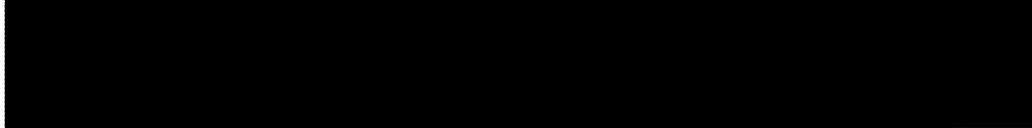
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Smith/2011:
Schedule No: 14647
Reference:

ii. Agree that Defence develop a proposal for Government agreement to gift four C-130H airframes to Indonesia to be refurbished with Indonesian funds. Agreed / Not Agreed	
Approved By: Stephen Merchant Acting Secretary September 2011	Approved by: D.J. HURLEY GEN CDF September 2011
Contact Officer: Lachlan Colquhoun A/FASIP	Phone: 02 6265 7255
Primary Addressee <div style="text-align: right;"> Stephen Smith / / </div>	
Information Addressee <div style="text-align: center;"> Noted / Please Discuss </div> Jason Clare / /	

Resources:

18. First Assistant Secretary, Resource Assurance (CFOG) notes:

a. 

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b. that the total cost to refurbish four aircraft, including initial support system costs is estimated at US\$100 million.

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Smith/2011:
Schedule No: 14647
Reference:

19. Were the Australian Government to retain the aircraft, it could offer them for open market sale. The 2011 total sale value of the four aircraft is estimated to be around A\$20 million. The market value of the airframes will continue to decline over time.

20. Consultation

21. This submission has been developed in consultation with VCDF, Deputy Chief of Air Force (Air Vice-Marshal Neil Hart), Post Jakarta (A/HADS. CDP), CFO (First Assistant Secretary, Resource Assurance and Assistant Secretary Financial Strategy and Reporting), DFAT (Director Indonesia), DMO (Director General Defence Disposals Agency and Assistant Director DDA) and Defence Legal (DGADFLS, AIRCDRE Paul Cronan).

Financial/Workplace Implications

22. N/A.

Conflict of Interest:

23. N/A.

Attachments:

A. FASIP/OUT/2011/330: Proposed Gifting of C-130H aircraft to Indonesia - Status Update, 11 August 2011

B. [Redacted]

C. [Redacted]

s33(a)(iii)

D. [Redacted]

E. [Redacted]

F. Letter: Prime Minister Rudd to Defence Minister Faulkner, 5 March 2010

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AD 167
Revised Dec 2007

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Australian Government
Department of Defence

URGENT

Schedule number for this task
14647

Due date for this task
12 SEP 11

Ministerial Tasking Sheet

The Office of the Minister for Defence directions:

Ministerial Representation

Prepare reply for:

- Minister
- Chief of Staff
- Adviser _____
- Referral to _____
- Standard response _____
- For departmental action _____
- For information only

Ministerial Submission

- For approval
- For noting
- Supplementary advice FASIP 330/11
- Event or visit brief
- Speech
- Meeting brief
- Ministerial talking points (DGPA clearance required)
 - MS Word document required
- Media release (DGPA clearance required)
 - MS Word document required
- For email advice only to: _____
(cc to DMPLS MINDEF)

Directorate of Ministerial and Parliamentary Liaison Services (DMPLS) directions:

For action by: FASIP Date received: 5 SEP 11 Type: SUPPLEMENTARY
 Originator: MINDEF
 Sponsor: _____
 Subject: MINISTER'S COMMENTS ON FASIP 330/11 - PROPOSED GIFTING OF C-130H AIRCRAFT TO INDONESIA

This tasking has been copied to: _____
 Other instructions: _____

DMPLS Tasking Officer: K. Lucas Tel: 452512 or email DMPLS MINDEF
 (Please call if you require any assistance)

Previous related papers are on (Schedule/File): FASIP 330/11 with FASIP
14163 with _____

ASSISTANCE FOR YOU

<http://intranet.defence.gov.au/oscdfweb/sites/dmpls>
 Contact the tasking officer immediately if you think this has been incorrectly tasked to you.
 Contact the tasking officer immediately if you are unable to meet the due date above.
 Assistance can also be obtained from your Group Coordinator _____ Telephone: _____
 The task is due to your Group Coordinator on _____

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Smith/2011: 034966
Schedule No: 14163
Reference: FASIP /OUT/2011/330



Australian Government
Department of Defence

MINISTERIAL SUBMISSION

Priority



Date Dept Approved: 11 AUG 2011 Date Rec'd in Office: 12 AUG 2011 Date Due: 19 AUG 2011

For Action: Minister for Defence

For Info: Mr Clare

Copies to: Secretary, CDF, VCDF, CAF, DEPSEC S, FASMECC.

Subject: Proposed Gifting of C-130H aircraft to Indonesia - Status Update

11 AUG 2011 09:25

Purpose:
To advise you of the status of the proposed gifting of C-130H aircraft to Indonesia.

Key Points:

- The proposal to gift four RAAF C-130H aircraft to Indonesia was first raised with Australia in June 2009 (Attachments A and B).
[Redacted]
- On 29 April, Mr Peter Jennings, Deputy Secretary Strategy, met [Redacted] in the margins of the ASEAN Defence Senior Officials Meeting-Plus in Yogyakarta, Indonesia.
[Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

s33(a)(iii)
s33(b)

s33(a)(iii)
s33(b)

s33(a)(iii)
s33(b)

s33(a)(iii)

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Smith/2011:
Schedule No: 14163
Reference: FROU/our/2011/330

[Redacted]

s33(a)(iii)

Australian Capability Considerations

6.

[Redacted]

s33(a)(ii)

Way ahead

- 7. Before the end of August Defence will need to provide advice to Indonesia on gifting options, including the estimated cost of refurbishing the aircraft, so that Indonesia can evaluate whether the gifting represents value for money from their perspective. If we are not able to meet that timeframe, we will advise Indonesia when such information will be available.
- 8. We will reinforce to TNI that Australia will not provide supplementary funding for the refurbishment of all four aircraft and that US\$50M will likely only be sufficient to return two aircraft to operational condition. Defence estimates the refurbishment of four aircraft will cost up to US\$72M, with additional costs for training, spare parts and other requirements bringing the total cost to around US\$100M. [Redacted]

s33(a)(iii)

Recommendations:

That you:

i.

[Redacted]

s33(a)(iii)

Noted / Please Discuss

ii.

Note that Defence will seek your agreement to brief Indonesia before the end of August on the options available for the proposed gifting.

Noted / Please Discuss

See below
J 3.1.07




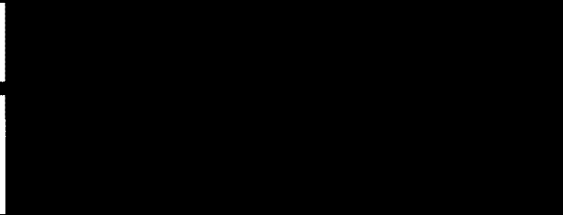
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Smith/2011:
Schedule No: 14163
Reference: GSW/OA/2011/230

Approved By Chris Birrer Acting First Assistant Secretary International Policy (1 August 2011)	
Contact Officer: Kieran O'Leary	Phone: (02) 6265 4381
Primary Addressee	  Stephen Smith
Information Addressee Noted / Please Discuss Jason Clare / /	 <div data-bbox="1168 1008 1277 1041" style="border: 1px solid black; padding: 2px;">s33(a)(iii)</div>

Resources:

9. N/A.

Consultation

10. RAAF (DCAF) and Post Jakarta (IADS) were consulted in the preparation of this advice.



Financial/Workplace Implications

11. N/A.

Conflict of Interest:

12. The Minister for Defence and the Minister for Defence Materiel have declared a potential conflict of interest in relation to their portfolio responsibilities. Controls have been established by Defence and the Defence Materiel Organisation to minimise the risk of any conflict actually arising in relation to those responsibilities. Taking into account the Ministers' declarations, at this time we assess that no conflict of interest for the Minister arises in relation to Unisys and Julzar Pty Ltd trading as MPM Marketing Services, Sodexo Australia or Serco Sodexo Defence Services, or could reasonably be perceived to arise, from the matters raised in this submission. Should any matter which could give rise to an actual or perceived conflict of interest arise at a later time, any future submissions and contact will be through the alternate Minister as identified in the controls.

Attachments:

- A. Background information: History of the C-130H gifting proposal.
- B. Letter: Prime Minister Rudd to Defence Minister Faulkner, 5 March 2010
- C. 
- D. 

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Smith/2011:

Reference: *FRCAF/OUT/2011/390*

**BACKGROUND INFORMATION -
History of the C-130H Gifting Proposal**

History of the C-130H gifting proposal

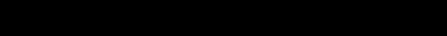
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s33(b)

CAF subsequently identified the availability of up to four C-130H airframes that could be transferred to the US and gifted to Indonesia.

2. On 5 March 2010, then Prime Minister Rudd approved the proposed gifting of four surplus ADF C-130H aircraft to Indonesia 

s33(a)(iii)

 Prime Minister Rudd also sought assurance from the Minister for Defence that the proposed gifting would not result in a capability gap for Australia, would not require reprogramming of the Defence Capability Plan, nor entering into leases for airlift capability.

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PRIME MINISTER
CANBERRA

Senator the Hon John Faulkner
Minister for Defence
Parliament House
CANBERRA ACT 2600



Dear Minister 

Thank you for your letter of 22 February 2010 seeking my agreement to gift surplus Australian Defence Force (ADF) C-130H aircraft to Indonesia 

s33(a)(iii)

I agree to your proposal 

 I also note that the Minister for Finance and Deregulation's approval is required.

I also note your advice that the aircraft to be gifted will become surplus to the ADF from 2010, however I understand that projects to acquire additional C-130Js (Project AIR 8000 Phase 1) and to replace the retired Caribou transport aircraft (Project AIR 8000 Phase 2) are not scheduled to deliver their initial capability until 2015 and 2016 respectively.

In agreeing to your proposal I seek your assurance that gifting these aircraft prior to approval or delivery of the above mentioned projects will not result in a capability gap, and will not require either reprogramming of the Defence Capability Plan or entering into leases for airlift capability.

Furthermore, I seek your advice on any opportunities for Australian industry that might arise as part of this proposal.

I have copied this letter to the Treasurer, the Minister for Foreign Affairs and the Minister for Finance and Deregulation.

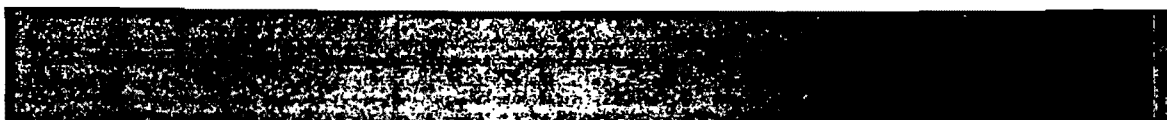
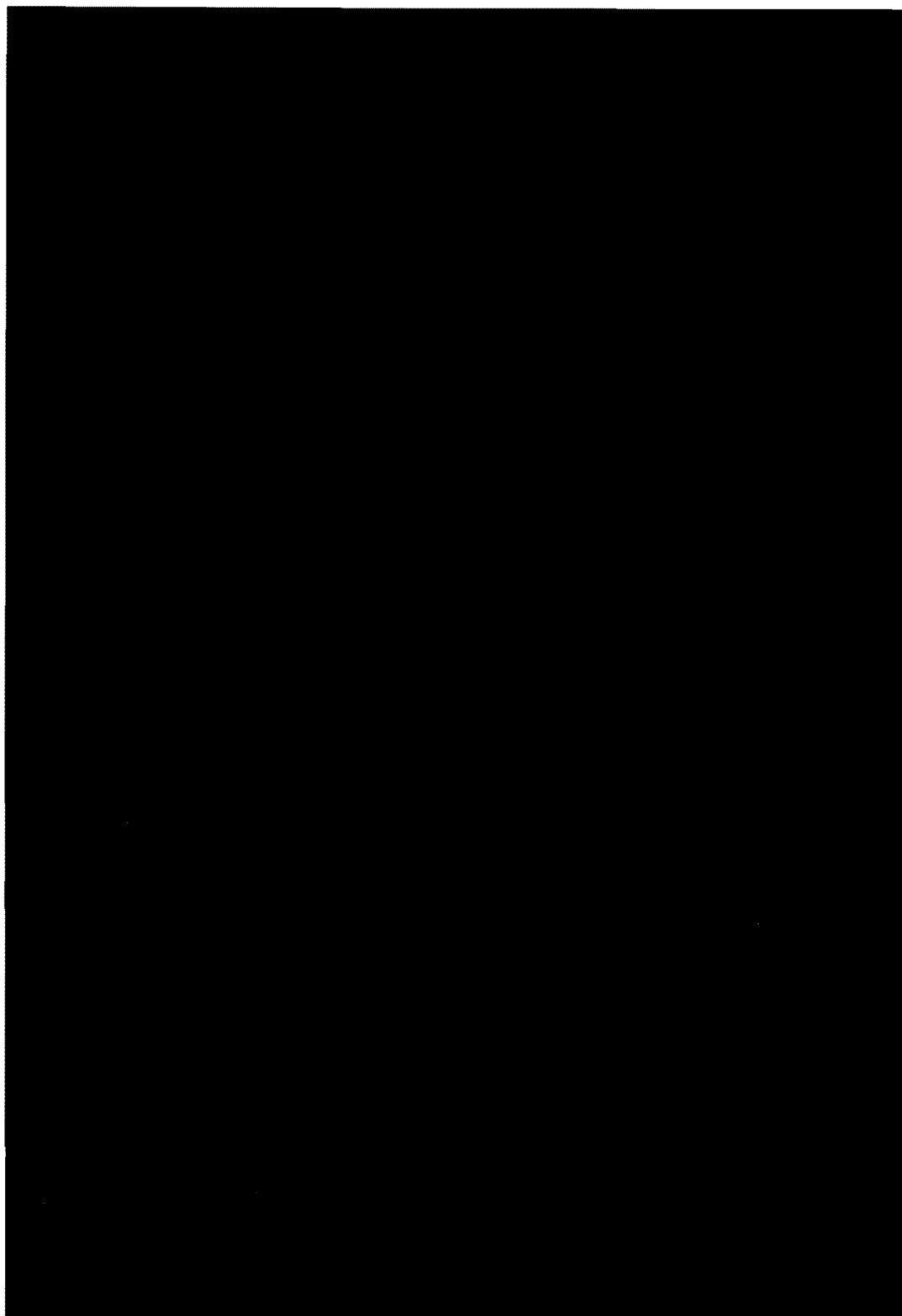
Yours sincerely

Kevin Rudd

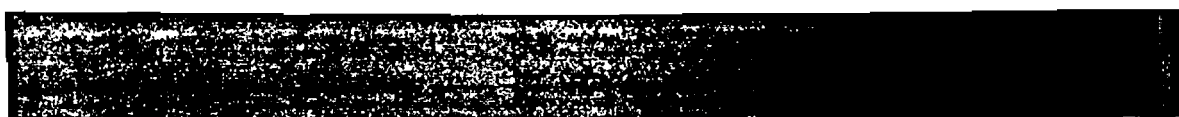
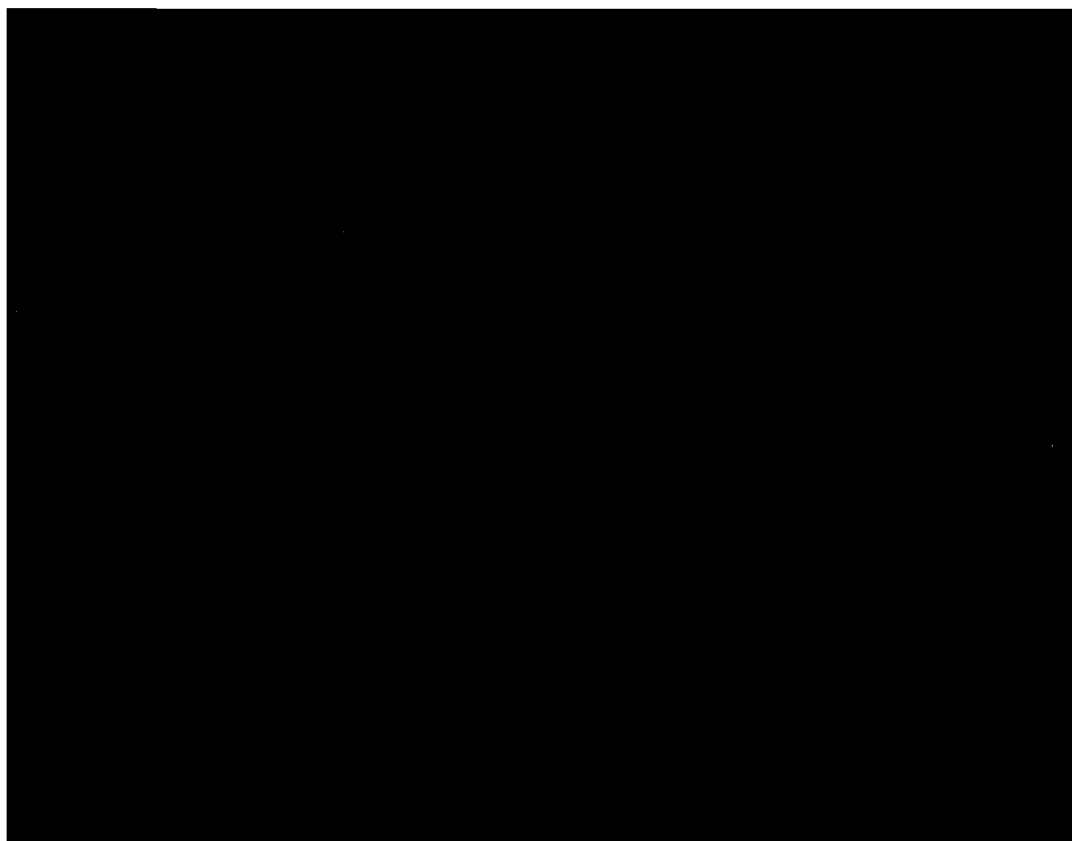
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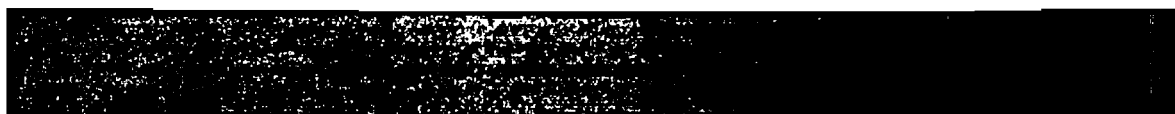
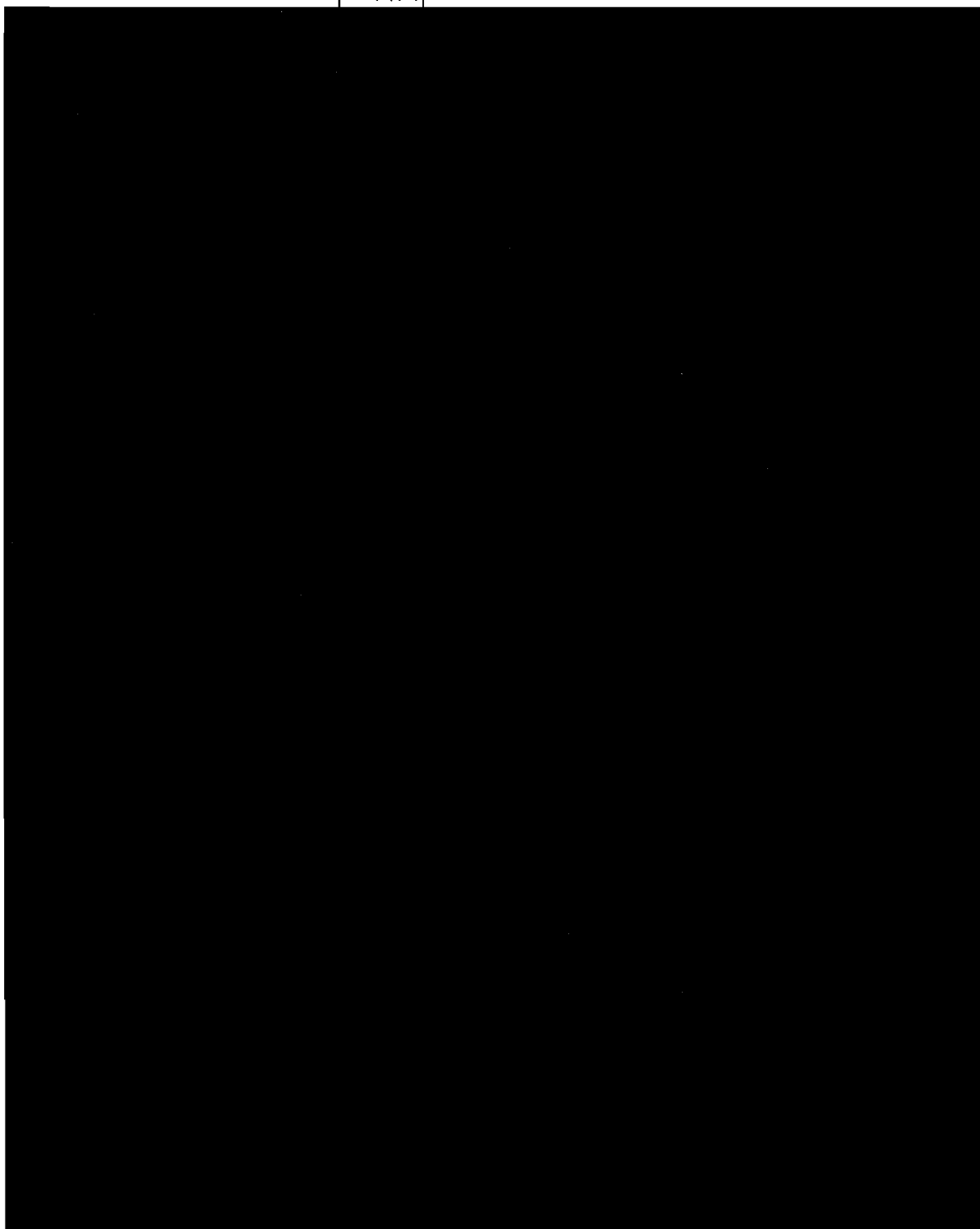
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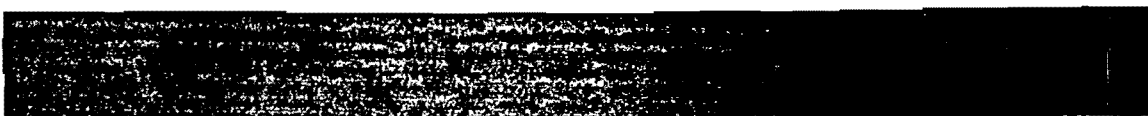
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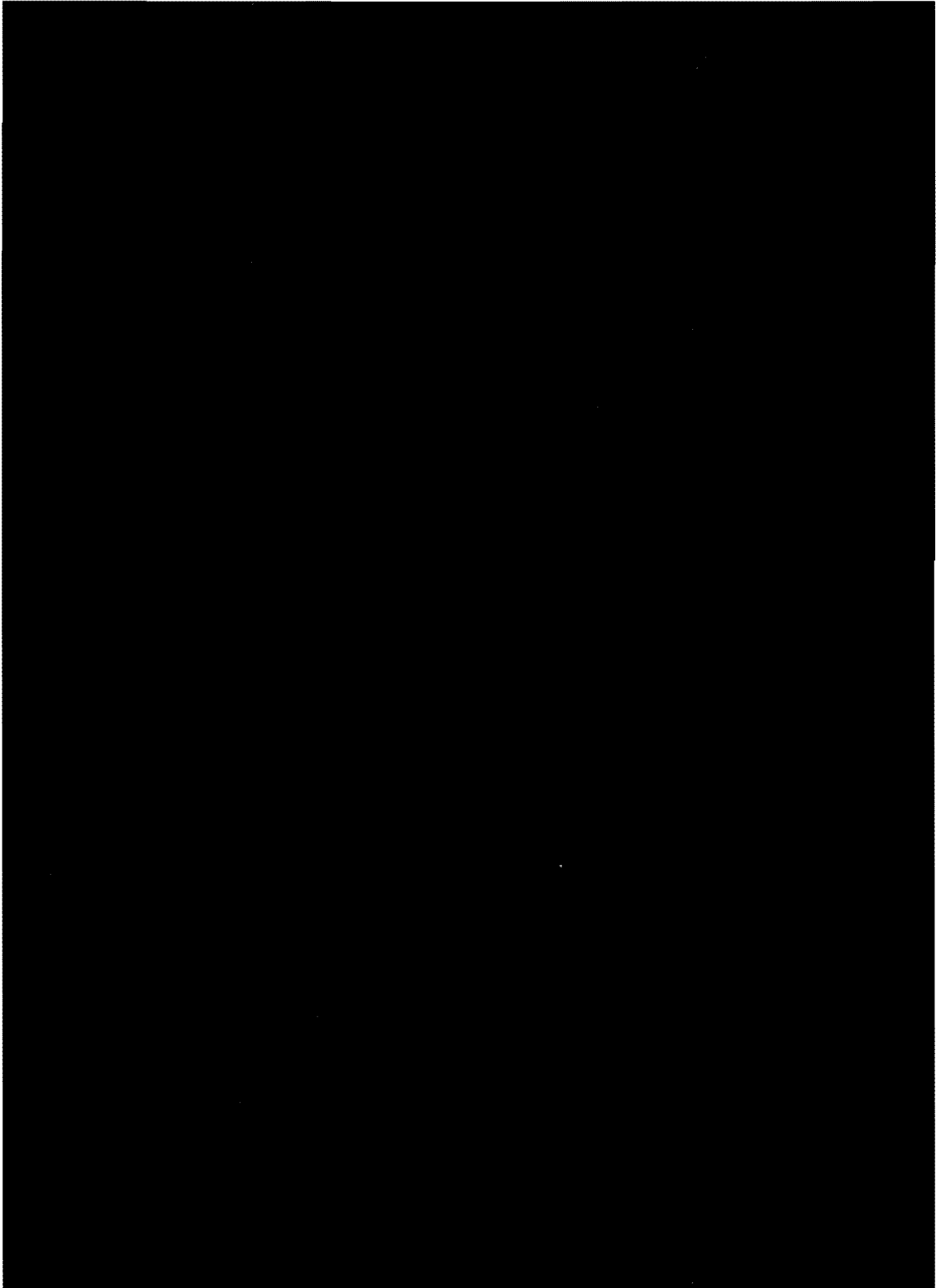
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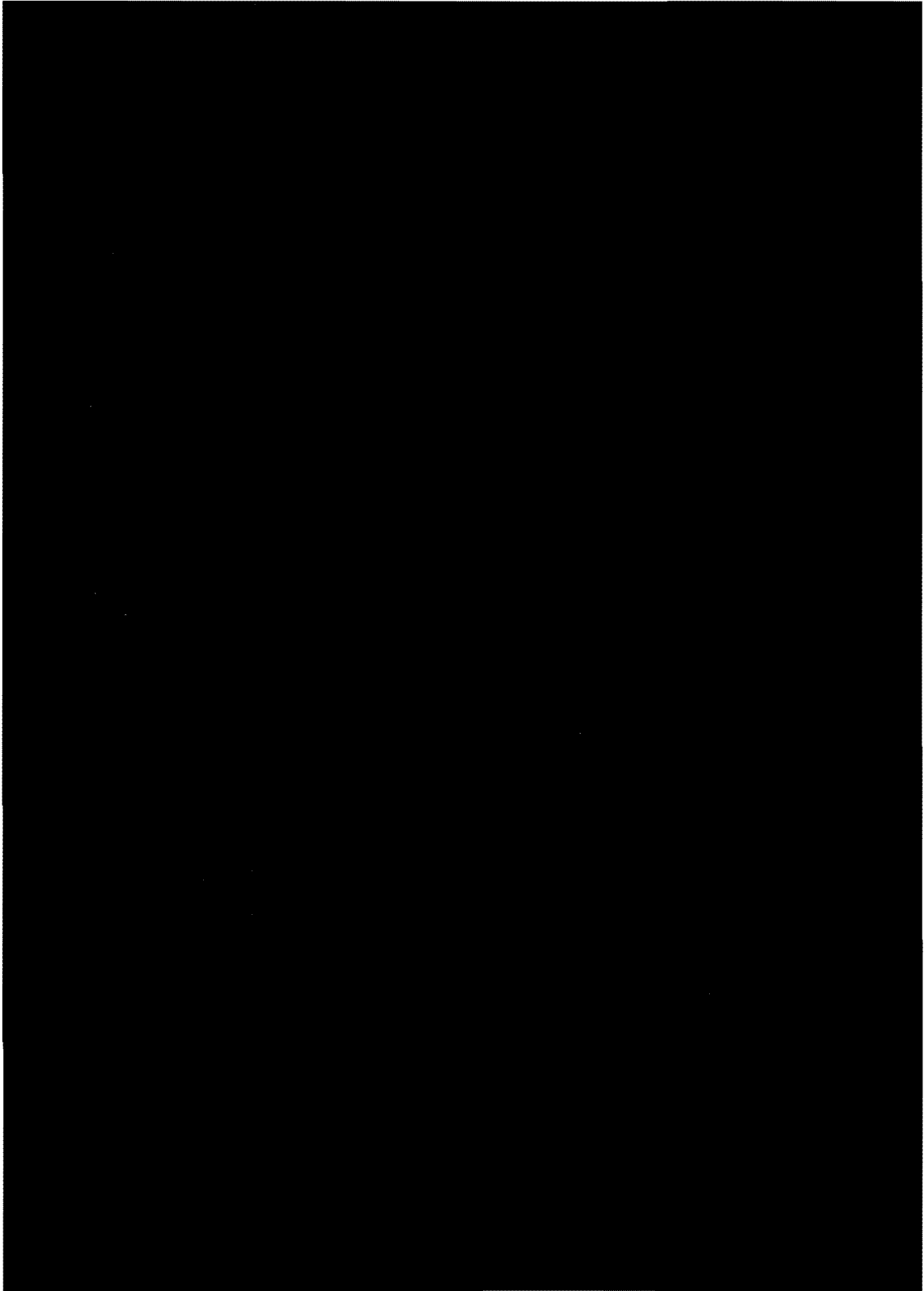
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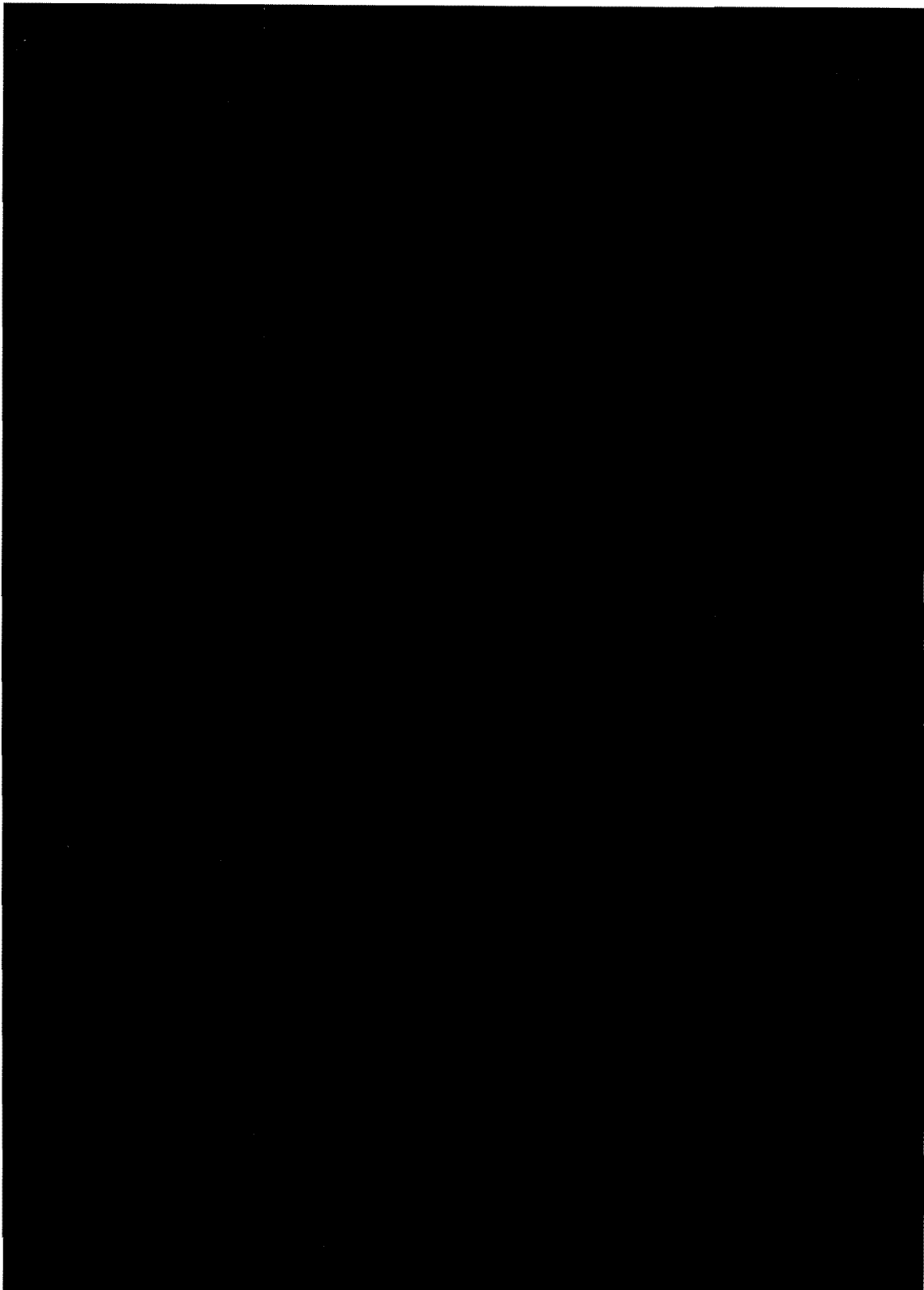
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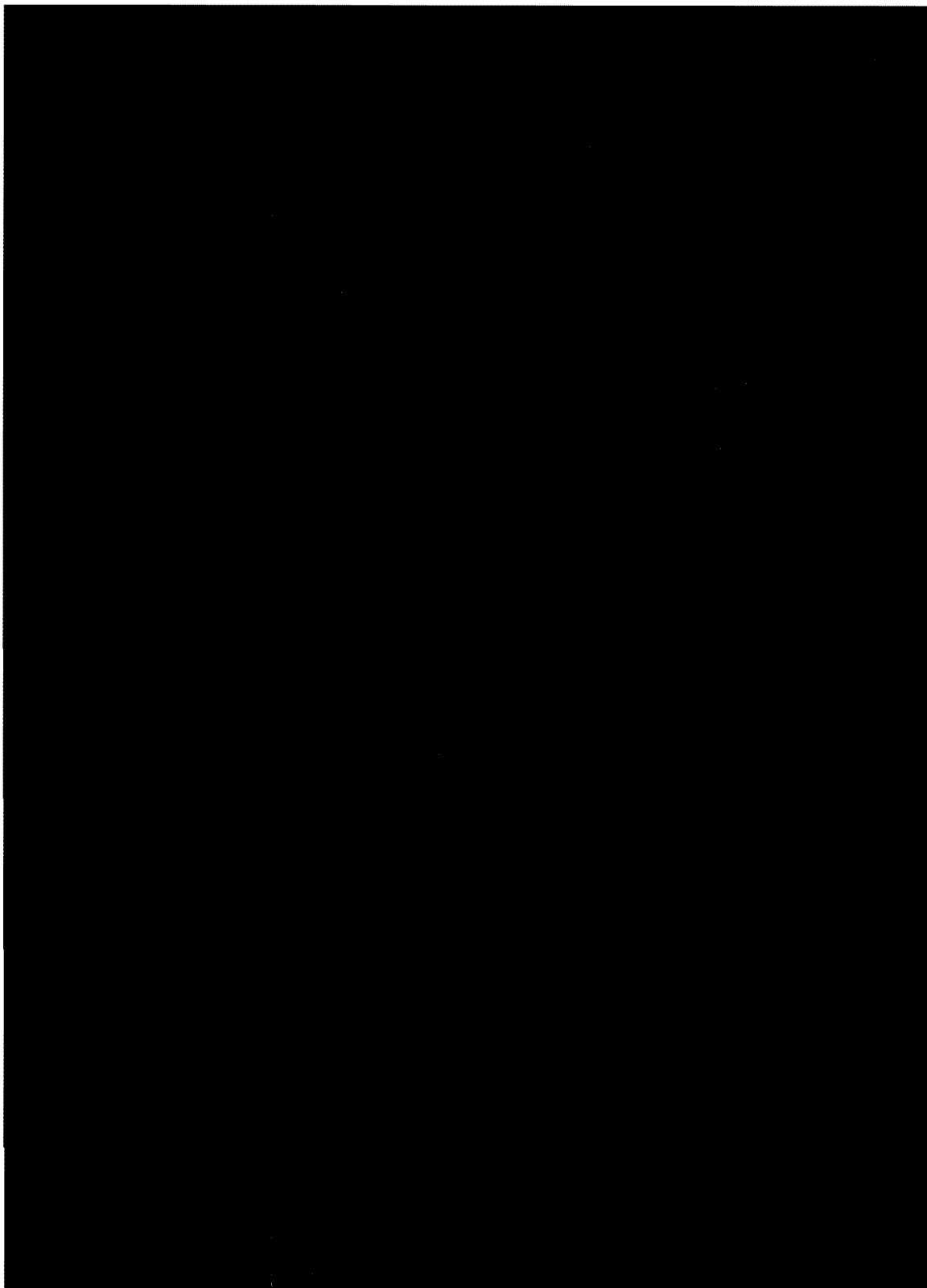
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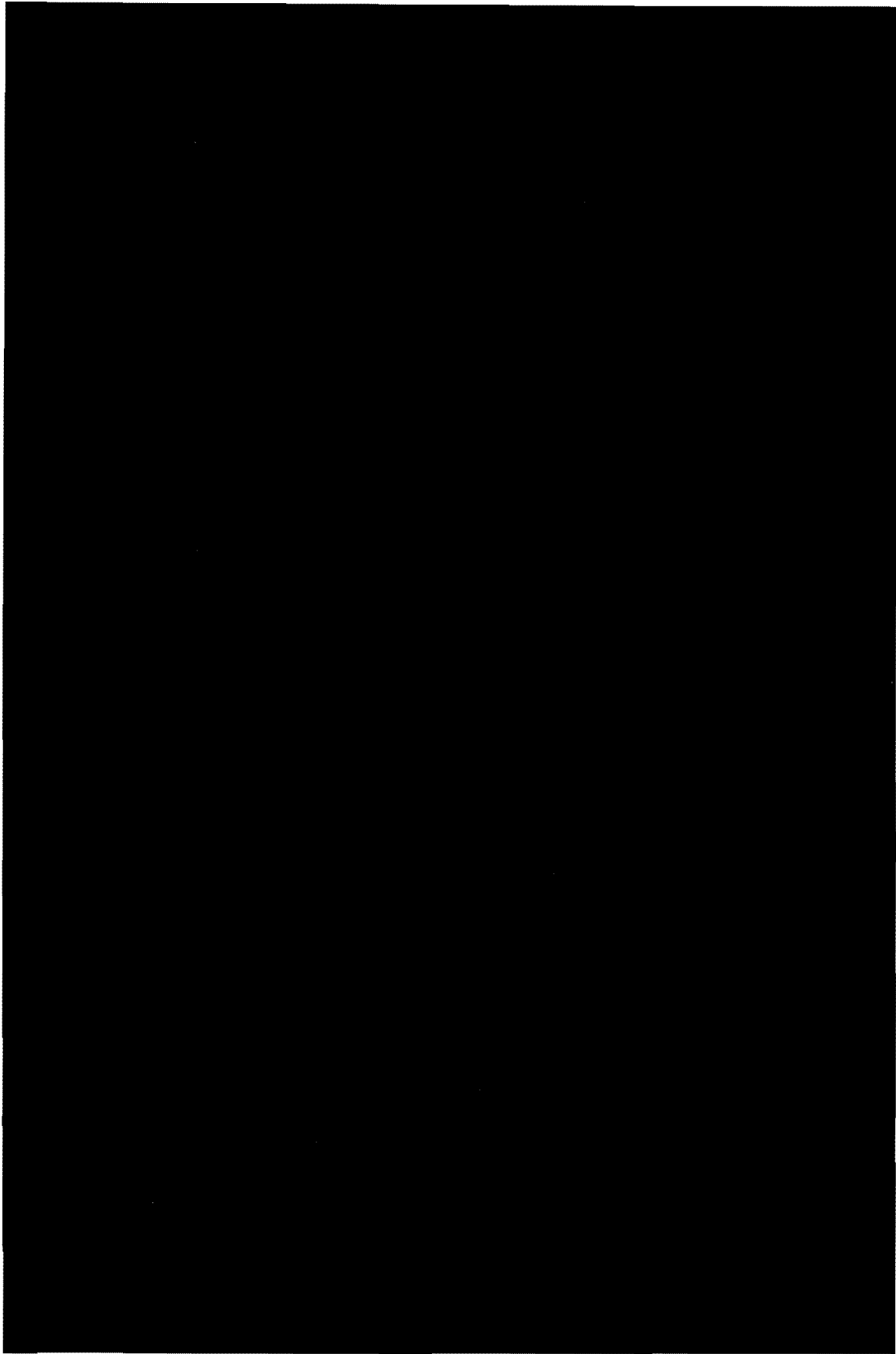
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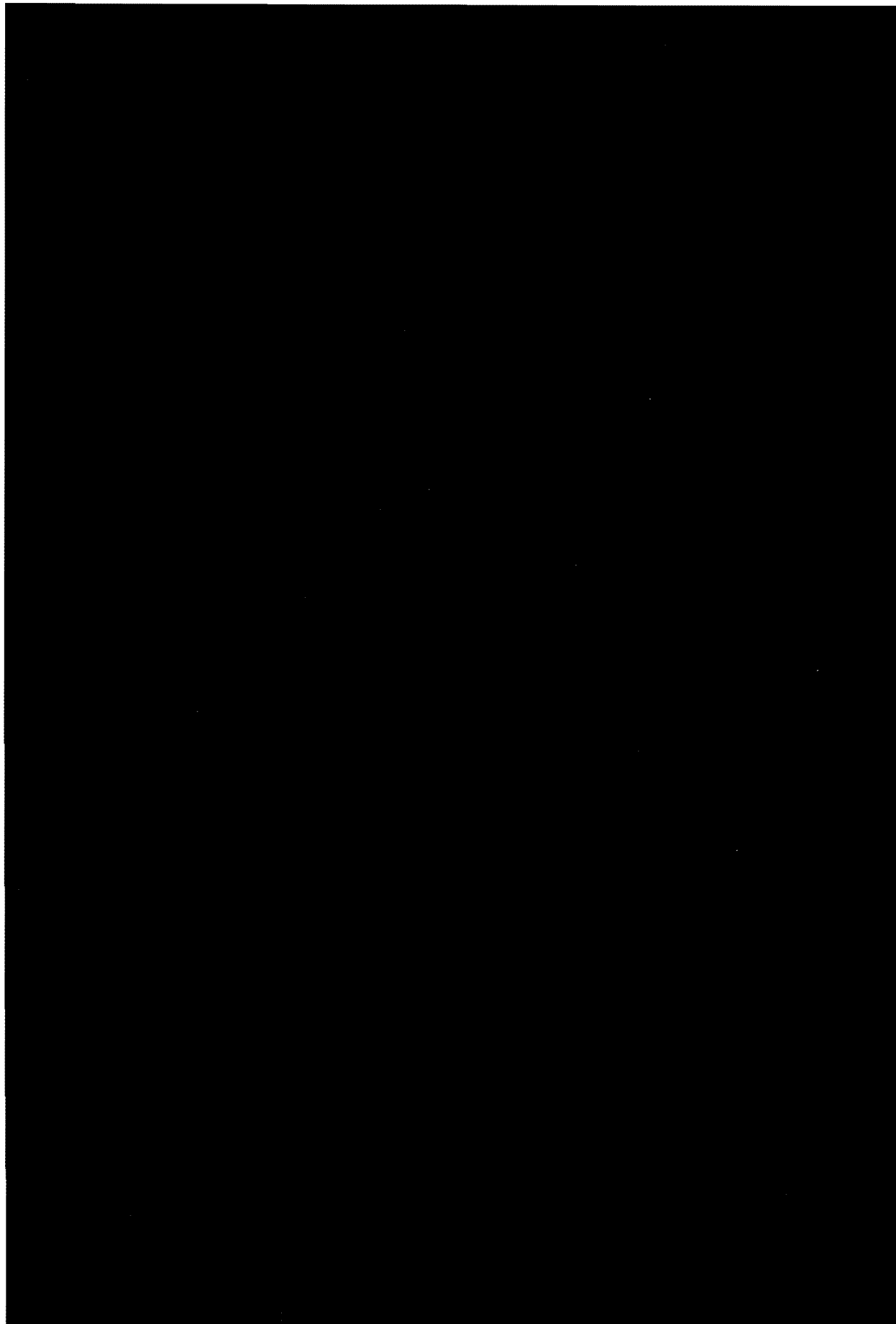


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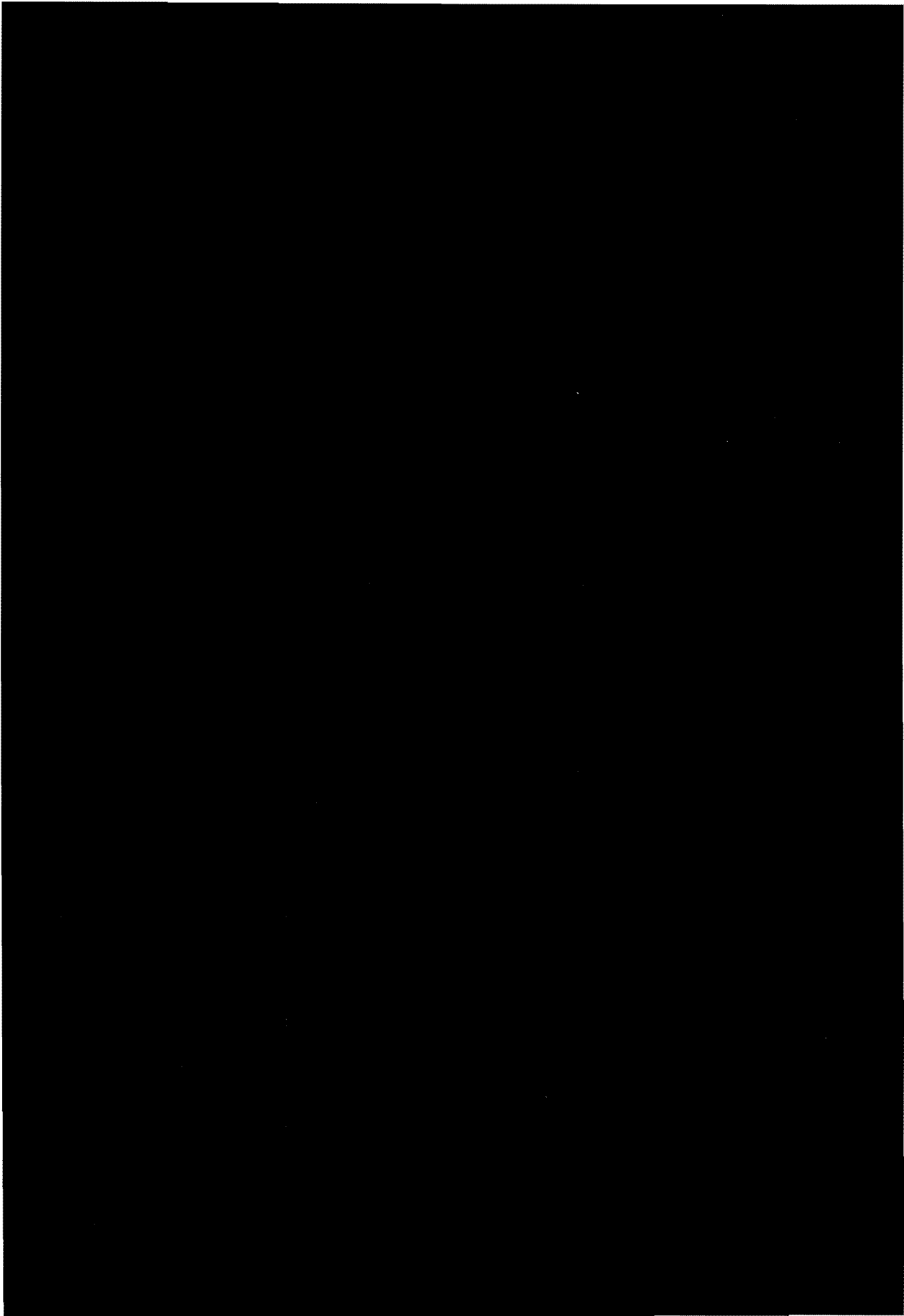


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Item 5c



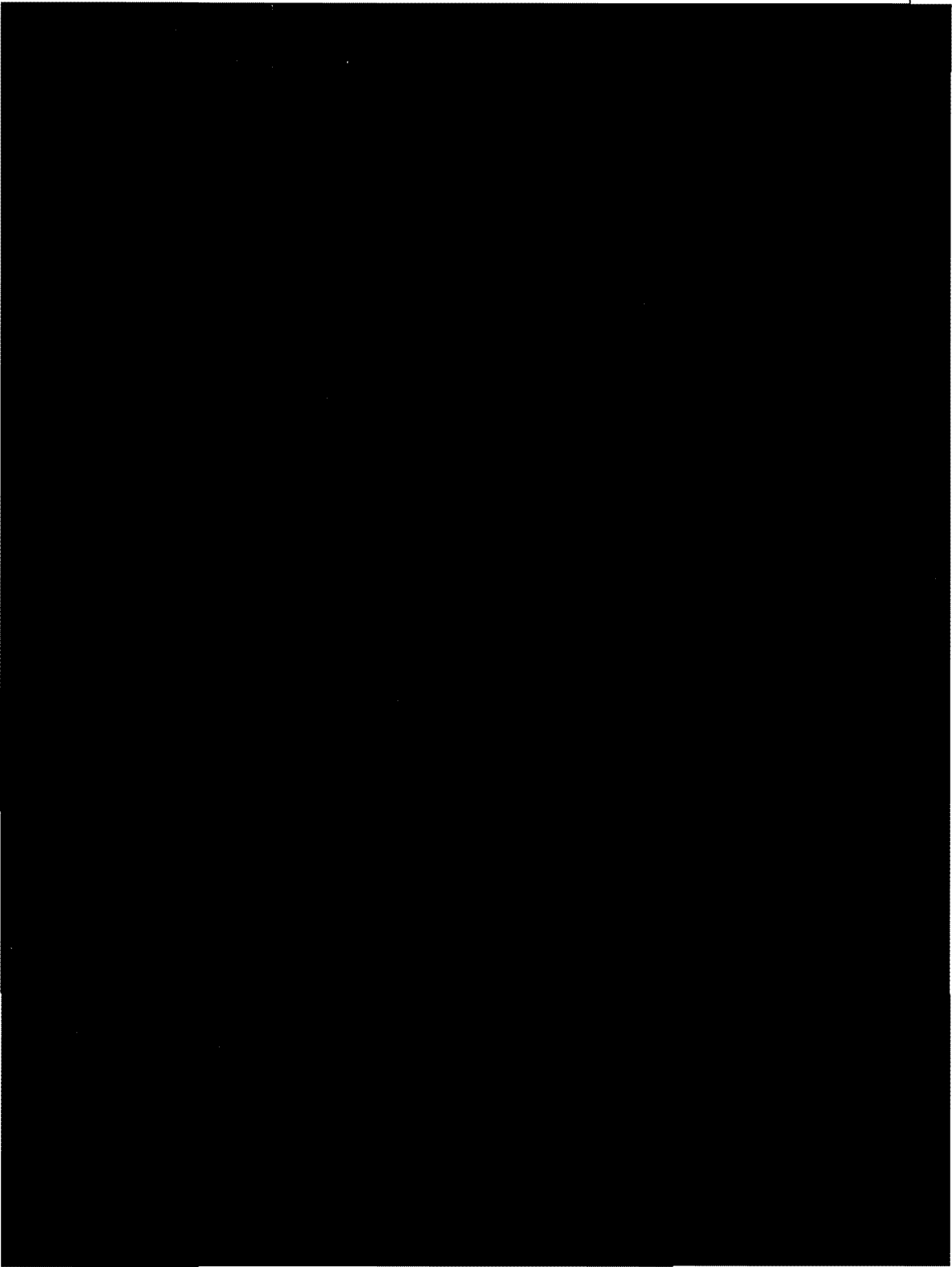
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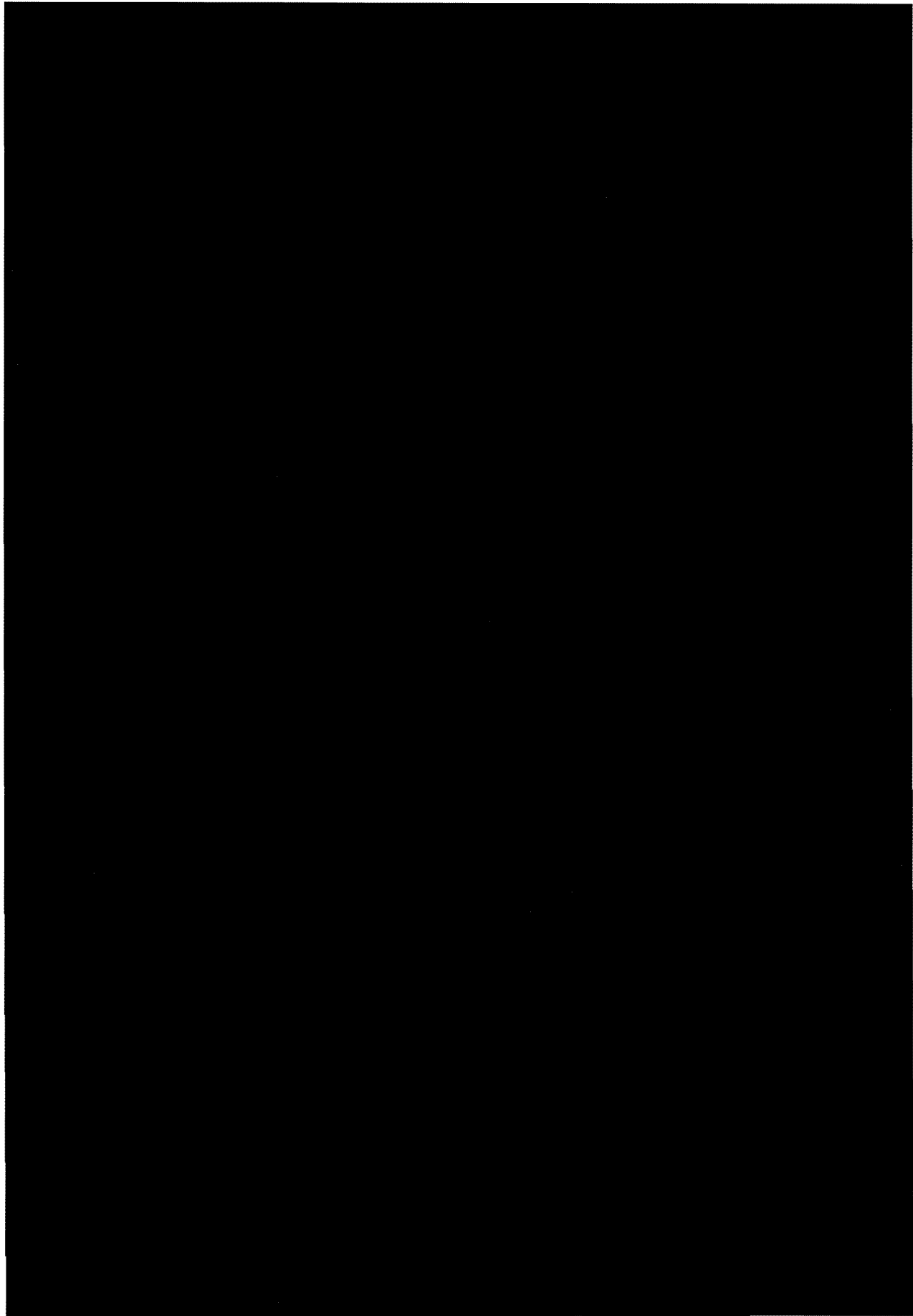
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Item 5d



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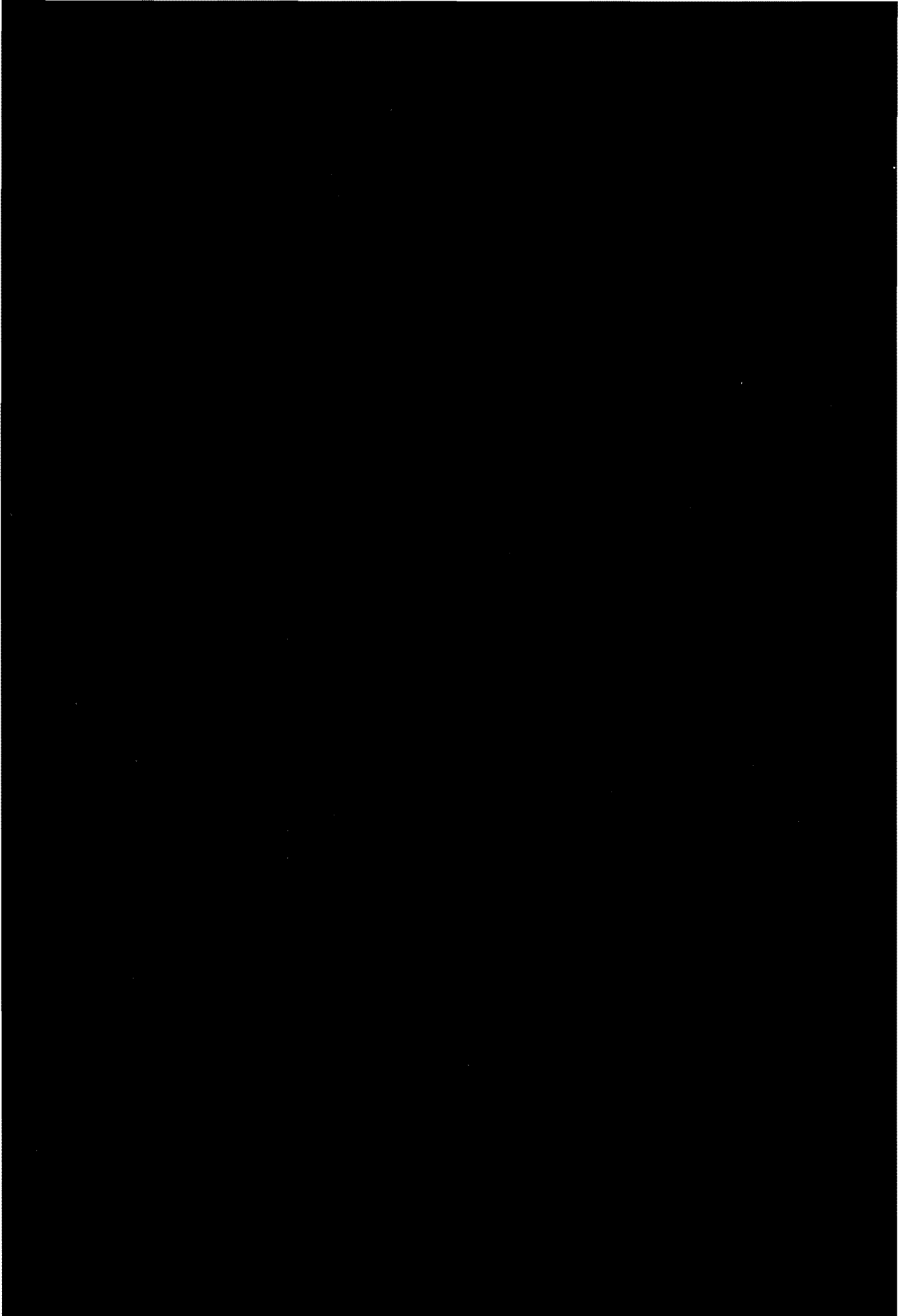
Item 5e



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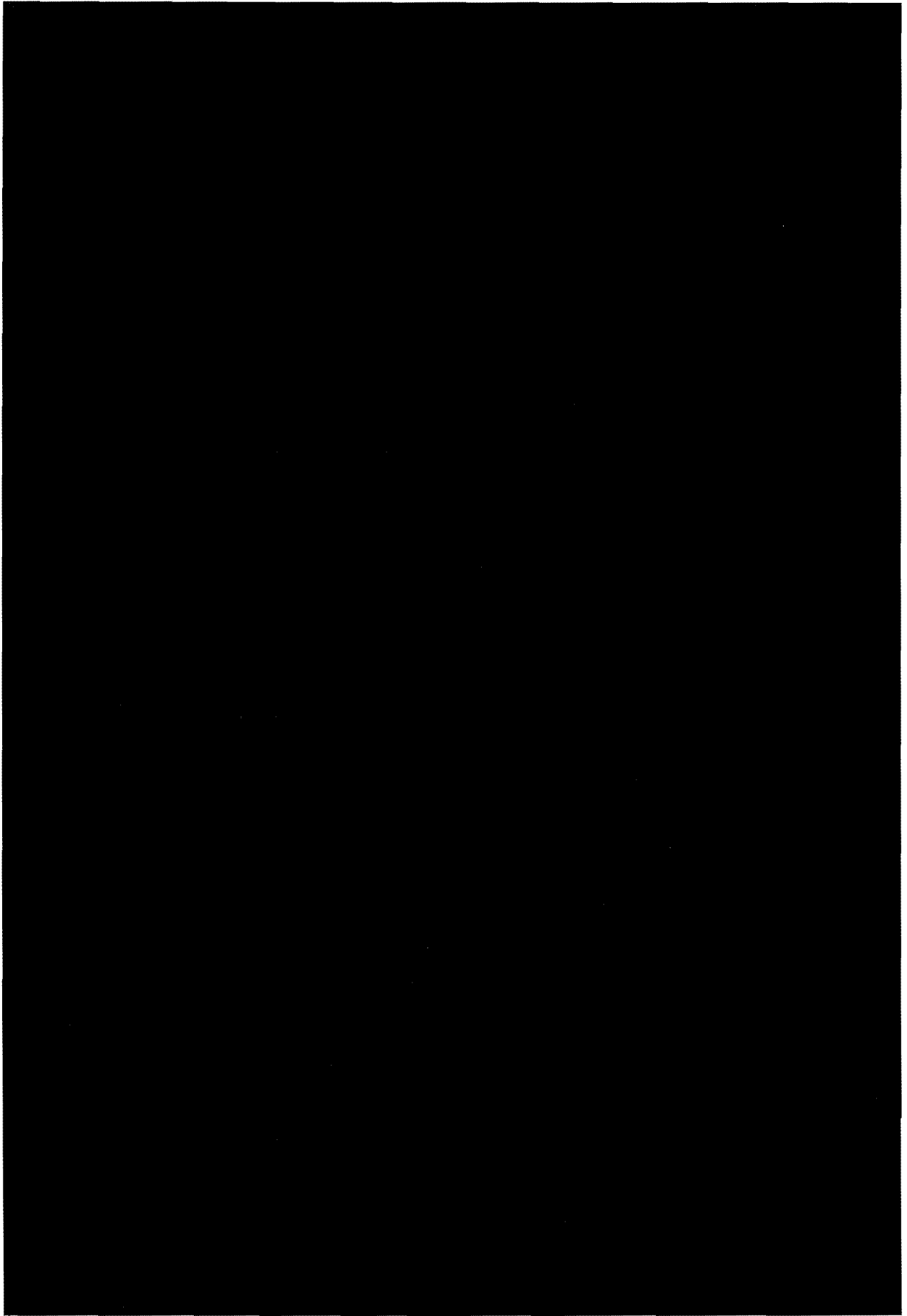
Item 5e



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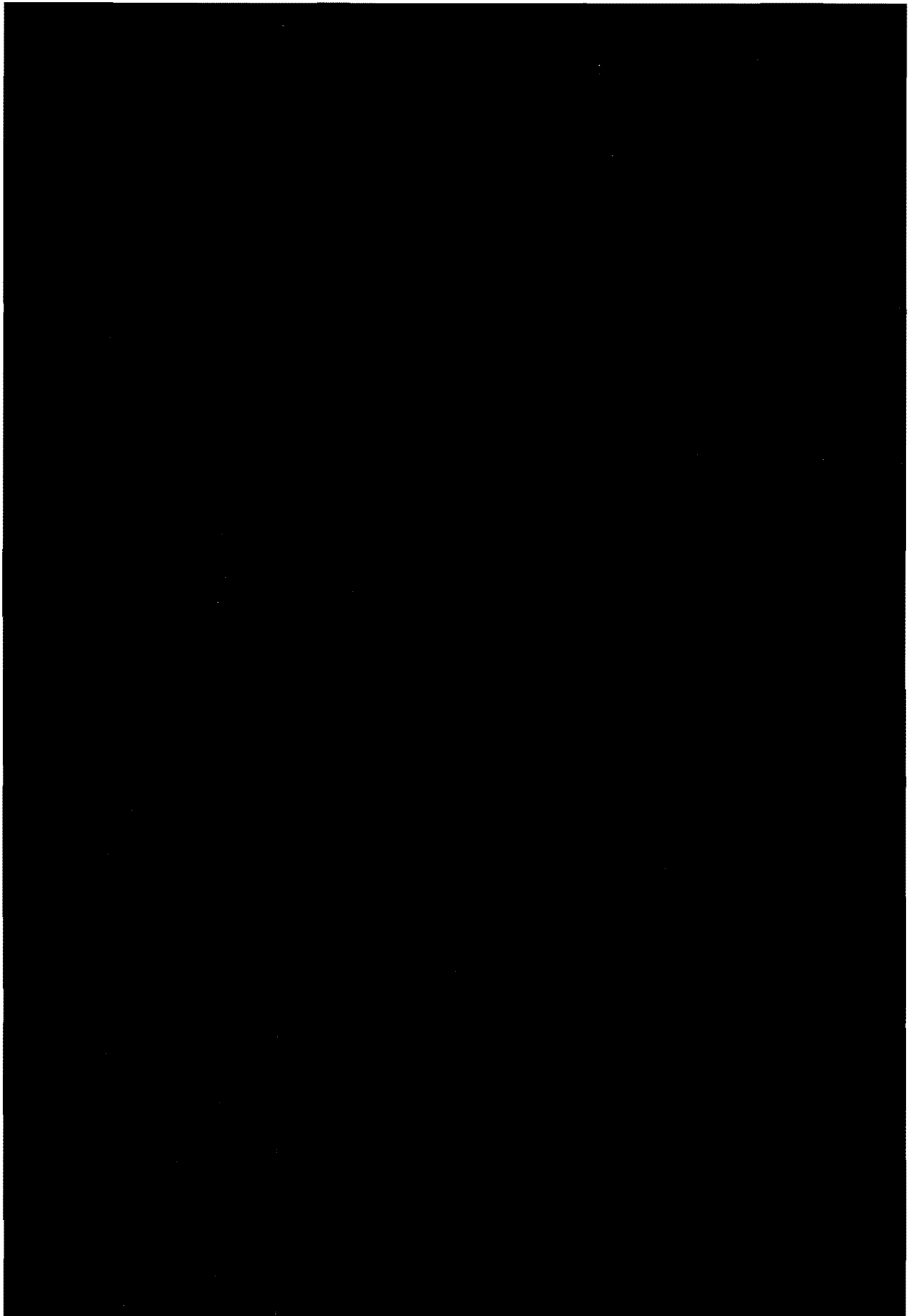
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Item 5e



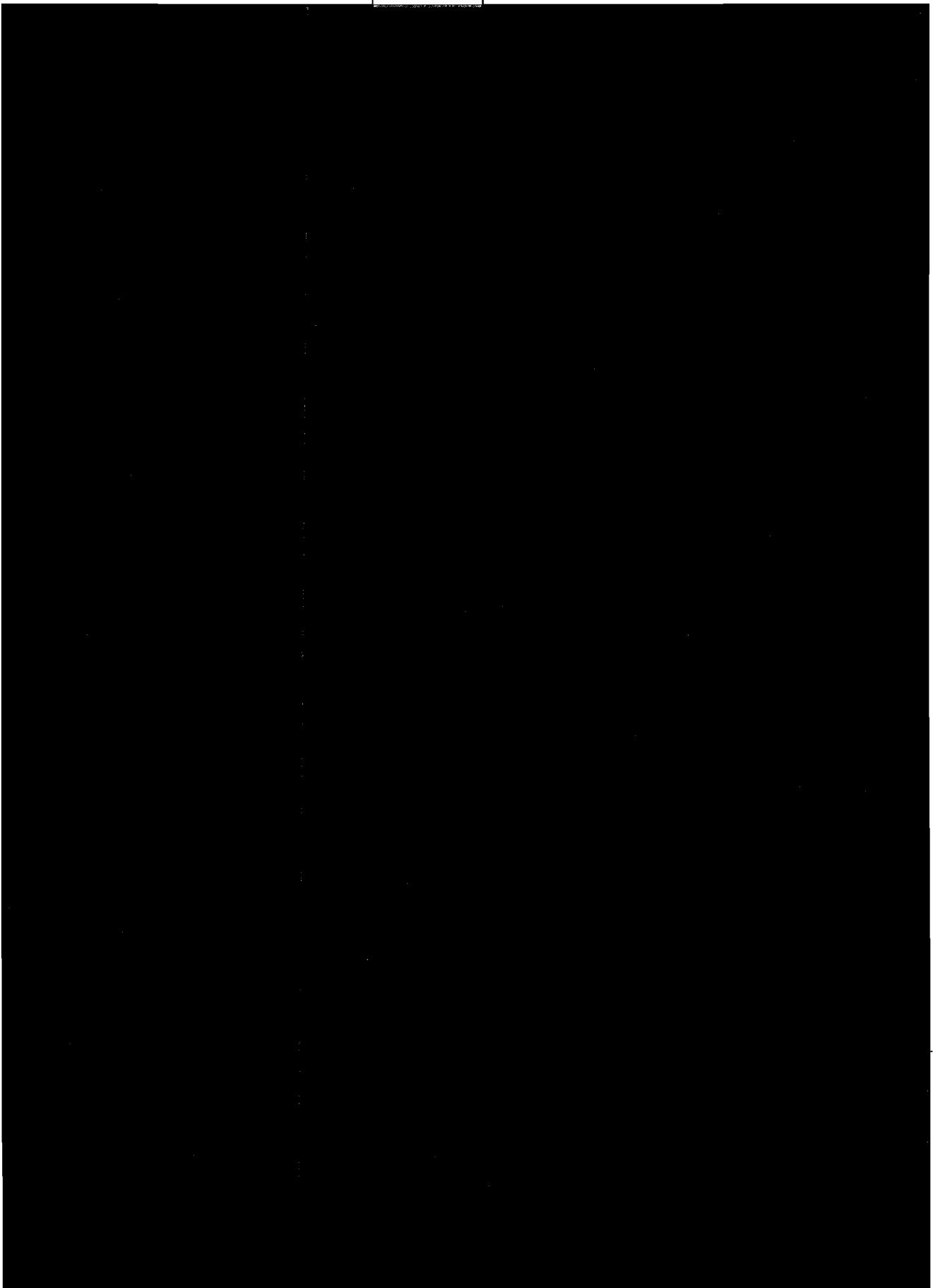
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item 5e



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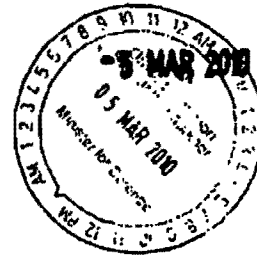
Item 5f



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~~CONFIDENTIAL AS/US~~PRIME MINISTER
CANBERRA

Senator the Hon John Faulkner
Minister for Defence
Parliament House
CANBERRA ACT 2600

Dear Minister 

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s33(a)(iii)

I agree to your proposal, 

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In agreeing to your proposal I seek your assurance that gifting these aircraft prior to approval or delivery of the above mentioned projects will not result in a capability gap, and will not require either reprogramming of the Defence Capability Plan or entering into leases for airlift capability.

Furthermore, I seek your advice on any opportunities for Australian industry that might arise as part of this proposal.

I have copied this letter to the Treasurer, the Minister for Foreign Affairs and the Minister for Finance and Deregulation.

Yours sincerely



Kevin Rudd

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Item 5h

