

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~Smith/2011/MA11-700120  
CDF(S)/OUT/2011/1169  
SEC(S)/OUT/2011/285Australian 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, CEO DMO, CTO, FASIP, FASSP, FASMECC

**Subject: Letter seeking the Prime Minister's agreement to gift C-130H aircraft to Indonesia****Purpose:**

To provide you with a draft letter to the Prime Minister (copied to your National Security Committee of Cabinet (NSC) colleagues) seeking her agreement to gift surplus ADF C-130H aircraft to Indonesia.

**Key Points:**

1. On 2 October you advised that you would write to the Prime Minister proposing to bilaterally gift up to four C-130H airframes to Indonesia (Attachment A). A draft letter to the Prime Minister is provided at Attachment B.
2. Should the Prime Minister agree to the gifting, we would propose to send a senior delegation to Jakarta in early November to formally present a detailed proposal to Indonesia for consideration.

3.

4.

s33(a)(iii)

**Procedure for Gifting**

5. Under delegation from the Minister of Finance and Deregulation, I (CDF) hold the necessary delegation for the gifting of public property. The Defence Export Control Office (DECO) exercises authorisations from the Minister for Defence to approve exports, makes recommendations to deny the export of goods and provides you with advice on policy matters. For sensitive cases, that authorisation is exercised upon advice to you from the Standing Interdepartmental Committee on Defence Exports (SIDCDE). SIDCDE is chaired by Defence with the Department of Foreign Affairs and Trade and Prime Minister and Cabinet as permanent members. DECO will facilitate any approvals that may be required for the transfer of the aircraft under the *Customs (Prohibited Exports) Regulations 1958*.
6. As the aircraft were originally acquired from the US as a Foreign Military Sale, the gifting will also require US State Department Third Party Transfer approval. As part of this process, we will seek formal End Use assurances from the Indonesian Government.

Page 1 of 5

~~CONFIDENTIAL AUSTEO~~


DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~Smith/2011/MA11-700120  
CDF(S)/OUT/2011/1169  
SEC(S)/OUT/2011/285

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 Minister Smith arises in relation to Unisys and Julzar Pty Ltd trading as MPM Marketing Services, Sodexo Australia or Serco Sodexo Defence Services for Minister Clare, or could reasonable 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. Smith/2011: 036349 of 29 September 2011.
- B. Draft letter to the Prime Minister.
- C. 

s33(a)(iii)

~~CONFIDENTIAL AUSTEO~~

DE-CLASSIFIED

DE-CLASSIFIED

CONFIDENTIAL AUSTEO

Smith/2011: 036349  
Schedule No: 14647  
Reference: SEQ(O)UT/2011/274  
CDF(O)UT/2011/686

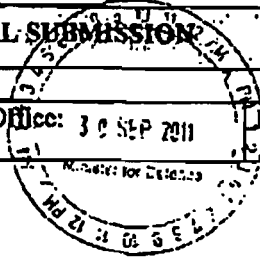
A



MINISTERIAL SUBMISSION

Priority

Date Dept Approved: 29 SEP 2011 Date Rec in Office: 30 SEP 2011 Date Due: -7 OCT 2011



For Action: Minister for Defence  
For Info: Mr Clare  
Copies to: DEPSEC S, VCDF, CAF, ACEO DMO, CFO, FASMECC, AFASIP

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)

s33(a)(iii)

CONFIDENTIAL AUSTEO

DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~

Smith/2011:  
Schedule No: 14647  
Reference: SEC(OUT/2011/274  
CDF(OUT/2011/686

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).

s33(a)(iii)

[REDACTED]

6. [REDACTED]

s33(a)(iii)

7. *Way ahead*

8. [REDACTED]

s33(a)(iii)

9. [REDACTED]

s33(a)(iii)

10. [REDACTED]

11. [REDACTED]

s33(a)(iii)

~~CONFIDENTIAL AUSTEO~~

DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~

Smith/2011:  
Schedule No: 14647  
Reference: SEC(s)OUT/2011/274  
CDF(s)OUT/2011/686

12

[Redacted]

s33(a)(iii)

*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]

s47G

*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]

s47G

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]

17

[Redacted]

s33(a)(iii)

**Recommendations:**

That you:

i.

[Redacted]

s33(a)(iii)

*Noted / Please Discuss (Not Agreed)*  
*J*

[Redacted]

s33(a)(iii)

~~CONFIDENTIAL AUSTEO~~

DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~

Smith/2011:  
Schedule No: 14647  
Reference: SEC(a)OUT/2011/274  
CDF(a)OUT/2011/686

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 <i>See below</i>	
Approved By:  <i>Stephen Merchant</i> <b>Stephen Merchant</b> Acting Secretary 29 September 2011	Approved by:  <i>D.J. Hurley</i> <b>D.J. HURLEY</b> GEN CDF 29 September 2011
<b>Contact Officer: Lachlan Colquhoun A/FASIP</b>	<b>Phone: 02 6265 7255</b>
<b>Primary Addressee</b> <div style="background-color: black; width: 300px; height: 80px; margin: 10px 0;"></div> <div style="float: right; text-align: right;">           s33(a)(iii)  <i>Stephen Smith</i>  <b>Stephen Smith</b>            02/10/11         </div>	
<b>Information Addressee</b> Noted / Please Dis  <b>Jason Clare</b> / /	

**Resources:**

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

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

s47G

SUPPLEMENTARY TASKED  
TO: *FASIP* *cc SA/CDF*  
DUE DATE: *29 Oct 11*

~~CONFIDENTIAL AUSTEO~~  
DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~

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

~~CONFIDENTIAL AUSTEO~~

DE-CLASSIFIED

DE-CLASSIFIED

~~CONFIDENTIAL AUSTEO~~

Attachment B

The Hon Julia Gillard MP  
 Prime Minister  
 Parliament House  
 CANBERRA ACT 2600

Dear Prime Minister

I write to seek your agreement to gift up to four surplus ADF C-130H aircraft to Indonesia as a bilateral defence initiative.

On 5 March 2010 then Prime Minister Rudd agreed to a proposal to gift four surplus ADF C-130H aircraft to Indonesia, [REDACTED]

s33(a)(iii)

Nonetheless, transport aircraft are a vital national asset for Indonesia. The Indonesian Government relies on such aircraft to perform key tasks such as the provision of support to humanitarian assistance and disaster relief (HADR) efforts for defence and security tasks conducted by the Indonesian Armed Forces and National Police.

s33(a)(iii)

[REDACTED] Defence has previously donated surplus C-130H parts, which Indonesia highly valued, and currently provides air safety and airworthiness training to Indonesia's Air Force.

Australia also has a strong national interest in a reliable and effective Indonesian air transport capability. Since 2004, Australia has frequently deployed ADF aircraft to Indonesia to provide airlift support to HADR operations. These deployments are costly for an airlift capability already in high demand. Indonesia is in the process of developing the policies and capabilities necessary to respond unilaterally to HADR operations. Gifting C-130H aircraft would substantially boost these efforts, improve bilateral military relations and potentially reduce the call on ADF aircraft in future emergencies.

In recognition of the importance of airlift capability to their nation [REDACTED] the Indonesian Government has indicated a willingness to fund the refurbishment of gifted Australian C-130H airframes. [REDACTED]

s33(a)(iii)

[REDACTED] expect that Indonesia will provide sufficient funding to refurbish as many aircraft as they require, up to the limit of the four aircraft identified as surplus by the ADF.

s33(a)(iii)

~~CONFIDENTIAL AUSTEO~~

DE-CLASSIFIED



DE-CLASSIFIED

Item 6b

~~CONFIDENTIAL/AUSTEO~~

## Attachment B

Once gifted, the refurbishment of the aircraft would be a matter to be agreed between the Indonesian Government and a commercial contractor – [REDACTED]

s33(a)(iii)

[REDACTED] The gifting and refurbishment of these aircraft will not require supplementary funding from within the Defence budget.

Defence has reviewed its airlift capability requirements and has confirmed that the four aircraft identified for gifting are surplus to ADF requirements.

I therefore seek your agreement to offer to gift up to four C-130H aircraft to Indonesia, with Indonesia to decide how many aircraft it would fund to refurbish. I have copied this letter to our NSC colleagues.

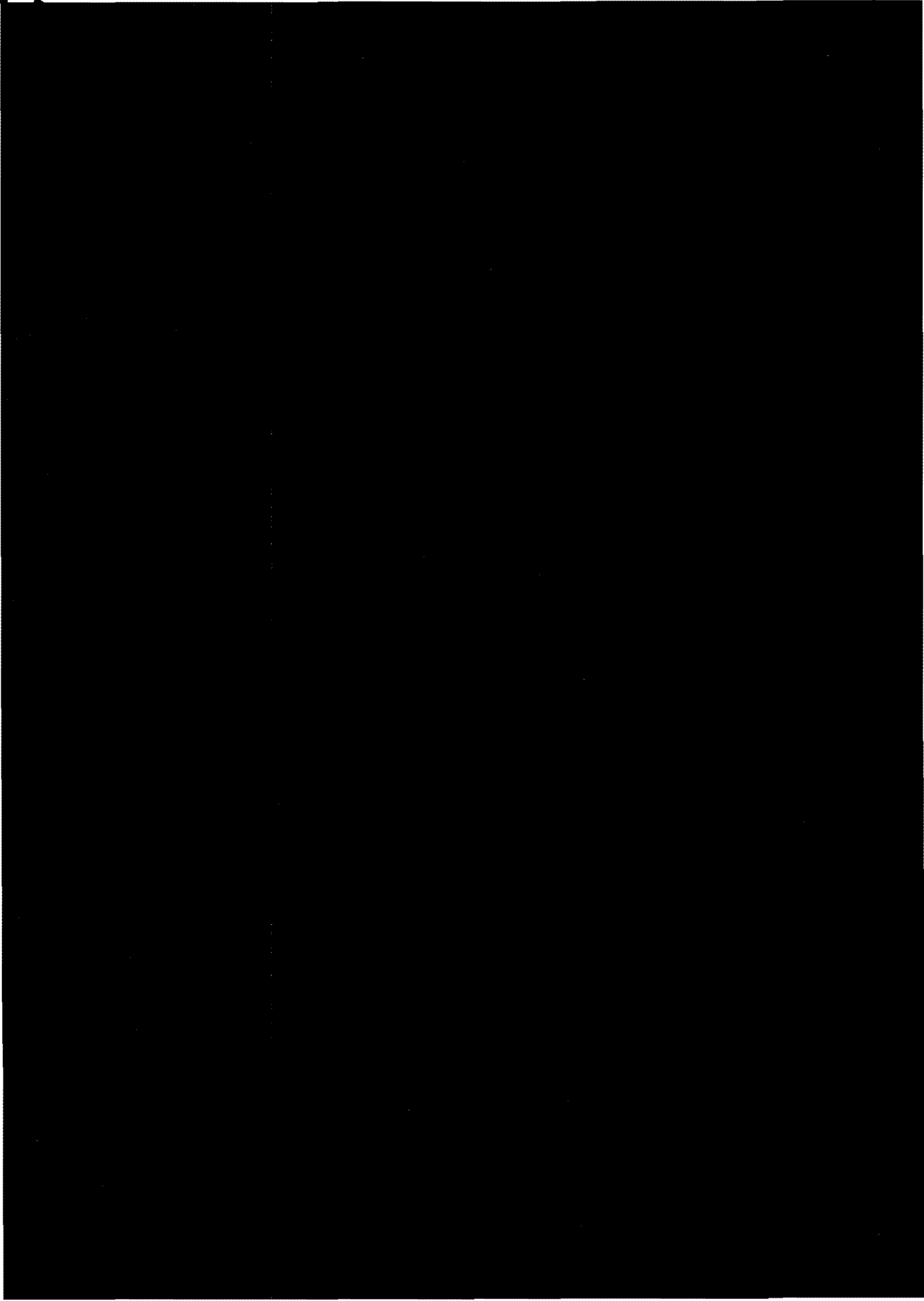
Yours sincerely

Stephen Smith

~~CONFIDENTIAL/AUSTEO~~

DE-CLASSIFIED

s33(a)(iii)



s33(a)(iii)

Item 6c

