

MINISTRY OF DEFENCE

New Zealand Defence Force Naval Seasprite Helicopters Cabinet Papers

August 2021

This publication provides documents on Cabinet's March 2012 decision authorising officials to enter into negotiations to purchase the Super Seasprite Helicopters and the subsequent April 2013 decision to purchase.

- the 2012 Cabinet paper *NZDF Naval Seasprite Helicopters: Proposal to Purchase Upgraded Fleet* and associated minute of decision [ERD (12) 7 and ERD Min (12) 2/5]
- the 2013 Cabinet paper *New Zealand Defence Force Naval Seasprite Helicopters: Report on Implementation Business Case* and associated minute of decision [CAB (13) 195 and CAB Min (13) 12/12].

This pack has been released on the Ministry of Defence website, available at: www.defence.govt.nz/publications.

Certain information is withheld, where the making available of the information would be likely to prejudice the security or defence of New Zealand or the international relations of the Government of New Zealand [section 6(a)]

In addition, certain information has been withheld in order to:

- protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied the information [section 9(2)(b)(ii)]
- protect information which is subject to an obligation of confidence ..., where the making available of the information would be likely otherwise to damage the public interest [section 9(2)(ba)(i)]
- maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty [section 9(2)(g)(i)]
- enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, negotiations [section 9(2)(j)].

Where information is withheld pursuant to section 9(2), it is not considered that the public interest in this information outweighs the need to protect it.

In addition, the business cases for this project are withheld in full in accordance with the above provisions of the Act. Recognising the public interest in information on the investment decision, the Cabinet papers provide a summary of the key information that formed the basis of Cabinet's decision to invest this funding.



Cabinet External Relations and Defence Committee

ERD Min (12) 2/5

Copy No: 26

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

NZDF Naval Seasprite Helicopters: Proposal to Purchase Upgraded Fleet

Portfolio: Defence

On 19 March 2012, the Cabinet External Relations and Defence Committee (ERD):

Background

1 **noted** that on 19 September 2011, the Cabinet Business Committee:

- 1.1 noted that the New Zealand Defence Force (NZDF) is expected s6(a) naval helicopters for operational duties but is unable to do so, primarily due to inadequate fleet size and sustainability;
- 1.2 agreed that a proposal from Kaman Aerospace to replace the existing aircraft with an ex-Australia package is a possible solution that is likely to address the fleet size, obsolescence and capability issues;
- 1.3 directed Defence officials to report to ERD in early 2012 with the conclusions of the due diligence on the Kaman Aerospace offer;

[CBC Min (11) 9/6]

2 **noted** that the Seasprite helicopters have obsolete communications and mission systems that are limiting their effectiveness and New Zealand's ability to remain interoperable with Australia and other partners;

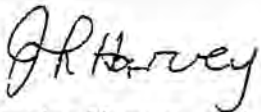
Kaman Aerospace offer

3 **noted** that the acquisition of an upgraded and expanded fleet through the Kaman Aerospace offer of the ex-Australian package would address the issues referred to above at an expected cost of s9(2)(b)(ii), compared to s9(2)(b)(ii) for a limited upgrade of the existing fleet and a flight simulator;

4 **noted** that due diligence consideration of the Kaman Aerospace offer:

- 4.1 has concluded that the package is credible and well suited to New Zealand's requirements;

- 4.2 has not uncovered any airworthiness issues that would prevent its purchase, although airworthiness can only be determined during final flight testing and certification;
- 5 **agreed** that the proposal for the Kaman Aerospace package of an upgraded fleet of Seasprite helicopters be advanced to contract negotiations;
- 6 **authorised** Defence officials to:
- 6.1 enter into contract negotiations with Kaman Aerospace, and other parties as required, for the acquisition of the full Kaman package comprising eleven Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications, and for the introduction into service and through life support of eight of these aircraft;
- 6.2 dispose of the existing NZDF fleet through negotiation with Kaman Aerospace (as part of the contract negotiations), either by way of an offset sale or by appointing Kaman as the sole agent for the re-sale of the aircraft and to the aircraft's relocation to Kaman's premises in Bloomfield, USA for a maximum period of three years from the date of contract signature;
- 7 **invited** the Minister of Defence to report back to ERD on the outcome of the contract negotiations with Kaman Aerospace (expected to take between eight and twenty weeks) and, if appropriate, seeking approval to commit to contract;
- 8 **agreed** that any sale of the fleet be first approved by Cabinet;
- 9 **agreed in principle** that the net proceeds of any sale be held as Debtor Crown, pending resolution of the future funding of the NZDF Capital Plan from an adjusted funding regime.



Janine Harvey
Committee Secretary

Reference: ERD (12) 7

Present:

Rt Hon John Key
Hon David Carter
Hon Murray McCully (Chair)
Hon Anne Tolley
Hon Dr Jonathan Coleman
Hon Nathan Guy
Hon Peter Dunne

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet
Ministry of Foreign Affairs and Trade
Ministry of Defence
New Zealand Defence Force

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Chair,
Cabinet External Relations and Defence Committee

**NEW ZEALAND DEFENCE FORCE NAVAL SEASPRITE HELICOPTERS: –
PROPOSAL TO PURCHASE UPGRADED FLEET**

Purpose

1. This paper
 - a. reports that the due diligence process on an offer by Kaman Aerospace to provide an upgraded fleet of Seasprite helicopters has given a high level of assurance that they are likely to be acceptable for New Zealand's requirements;
 - b. invites Cabinet to
 - i. either agree to proceed to contract negotiations for the Kaman package at an estimated cost of [s9(2)(b)(ii)] less any proceeds from resale of the current fleet. The package would retain the combat capability of the frigates, provide sufficient helicopters for other naval vessels (especially in support of their surveillance and search and rescue roles) and address obsolescence issues with the current naval helicopters,
 - ii. and to agree to the disposal of the existing fleet either by way of an offset or by appointing Kaman as sole agent for the re-sale of the five aircraft;
 - iii. or consider whether or not to pursue a limited upgrade to the existing fleet of five helicopters in order to maintain a minimal helicopter capability.

Executive Summary

2. Cabinet recently considered options for the upgrade or replacement of the maritime helicopters [CBC Min (11) 9/6 refers]. This reaffirmed the expectation that these helicopters are an integral part of the NZDF's combat capability and that at least [s6(a)] should be available for embarkation on naval vessels. Cabinet also noted that the NZDF has not been able to deliver this requirement. Causes relate to small fleet size, increasing obsolescence and supportability issues.

3. A Detailed Business Case has now assessed an offer from Kaman Aerospace for a package comprising the ex-Australian fleet of eleven upgraded helicopters, flight simulator, training aids and extensive spare parts inventory. The Business Case compared that offer to a range of other options. Of this range the Kaman package [s9(2)(b)(ii)] is the most cost-effective, with lowest risk and highest benefits, compared to maintaining the existing Seasprite fleet by upgrading critical systems and also acquiring a flight training simulator [s9(2)(b)(ii)].

4. On the basis of maintaining our naval combat capability cost effectively and at lowest risk, I recommend that Cabinet agree to proceed to contract negotiations for the Kaman package.

5. Following a due diligence process, the NZDF concludes that the Kaman package is fit for New Zealand's naval helicopter requirements. Problems that beset the Australian development of this package have been examined and it would appear that pertinent airworthiness issues have been remedied. To date, no issues have been found that would prevent airworthiness certification. As this variant of the Seasprite has never been fully type certified by an airworthiness authority the NZDF will need to undertake a full certification process to gain complete assurance that the aircraft is suitable for all intended tasks. It is possible that issues may be revealed during the airworthiness certification process. Contract negotiations with Kaman will incorporate appropriate safeguards for the Crown that could, ultimately, see the deal set aside.

6. An independent airworthiness consultant concluded *"There do not appear to be any airworthiness issues that would prevent the Super Seasprite from being purchased by the NZ MoD"*.

7. The Kaman package could be brought into service from late 2013, with the full benefits being delivered by 2015. At current exchange rates (average US/NZ of 0.81) the capital cost is [redacted s9(2)(b)(ii)] spread over 3 years. Operating costs would increase by an estimated [redacted s9(2)(g)(i)] per year, to be funded from within baselines.

8. If the Kaman offer is accepted, the existing NZDF fleet would need to be sold. I recommend that Kaman be appointed as sales agent. They are well positioned in the international market, are familiar with the US State Department approval process and have offered to store the helicopters at their premises in Connecticut in the interim. Our fleet may return [redacted s9(2)(b)(ii)] on sale but this has not been factored into the financial analysis due to the uncertainty of sales of military equipment.

9. If the Kaman package is rejected, Cabinet will need to decide whether or not to pursue a minimal upgrade to the existing fleet and to acquire a flight simulator. A minimal upgrade, including simulator, would cost at least [redacted s9(2)(b)(ii)] and increase annual operating expenses by around [redacted s9(2)(g)(i)].

10. A high priority for replacement would be the 1960s-era flight control systems, the GPS navigation system, the self-protection suite and the search radar. A communications upgrade and digital datalink should also be considered but these would add considerably to the cost. Together with a flight training simulator, this option would take 5 years to develop and deliver at a minimum capital cost estimated at [redacted s9(2)(b)(ii)]. A formal tender process would be required to confirm the cost and timeframe. Although feasible this option carries high cost and significant technical risk, similar to that which beset upgrades to the Hercules and Orion fleets. It would not arrest the degradation in the current capability and would not address the issues of limited availability and increasing obsolescence. [redacted s6(a)]

Background

11. In September 2011 Cabinet considered the options for addressing deficiencies in the naval helicopter fleet of five Kaman Seasprite helicopters. The unsolicited offer from Kaman Aerospace for the ex-Australian package of eleven helicopters, flight simulator and other equipment was proposed as the most effective option on a cost-benefit basis. Cabinet directed officials to undertake a due diligence process and report back to Cabinet by way of a Detailed Business Case [CBC Min (11) 9/6 refers].

The Naval Helicopter Force

12. The Seasprite is a capable helicopter. It is our only helicopter purpose-built to undertake maritime operations from ship and shore and to operate in a maritime combat role. It is well matched to the NZDF's maritime operational requirements, complementing our new NH90 and A109 helicopters which are designed for land operations.

13. The Seasprites extend the range of ship sensors, visual observations and defensive capabilities out over the horizon. They can deploy weapon systems including Maverick air-to-surface missiles and anti-submarine torpedoes. They are the NZDF's only airborne precision strike capability.

14. The helicopters are also particularly useful for non-military tasking including transport, utility lift and a search and rescue capability from the frigates, offshore patrol vessels (OPV), and the *HMNZS Canterbury*.

15. They are embarked on most frigate missions and on other vessels as required, or when available. The Seasprite's capabilities are equally applicable to land based maritime surveillance, search and rescue, and counter-terrorism roles. However, they are currently operated from ships at sea only, due to the small size of our current Seasprite fleet.

Limitations with the current fleet of helicopters

Fleet Size

16. [REDACTED] s6(a) [REDACTED] When the five Seasprite helicopters were purchased in 2001 the Navy possessed four aviation capable ships. Project Protector has increased that number to six. The training requirements and harsh operating environment have made sustaining a minimum [REDACTED] s6(a) a total fleet of five challenging for the NZDF. One helicopter is committed to crew training and [REDACTED] s6(a) usually undergoing maintenance.

17. Internationally, other countries have found from long experience that they require a fleet averaging 2.7 to deliver each embarked maritime helicopter. On this basis the NZDF should have eight helicopters [REDACTED] s6(a). Our small fleet is also vulnerable should we badly damage or lose a helicopter - given the very limited availability of replacement aircraft.

Existing Equipment

18. The current Seasprite fleet has neither a modern digital ("glass") cockpit nor a capable communications system suitable for the modern networked environment. These obsolescence issues place the Seasprite increasingly out of step with the remainder of the NZDF's capabilities. Information from the Seasprite's sensors can only be described over a voice radio rather than transmitted over a digital data link. Networking capability between ships, aircraft and land forces has become the cornerstone of military operations, as outlined in our recent Defence White Paper. [REDACTED]

s6(a)

Summary

19. We are not gaining full advantage of the investment already made in our Seasprite capabilities because we have too few of them and they have outdated

communications and mission systems. A major upgrade and fleet expansion is possible but is costly and with considerable risk. A minor upgrade of the existing fleet is feasible but with time, technical and cost risk. It would not address the problems inherent in operating our existing fleet of five aircraft, nor allow the NZDF to meet its output agreement with the government.

20. The Kaman offer of a larger, upgraded fleet provides the opportunity to optimise our investment at a cost within the bounds of the Defence Capability Plan.

The options

21. The Detailed Business Case¹ compared the Kaman package to an appropriate upgrade to the existing Seasprite fleet. Five options were considered:

- (i) Option 1: continue with the existing Seasprite fleet, replacing equipment as it fails or becomes unsupportable;
- (ii) Option 2: undertake a minimum upgrade to the existing fleet, with or without the addition of a full motion flight simulator;
- (iii) Option 3: undertake a full upgrade to the existing fleet, with the addition of a full motion flight simulator;
- (iv) Option 4: undertake a full upgrade to the existing fleet, with the addition of a full motion flight simulator and an additional three aircraft; or
- (v) Option 5: acquire the Kaman package of an expanded fleet of eleven upgraded helicopters, flight simulator, part-task trainers and extensive spares package.

22. The option of maintaining the existing fleet in service (Option 1) was not favoured by Cabinet previously and is still not recommended. Under this option, the Seasprite fleet would continue to decline in usefulness, especially for coalition-type operations. Components of the flight and sensor systems will require replacement at some stage and maintenance costs would continue to rise. The key issue of aircraft numbers is not addressed.

The risks of a full upgrade

23. All of the upgrade options involve considerable time and cost risk, especially those requiring the development of an integrated avionics system (Options 3 & 4). Such upgrades on aircraft are notoriously risky. The ongoing delays to upgrade our C-130 and P-3 aircraft and to aircraft upgrades being undertaken by other countries are well documented. I would, therefore, not recommend Options 3 or 4 for the Seasprites, especially as Option 5 offers better capability at lower cost and risk.

24. Options 1, 3 and 4 are not recommended, therefore this paper focuses on Options 2 and 5.

The minimal option – a limited upgrade

25. A limited upgrade and the acquisition of a flight simulator (Option 2) is a lower-cost option that addresses some impending issues and may increase availability. But it is relatively expensive and addresses few of the obsolescence problems. The simulator would need to be custom designed as there are no Seasprite simulators

¹ Copies of the Detailed Business Case are available from my office.

operating internationally. The cost and risk of developing a one-off new build is considerable. As well, some of the remaining systems will need replacement as they fail over the next 15-20 years, so further expenditure is likely. High priorities for replacement are the 1960s vintage flight control systems, the GPS navigation system, the self-protection suite and the search radar. A communications upgrade and digital datalink should also be considered but these would add considerably to the cost.

26. The priority upgrades are estimated to cost around s9(2)(b)(ii) and the development of a custom-built flight simulator s9(2)(b)(ii). Both are subject to foreign exchange risk and cost would need to be tested by a formal tender process. There is also considerable project risk around the upgrade and the custom design and build of a simulator. The cost estimate assumes that the aircraft's mission system computer will remain functional. It is of 1980s vintage and may not have the capacity to process information from the updated components.

27. Upgrading the existing fleet is likely to take five years to complete, during which time one or more of the aircraft would be out of service. This would exacerbate the existing fleet availability problems.

28. The flight simulator would allow up to 200 training flight hours to be migrated off the aircraft, freeing up these hours for operational tasks. An additional 100 hours of training would be also be completed in the simulator to ensure Seasprite crews are trained to operate the aircraft and to prepare qualified crews for deployments. Emergency procedures that are inherently risky when performed on the aircraft could also be undertaken in safety on the simulator.

29. Despite these improvements, the underlying problem of the limited fleet of five, with no margin for loss, is not addressed.

The preferred solution – the Kaman package

30. Realistically, the only cost effective option that addresses all of the critical issues is the Kaman offer for the ex-Australian package (Option 5). Not only is it the most cost effective, but it has the lowest project risk.

The Kaman package: airworthiness and fitness for purpose

31. An independent airworthiness examination was undertaken of the Australian helicopters by an air safety specialist (Marinvent Ltd of Canada). Marinvent examined the issues raised in the Australian National Audit Office (ANAO) report² on the Australian project and then visited the Kaman facilities. Its report (available from my Office) focussed on those systems identified by the ANAO as having a flight safety implication. The Marinvent report details a list of project management difficulties but has not uncovered any issues that gave them airworthiness concerns. The report concludes: *"There do not appear to be any airworthiness issues that would prevent the Super Seasprite from being purchased by the NZ MoD"*.

32. A team of experienced defence staff visited the Kaman facilities and conducted a detailed assessment of aircraft and documentation. Four flight tests were conducted, comprising a handling qualities assessment and examination of the mission system capabilities. The flying qualities of the upgraded aircraft were considered similar to the existing New Zealand fleet, but give the pilot more control especially with the built in automatic flight functions. The mission system software and

² *The Super Seasprite. Audit Report No. 41.* Australian National Audit Office. June 2009.

digital displays are very capable and a significant enhancement over the New Zealand mission system.

The Kaman package: modifications required to convert from Australian to NZ systems

33. If Cabinet agrees to my recommendation to proceed to contract negotiations for the ex-Australian helicopters, two modifications to them are required to meet New Zealand requirements.

Deck securing system

34. Although the ANZAC Class frigates are nearly identical, Australia chose to install a more elaborate system for securing their helicopters to the deck and to move them into the hangar space. To be compatible with our vessels, including the *Canterbury*, the deck securing system on the helicopters will need to be altered. Modifying our vessels is costly and technically difficult. Kaman has provided an indicative price of [redacted] s9(2)(b)(ii) for the modification if fully integrated into the mission software, but cheaper, non-integrated options are possible. Technically, the integrated solution is preferable but the final choice is dependent on the cost that can be driven out of contract negotiations.

Missile system

35. The Australian Navy specified the Penguin missile system whereas the New Zealand Seasprites use the Maverick missile. Although the Penguin missile is more capable, it is more expensive than the Maverick. [redacted] s6(a)

36. [redacted] s6(a)

Project Risks

37. All of the options have project risks of time and cost. The purchase of the Kaman package is regarded as lower risk than an upgrade to our existing fleet and the introduction of a custom-build flight simulator, as all of the components have been built and have been operated, albeit briefly.

38. Within the Kaman option itself, time and cost risks remain in undertaking the required modifications for the deck securing system and the Maverick missile. Design work is ongoing to mitigate these and to develop more cost-effective solutions.

39. Of concern to the NZDF is the increased workload this project would place on Air Force airworthiness certification staff already heavily involved in four other air projects. Careful planning and the scheduling of staff resources would be required. External contractors, already being used on other projects, could reduce this workload. Air has also identified the need for additional staff to maintain the expanded fleet and to support the mission systems. Training of existing crews and recruitment and retention are also issues of concern that the NZDF will continue to manage actively.

40. Although the due diligence conducted to date has not uncovered any issues that give airworthiness concerns, recent acquisition experience has shown that there is always a real risk with any such aircraft programmes. It is possible, but unlikely, that issues may be revealed during the airworthiness certification process. There will be engineering solutions to some issues, but contract negotiations with Kaman will incorporate appropriate safeguards for the Crown that could, ultimately, see the deal set aside if satisfactory resolution is not possible.

41. The risk of public perception of New Zealand buying a capability previously cancelled by the Australian Government is considered below.

The Public Perception Risks

42. The Seasprite package on offer from Kaman is the suite of helicopters, training simulator and associated materials developed for Australia, but never finally accepted into service by the ADF. The Australian Government cancelled the project in 2008 after investing 10 years and nearly \$A1 billion into the project. s9(2)(ba)(i)

43. The difficulties the ADF had with this project are a matter of public record³, and many public opinions have been expressed. These will need to be addressed publicly if we decide to acquire the Kaman package.

44. s9(2)(ba)(i)

45. s9(2)(ba)(i)

46. I have spoken to my counterpart in Australia to advise him that we are examining the Kaman package. I will continue to engage with him over this project including giving him advance warning of any public statement the Government makes.

47. I also propose to engage the media with the facts concerning the safety and airworthiness evaluations that have been conducted and to release a redacted version of the Marinvent Report.

Options for an expanded fleet

48. Kaman is offering a single package that includes eleven aircraft, although only eight are required to meet the current output expectation of s6(a)

³ *The Super Seasprite. Audit Report No. 41.* Australian National Audit Office. June 2009.

I recommend option (b) as it maximises our investment and retains future choices for helicopter capabilities.

- a. Store and use them for spare parts. Minimal cost of storage and small savings in spare part purchase will result but no other financial or operational benefits.
- b. s6(a) in near flying condition so that they can be regenerated at minimal cost and time for a surge capacity or as a replacement.
- c. Maintain all eleven in service, thus reducing operating hours and maintenance cost per aircraft. This provides for some surge capacity, but delivering additional output hours is limited by the availability of flight and maintenance crews.
- d. Maintain all eleven in service and increase the funded output hours to deliver more services in the maritime search and rescue and utility transport roles. An increase in funding would need to be examined as part of a future business case if Cabinet decides to progress this option.

Costs

49. Costs for both capital and operating expenditure for the options have been obtained from NZDF actual cost data and from market information. The cost (set out in the table below) to upgrade the existing fleet is based on the upgrade path for other aircraft as no other similar fleet of Seasprites has been upgraded. Comparative costs for the options are in the following table.

Option	Potential Solution	Annual Expenses ⁴ \$M	Incremental expenses over current	Whole of Life NPV ⁵ \$M	Capital Cost \$M
1	Minimum maintenance of existing fleet	s9(2)(b)(ii), s9(2)(g)(i)			
2	Minimum upgrade of existing fleet and add simulator				
3	Major upgrade existing fleet and add simulator				
4	Upgrade, add simulator and add three aircraft				
5	Upgrade and expand fleet through Kaman offer				

Affordability of the Kaman offer

50. Bringing the Kaman package into service is costed at s9(2)(b)(ii) spread over three years but weighted to the end of the contract, in contrast to the other options that would be front loaded. Over 80% of the cost of the Kaman package is

⁴ Annual expenses include personnel, operating and depreciation costs.

⁵ Whole of Life (Net Present Value basis) based on remaining life of aircraft (to 2018 for Options 1&2), or life of the frigates (to 2028 for Options 3-5) at an 8% discount rate.

⁶ The NPV for Option 5 excludes any revenue, costs, revaluation or write-down required on disposal of the current fleet of Seasprites.

based in US dollars so is sensitive to exchange rate fluctuations. The estimated cost is based on the six month volatility range centred on an exchange rate of 0.814. Financial modelling of the cost risks recommends a contingency of [redacted] s9(2)(j) at the 85% likelihood level, and this has been allowed for.

51. The final cost will be determined during contract negotiations. If Cabinet chooses the Kaman option I would report this final cost back to ERD as part of the approval to commit to contract process.

52. Maintaining a fleet of eight Seasprites, the flight simulator, and delivering [redacted] s6(a) flights would increase operating costs by [redacted] s9(2)(g)(i). This reflects a small increase in personnel, maintenance and higher depreciation charges. Provision has not been made to bring the additional three helicopters into service.

53. There is a risk that when the Seasprites are revalued two years after acquisition there might be a large increase in value which would raise depreciation costs. In its Capital Plan and Capital Intentions forecasts the NZDF has factored in, from within existing baselines, the impact of revaluations on depreciation. The NZDF considers that this would address any increase in Seasprite depreciation costs if this risk were to materialise.

Balancing the Defence Capital Plan

54. The recently approved Defence Capital Plan has made provision of [redacted] s9(2)(b)(ii) for the Seasprite remediation. Acquisition of the Kaman package should not exceed this figure. If it does, especially if currency exchange rates drop sharply, some reprioritisation of the Capital Plan will be required. If we pursue the Kaman option I will report back to ERD on this issue in the light of the outcome of the contract negotiations.

Remaining life and timing of the frigate replacement

55. The naval helicopters provide a complementary capability for the frigates. They should be able to continue in service until the frigates are replaced in around 20 years time, when a decision will also need to be made on embarked helicopter requirements.

56. [redacted] s6(a)

57. The existing five Seasprites have a remaining airframe life of about 15-20 years but their mission systems will not last that long. The systems will continue to degrade, become more difficult to maintain, and become increasingly incompatible with the systems operated by Australia and other partners.

Selling the Existing Fleet

58. Acceptance of the Kaman offer would raise the issue of disposing of the existing fleet of five Seasprite aircraft, including the requirement to obtain US Congress approval. Kaman Aerospace has advised that the ex-Australian package contains technology that cannot be exported to many countries, whereas the NZ fleet is less sophisticated and would more easily obtain US re-export clearance.

59. Kaman is confident that a buyer can be found. They have offered to act as a broker and to undertake the process of obtaining the approval of the US Department of

State and Congress. Their offer is attractive. They are well positioned in the international market and are regular participants in the US approval process. They have the incentive to conclude a sale, benefiting from consequential upgrading and long-term maintenance contracts with the purchasing party. In addition, Kaman has offered to store the NZ fleet free of charge in their secure premises in Connecticut. They would maintain one helicopter as a sales demonstrator. The brokering costs are subject to contract negotiations, but are expected to come to charge only against sale income.

60. The market value of the New Zealand fleet is speculative but Kaman expect them to realise about s9(2)(b)(ii), plus the value of spare parts and other NZDF-owned materials that would form part of the sale package. A return of s9(2)(b)(ii) is indicated. This income has not been factored into the financial calculations due to the uncertainty around sales of defence equipment. Cabinet would need to agree whether any proceeds be retained by the Defence Force if it does materialise.

61. I recommend that, if Cabinet approves the purchase of the Kaman package, we also agree to dispose of the existing NZDF fleet through negotiation with Kaman (as part of the contract negotiations) either by way of an offset sale or by appointing Kaman as the sole agent for the re-sale of the aircraft, and to the aircraft's relocation to Kaman's premises in Bloomfield, USA. We could also agree in principle that any sales proceeds be retained by Defence. In the meantime Cabinet would retain the right to make a final determination on any sale and the distribution of the proceeds.

62. Time, cost and performance obligations will be negotiated for the re-sale process. I suggest that we expect a sale contract to be concluded and money received by the Crown within three years. After that time the process should be reconsidered and the five helicopters could be broken down for spare parts.

Consultation

63. This paper has been prepared by the Ministry of Defence and the NZDF. Treasury, SSC and DPMC have been consulted. The paper has been reviewed by ODESC.

Human rights, legislative implications, regulatory impact and compliance cost statement

64. There are no implications.

Publicity

65. There will be media interest in our consideration of the package previously cancelled by the Australian Government. Although there has been media speculation, there have been no previous announcements of New Zealand's interest in the Kaman offer. If a decision is taken to pursue the Kaman offer I do not intend to make any public announcements until after the outcome of contract negotiations has been considered by Cabinet.

66. Following a Cabinet decision on whether to proceed to contract, I would intend to engage the media to ensure the facts are available. Whichever decision is made it will be based on being good value and appropriate for New Zealand. I will note that the NZDF has considerable experience with Seasprites, having accumulated over 10,000 operational hours on them s9(2)(ba)(i)

67. The Seasprites played an important role in the NZDF's support to the Government's response to the *Rena* grounding in the Bay of Plenty with area surveillance, close visual inspections and the transporting of people and equipment. This is a recent example of their value in support of humanitarian responses.

68. Before any publicity occurs however, I will also be discussing the outcome with my Australian counterpart to ensure he is aware of our intentions.

Recommendations

69. I recommend that the Committee:

Background

1. **Note** that the NZDF is expected to [redacted] s6(a) for operational duties but is unable to do so primarily due to inadequate fleet size and sustainability;
2. **Note** that the Seasprites have obsolete communications and mission systems that are limiting their effectiveness and our ability to remain interoperable with Australia and other partners;
3. **Note** that the acquisition of an upgraded and expanded fleet through the Kaman Aerospace offer of the ex-Australian package would address these issues at an expected cost of [redacted] s9(2)(b)(ii) compared to [redacted] s9(2)(b)(ii) for a limited upgrade of the existing fleet and a flight simulator;
4. **Note** that due diligence consideration of the Kaman proposal has concluded that the package is credible, well suited to New Zealand's requirements and has not uncovered any airworthiness issues that would prevent its purchase, although airworthiness can only be determined during final flight testing and certification;

Options

EITHER:

5. **Agree** that the proposal for the Kaman package of an upgraded fleet of Seasprite helicopters be advanced to contract negotiations;

Next steps if the Kaman package is to be acquired

6. **Authorise** Defence officials to:
 - a. enter into contract negotiations with Kaman Aerospace, and other parties as required, for the acquisition of the full Kaman package comprising eleven Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications and for the introduction into service and through life support of eight of these aircraft; and
 - b. dispose of the existing NZDF fleet through negotiation with Kaman Aerospace (as part of the contract negotiations) either by way of an offset sale or by appointing Kaman as the sole agent for the re-sale of the aircraft, and to the aircraft's relocation to Kaman's premises in Bloomfield, USA for a maximum period of three years from the date of contract signature.

7. **Direct** the Minister of Defence to report back to ERD on the outcome of the contract negotiations with Kaman Aerospace (expected to take between eight and twenty weeks) and, if appropriate, seek approval to commit to contract;
8. **Agree** that any sale of the fleet be first approved by Cabinet, and
9. **Agree** that in principle the net proceeds of any sale be held as Debtor Crown pending resolution of the future funding of the NZDF Capital Plan from an adjusted funding regime;

If the Kaman package is not to be pursued

OR:

10. **Agree** that a minimal upgrade of the current fleet and possibly a flight simulator (Option 2 in paragraph 21) be explored;
11. **Authorise** the Secretary of Defence to call tenders to scope and cost the upgrade and for the supply of a full motion flight simulator and for the Minister of Defence to report the outcome to ERD prior to committing to contract;

OR:

12. **Agree** to accept the current surveillance and operational state of the Seasprite helicopter fleet (and the consequent degradation and incompatibility with NZDF partners of that capability over time) and direct that the NZDF Output Plan be modified to a reduced output requirement of

s6(a)



Hon Dr Jonathan Coleman
MINISTER OF DEFENCE

14 March 2012



Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

New Zealand Defence Force Naval Seasprite Helicopters: Report on Implementation Business Case

Portfolio: Defence

On 15 April 2013, following reference from the Cabinet Economic Growth and Infrastructure Committee, Cabinet:

Background

1 **noted** that:

1.1 in March 2012, the Cabinet External Relations and Defence Committee invited the Minister of Defence to report back on the outcome of contract negotiations with Kaman Aerospace, and other parties as required, for the acquisition of the full Kaman package and, if appropriate, seeking approval to commit to contract [ERD Min (12) 2/5];

1.2 detailed contract negotiations have been concluded with Kaman Aerospace for the supply of the Kaman package comprising ten Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications and for the introduction into service and through life support of eight of these aircraft;

2 **noted** that to retain a missile capability on the aircraft, the most cost-effective and lowest risk option is to acquire a stock of Penguin missiles [redacted] s6(a)

3 **noted** that all airworthiness issues have been examined, and that the Defence Force Airworthiness Authority is confident that the helicopters can be certified;

4 **noted** that:

4.1 costs have increased to mitigate safety and risk issues;

4.2 the total capital cost is now estimated at [redacted] s9(2)(b)(ii), s9(2)(j)

5 **agreed** that the negotiated contract for the Kaman package of an upgraded fleet of Seasprite helicopters be accepted, [redacted] s9(2)(g)(i)

[redacted];

Next steps

- 6 **authorised** Defence officials to:
- 6.1 sign contracts with Kaman Aerospace for the supply of the full Kaman package, comprising ten Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications, and for the introduction into service and through life support of eight of these aircraft;
 - 6.2 conclude negotiations and enter into a contract for the supply, support and introduction into service of an inventory s6(a) Penguin missiles;
 - 6.3 conclude tender processes and enter into contracts for the design and construction of the required support facilities at Base Whenuapai;
 - 6.4 conclude tender processes and enter into contracts for the ongoing support of the flight simulator and software support centre;

Disposal of the current fleet

- 7 **noted** that there is considerable uncertainty about the potential sale of the current fleet and that the suggestion in the paper attached to CAB (13) 195 that they could realise up to s9(2)(b)(ii), after sale costs, is unlikely to be realised;
- 8 **authorised** Defence officials to negotiate with, and appoint, Kaman Aerospace as the broker for the re-sale of the existing five aircraft on a sales commission-only basis and, if a sale has not been concluded within a maximum period of two years, to break these aircraft down for spare parts;
- 9 **agreed** that any sale of the fleet be first approved by Cabinet;

Financial implications

- 10 **approved** the following changes to appropriations to give effect to the decision in paragraph 6 above, with no impact on debt:

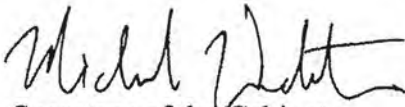
Vote Defence Minister of Defence	NZ\$m – increase					
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Non-departmental Capital Expenditure: Defence Equipment	20.00	50.00	120.00	40.00	12.20	-

- 11 **agreed** that the change to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 12 **authorised** the Secretary of Defence to:
- 12.1 commit and approve expenditure of public money up to the amount of \$242.2 million for the purchase and introduction into service of the Seasprite helicopters;
 - 12.2 sub-delegate this authority to Ministry of Defence Acquisition staff as required;

- 13 **authorised** the Chief of Defence Force to enter into contractual agreements or arrangements for the construction of infrastructure facilities as required at Base Whenuapai or elsewhere, and for the in-service support of the new Seasprite fleet;

Advice to Australia

- 14 **noted** that the Minister of Defence will be advising the Australian Government of the government's decision regarding the Kaman Seasprite helicopters.


for Secretary of the Cabinet

Reference: CAB (13) 195, EGI (13) 64, EGI Min (13) 7/3

Distribution:

Prime Minister
Chief Executive, DPMC
Director, PAG, DPMC
Minister of Finance
Secretary of the Treasury
Minister of Economic Development
Chief Executive, MBIE
Minister of Defence
Secretary of Defence
Chief of Defence Force
State Services Commissioner
Minister of Foreign Affairs
Secretary of Foreign Affairs and Trade
Secretary, EGI

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Chair,
Cabinet Committee on State Sector Reform and Expenditure Control

**NEW ZEALAND DEFENCE FORCE NAVAL SEASPRITE HELICOPTERS:
REPORTING BACK ON THE IMPLEMENTATION BUSINESS CASE**

Purpose

1. This paper:
 - a. reports on the findings of the Implementation Business Case (attached) for the acquisition and introduction into service of a replacement fleet of naval Seasprite helicopters, and
 - b. invites Cabinet to agree to proceed to contract with the US company Kaman Aerospace for the helicopters and with other support contractors at a total capital cost not to exceed [REDACTED] s9(2)(b)(ii), s9(2)(j).

Executive Summary

2. The ANZAC frigates, built by Australia and New Zealand in the 1990s, were designed to operate with an embarked naval helicopter. Such helicopters extend the range of the ship's radar and other sensors out over the horizon. Our newer ships, HMNZS *Canterbury* and the offshore patrol vessels, were also built to operate with helicopters. The capabilities of the helicopters include maritime surveillance, search and rescue, and counter-terrorism roles. If required, they can deploy weapon systems, including air-to-surface missiles and anti-submarine torpedoes in defence of the frigates or other ships.

3. It was in this context, in the 1990s, that we acquired five Seasprite helicopters for \$438.5M (about \$670M today) from Kaman, and fitted them for Maverick missiles. The helicopter was chosen because its size and other capabilities best matched our requirements. The fleet entered service in 2001. At the same time, Australia bought eleven Seasprites for \$A1 billion but decided to add bespoke enhancements to the sensors, radio links, a sophisticated computer-controlled flight and operating system, and Penguin missiles. After a series of delays and project management difficulties the Australian Government cancelled the acquisition in 2008. In the interim, Australia retained in service the larger Seahawk helicopter, [REDACTED] s9(2)(ba)(i).

4. The significant investment by both countries in naval helicopters reflects the integral role they play in multiplying the capability of our ANZAC frigates. [REDACTED] s6(a)

5. As reported to Cabinet previously, the NZDF has not been able to deliver the expected flying hours per aircraft from the fleet of five Seasprites. The small fleet has resulted in higher flying hours than is typical for helicopters operated by other navies and thus requires more frequent maintenance downtime.

6. Moreover, with age, the fleet has become more difficult to maintain. Manufacturers are ceasing to support the older versions of components in the Seasprites. Spare parts in particular are becoming difficult to obtain, leading to supportability issues for the fleet. The only remaining flight simulator (an essential flight training aid), operated by the US Navy, was recently decommissioned. The NZDF had planned and costed an upgrade process for the Seasprites, but as it has not been undertaken elsewhere it would be subject to considerable cost and schedule risk.

7. It was against this backdrop that Cabinet last year considered a "windfall" offer from Kaman for the purchase of the ex-Australian package of helicopters, flight simulator, spare parts and other components. Although offered on a second-hand basis, Kaman had completed the development of the helicopter systems and regarded them as fit for service. This was confirmed by an independent airworthiness examination undertaken on the helicopters by an air safety specialist, Marinvent Ltd of Canada. Cabinet therefore directed Defence to undertake due diligence of the Kaman offer and report back to Cabinet.

8. [REDACTED] s9(2)(b)(ii)

a. [REDACTED] s6(a), s9(2)(b)(ii)

b. Discussions with the original manufacturer (CAE Australia) of the flight simulator confirmed it will require an upgrade to its projectors, image generator and computers. Given the high training value of the simulator (the NZDF no longer has access to a Seasprite simulator overseas) the prudent course of action is to undertake the upgrade immediately after Kaman's 6 month warranty period expires [REDACTED] s9(2)(b)(ii)

c. Spare parts were originally offered by Kaman on an "as needed" basis. During negotiations Kaman offered an extensive, upfront package for purchase at a heavily discounted price. Purchasing the spares now reduces the risk of future shortages and price escalation [REDACTED] s9(2)(b)(ii)

d. safety and risk reduction measures have been included to meet airworthiness standards [REDACTED] s9(2)(b)(ii)

9. The outcome of the negotiation process has resulted in the opportunity to purchase a replacement Seasprite fleet and to bring it into service from late 2014, with

the full benefits being delivered by 2016. The fleet would remain in service until 2030 to match the life of the ANZAC frigates.

10. At current exchange rates¹ the capital cost is [redacted s9(2)(b)(ii)] spread over 3 years. While Defence successfully negotiated an outcome which ensures that Kaman will carry the risk of regenerating the helicopters and flight simulator, experience in projects where sophisticated technology and software are involved suggests it would be prudent to provide a contingency of [redacted s9(2)(j)] as a hedge against other risk areas, especially operating software. Operating costs would increase by an estimated [redacted s9(2)(g)(i)] from 2015/16, to be funded from within NZDF baselines.

11. [redacted s9(2)(b)(ii), s9(2)(g)(i)]

12. That said, the package remains a very viable and cost effective solution to the problems of keeping a naval helicopter fleet operating through to the end of life of the frigates. [redacted s9(2)(b)(ii), s9(2)(g)(i)]

[redacted] The alternative option of an upgrade to the existing fleet would also need to follow an untested path similar to that for the recent C-130 Hercules and P-3 Orion upgrades, with the same potential problems of cost pressure and schedule delays. In any case, an upgrade would not address the problems caused by the small fleet size of only five aircraft.

13. I recommend that Cabinet agrees to proceed to contract for the Kaman package. [redacted s6(a), s9(2)(b)(ii)]

14. The existing fleet of helicopters has a resale value of up to [redacted s9(2)(b)(ii)] although buyers are few. Kaman could be appointed as the broker over the next 2 years while the fleet is still in service. If a buyer has not been found after the introduction of the replacement fleet the helicopters should be broken down and used for spare parts.

¹ Conversions are based on the Reserve Bank wholesale NZ:US rate of 0.8184.

² The \$242M for ten aircraft (\$24M per aircraft) compares to the purchase cost of \$438.5 million when the existing fleet of five Seasprites was ordered in 1994 (equivalent to \$673 million today or \$135M per aircraft). [redacted s9(2)(ba)(i)]

Background

15. In September 2011 and March 2012 Cabinet reaffirmed the importance placed on maintaining a suitably-sized fleet of naval maritime helicopters to deliver surveillance, search and rescue, utility lift and combat capabilities from the ANZAC frigates and other naval vessels [CBC Min (11) 9/6 and ERD Min (12) 2/5 refer].

16. In 2011 Cabinet considered the options for addressing deficiencies in the naval helicopter fleet. An unsolicited offer had been received from US company, Kaman Aerospace, for the ex-Australian package of helicopters, flight simulator and other equipment. Cabinet directed officials to undertake a due diligence process and report back to Cabinet by September 2012.

17. The Detailed Business Case [CBC Min (11) 9/6 refers] demonstrated that the Kaman offer was the most cost-effective means of maintaining the naval helicopter capability. Cabinet directed officials to negotiate with Kaman and to report the outcome.

18. [REDACTED] s9(2)(g)(i)
[REDACTED] In parallel, the requirements and costs for through-life support and maintenance of the helicopters, simulator and related assets were also determined.

19. The outcome of these negotiations is presented here for Cabinet's consideration.

Policy Context

20. The Seasprites play a significant role in multiplying the capabilities of our naval combat and patrol vessels in respect of maritime surveillance, search and rescue, utility lift and counter-terrorism roles. The combat systems on the frigates were designed to operate with helicopters and the Seasprites were selected in 1994 for their abilities to extend the range of ship sensors, visual observations and combat capabilities out over the horizon. They can deploy weapon systems including air-to-surface missiles and anti-submarine torpedoes.

21. The helicopters can also operate from HMNZS *Canterbury* and the offshore patrol vessels.

22. Our frigate force is deployed throughout the Pacific and beyond. It has been a principal NZ contribution to UN and coalition operations. [REDACTED] s6(a)

[REDACTED]

23. The Seasprite is a capable helicopter. It is our only helicopter purpose-built to undertake maritime operations from ship and shore, and to operate in a maritime combat role. It is well matched to the NZDF's maritime operational requirements, complementing our new NH90 and A109 helicopters which are designed for land operations.

The Kaman package: airworthiness determination

24. [REDACTED] s6(a)
[REDACTED] the DBC reported on an independent airworthiness examination undertaken on the helicopters by an air

safety specialist, Marinvent Ltd of Canada. The Marinvent report detailed project management difficulties with the Australian acquisition of these helicopters but did not uncover any airworthiness concerns. NZDF and Marinvent personnel carried out evaluation flights in the helicopter in the US. The report concludes: "There do not appear to be any airworthiness issues that would prevent the Super Seasprite from being purchased by the NZ MoD".

25. As part of the contract negotiations with Kaman, a team of experienced NZDF airworthiness staff conducted a detailed assessment of the aircraft and documentation, especially around the software systems that had been problematic for Australia. The team visited Kaman in the US, the Australian Defence Force (ADF) and the software providers. After an exhaustive process the NZDF has determined that the ex-Australian fleet would, subject to agreed modifications and changes as negotiated with Kaman, meet all of the NZDF's airworthiness criteria. The Chief of Air Force expects to be able to certify the aircraft once they have completed their reactivation and modifications at the Kaman facility in Connecticut.

s9(2)(b)(ii), s9(2)(g)(i)

a. The missile capability

28. The Seasprite helicopter currently used by the NZDF is fitted with a Maverick missile system. The missile provides an important element of the frigate's combat effectiveness. The Maverick is a general-purpose air-to-surface missile designed for use against ground targets, including transport and armour and also against shipping. The NZDF was already using the Maverick on the Skyhawk aircraft when the Seasprites were purchased.

29. s6(a)

30. s6(a)

31. [Redacted] s6(a)

32. [Redacted] s6(a)

33. [Redacted] s6(a)

34. [Redacted] s6(a)

35. [Redacted] s6(a), s9(2)(b)(ii)

b. Risk reduction to the flight simulator, software support and avionics

36. The contract negotiated with Kaman provides for the full motion flight simulator to be functional at the time of delivery and to be supported with a 6 month warranty. These terms should provide sufficient surety that the simulator will be able to deliver the required level of training for Seasprite crews following the initial training of one crew in Connecticut.

37. However, discussions with the original manufacturer (CAE Australia) confirm that the simulator will require an upgrade to its projectors, image generator and computers. Given the high training value of the simulator (the NZDF no longer has access to a Seasprite simulator overseas) the prudent course of action is to plan for and undertake the upgrade immediately after Kaman's 6 month warranty period expires. The estimated capital cost for the full upgrade is [Redacted] s9(2)(b)(ii) and this has been included in the project budget. The simulator will be unavailable for up to 6 months during the upgrade so the training programme will be adjusted to accommodate this downtime. The upgrade will be overseen by the NZDF.

c. Spare parts

38. Spare parts were originally offered by Kaman on an "as needed" basis. During negotiations Kaman offered an extensive package of spares for purchase at a heavily discounted price. Purchasing the spares now reduces the risk of future shortages and price escalation [Redacted] s9(2)(b)(ii)

d. Airworthiness

39. Airworthiness requirements added new safety-related equipment [Redacted] s9(2)(b)(ii)

40. For a further price reduction Kaman agreed to supply only ten helicopters rather than the original package of eleven. The NZDF requires only eight operational helicopters: the remainder are planned to be kept as attrition airframes in case of a

loss and for spare parts. The reduction to ten airframes will not impact on the delivery of benefits and will reduce other costs including maintenance and inventory holdings.

41. As the following table shows, the increases have been in areas newly identified during the contracting process and the need to obtain the Penguin missiles.

s6(a), s9(2)(b)(ii), s9(2)(g)(i), s9(2)(j)

Capital Cost Element	
Kaman package	
Missile capability	
Simulator & Software Lab upgrade	
Avionics (including spares, training)	
Decklock modification	
Project management	
Testing & flight trials	
Facilities upgrades	
Ship Modification	
Initial training	
Mission Support	
TOTAL	
Contingency	
TOTAL COST including missiles	242.2

Cost of Package

42. The final estimate of the total capital required is \$242.2 million. This includes a contingency of [redacted s9(2)(j)] to cover the risks involved in final software testing and remediation (if required) and areas not yet confirmed by contract, such as infrastructure modifications, the sourcing of some avionics spares and the upgrades to the flight simulator and software laboratory.

	Annual current Expenses ³ \$M	Incremental expenses over current	Whole of Life NPV ⁴ \$M	Capital Cost \$M
Upgrade and expand fleet through Kaman package	s9(2)(b)(ii)			

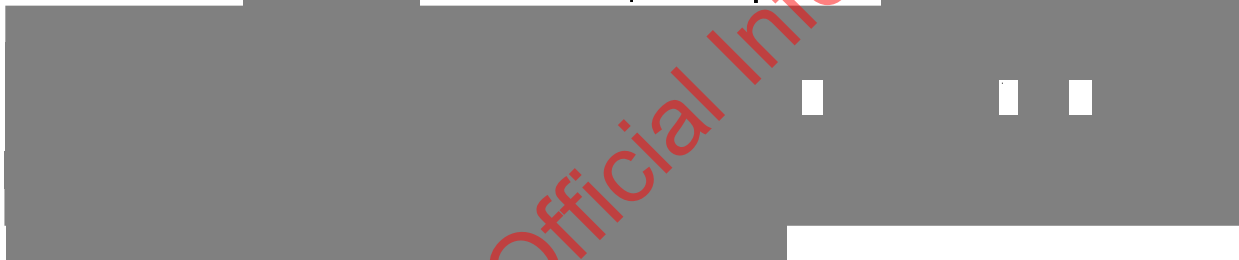
Affordability of the Kaman offer

43. Bringing the Kaman package into service is costed at s9(2)(b)(ii) spread over three years plus s9(2)(j) for contingency against risks.

44. Maintaining a fleet of eight Seasprites, the flight simulator, and delivering the NZDF Output Plan requirement s6(a) would increase operating costs by s9(2)(b)(ii). This reflects a small increase in personnel, maintenance and higher depreciation charges.

Balancing the Defence Capital Plan

45. Defence's future capital requirements are contained in the Defence Capital Plan, a notional envelope of s9(2)(g)(i) over the next 30 years. In that plan, provision has been made for s9(2)(b)(ii) for the Seasprite acquisition. s6(a)



46. The priority, cost and timing of all projects on the Capital Plan is being re-evaluated during the Mid-Point Rebalancing Review (MPRR)⁶.

Alternative options

47. Cabinet has previously compared the Kaman package to a minimum upgrade to the existing Seasprite fleet [ERD Min (12) 2/5 refers]. The option of acquiring a new fleet s9(2)(b)(ii) was discounted at that time as beyond our financial resources.

- (i) Option 1: continue with the existing Seasprite fleet, replacing equipment as it fails or becomes unsupportable s9(2)(b)(ii)
- (ii) Option 2: undertake a minimum upgrade to the existing fleet, with or without the addition of a full motion flight simulator s9(2)(b)(ii)

³ Annual expenses include personnel, operating and depreciation costs.

⁴ Whole of Life (Net Present Value basis) based on remaining life of aircraft to 2030 at an 8% discount rate.

⁵ The NPV excludes any revenue, costs, revaluation or write-down required on disposal of the current fleet of Seasprites.

⁶ The MPRR is being undertaken by the Ministry of Defence, the NZDF and the Treasury to examine alternative funding profiles for the NZDF. It is due to report to Cabinet in September 2013.

- (iii) Option 3: undertake a full upgrade to the existing fleet, with the addition of a full motion flight simulator s9(2)(b)(ii)
- (iv) Option 4: undertake a full upgrade to the existing fleet, with the addition of a full motion flight simulator and an additional three aircraft s9(2)(b)(ii) or
- (v) Option 5: acquire the Kaman package of an expanded fleet of upgraded helicopters, flight simulator, part-task trainers and extensive spares package s9(2)(b)(ii), s9(2)(g)(i)

48. While Options 3 and 4 can be discounted on cost, Options 1 and 2 remain valid, but only to a point given the significant limitations and risks compared to the Kaman package. The existing aircraft could continue to operate for several years, but it is their sensors, communications systems and combat abilities where the problems lie. Without an upgrade, these systems would degrade over time to the point where the helicopters would be useful only for utility lift and visual observations.

49. However, the option of maintaining the existing fleet in service was not preferred by Cabinet previously and is still not recommended. It would require a development path where cost and schedule would be subject to significant risk and it does not address the problems caused by a small fleet of only five helicopters.

Project management and risks

50. The "do-ability" of this project at a time of limited personnel resources, especially in the airworthiness area, is a central consideration. The project would have two lines of activity:

- a. the acquisition of the helicopters and related components for which the Secretary of Defence is responsible and
- b. introduction into service under the Chief of Defence Force (CDF).

51. Coordination of activity is critical to project success and is the ongoing focus of the Defence's Capability Management Board (CMB) comprising the Secretary, the CDF and two independent members. The CMB has taken an active oversight of this project and has been reporting to me on a regular basis.

Acquisition

52. Defence has an experienced project team available to oversee the contract with Kaman, with personnel having worked on the P-3 and Seasprite projects in the past.

s9(2)(b)(ii)

Introduction into service

54. The NZDF has appointed an Introduction Into Service Manager to plan for and then coordinate the infrastructure development and other activities required to bring the new fleet into service. A new building at Whenuapai for the flight simulator and training package would require resource consent. This will be tendered for as will

contracts for the in service support of the simulator and the software development laboratory. Total infrastructure development has been costed at s9(2)(b)(ii)

55. Initial training of air crew and maintenance personnel for the new helicopters will be conducted during aircraft regeneration in Connecticut. Further personnel would be trained in New Zealand as the helicopters are delivered. Training of existing crews and recruitment and retention are also issues of concern that the NZDF will continue to manage actively.

Selling the Existing Fleet

56. As reported in the DBC, Kaman is optimistic that a buyer can be found for the current fleet. There are in fact few buyers in this market, especially those to whom the US Department of State and Congress would grant an export licence.

57. The market value of the New Zealand fleet is speculative but Kaman suggests they could realise up to s9(2)(b)(ii) after sale costs. Any sale income has not been factored into the NZDF's financial plans due to the uncertainty around sales of defence equipment.

58. The best time to market the existing fleet is during the next 24 months while the fleet is still in service. Kaman could be retained as broker on a sales commission basis. Defence officials suggest that if a sale has not been brokered within two years the five existing helicopters should be broken down for spare parts. The value of spare parts obtained would exceed the cost of disposal in this manner.

Consultation

59. This paper has been prepared by the Ministry of Defence and the NZDF. Treasury, SSC and DPMC have been consulted. The paper has been reviewed by OSEC.

Human rights, legislative implications, regulatory impact and compliance cost statement

60. There are no implications.

Publicity

61. There will be ongoing media interest in our consideration of the package previously cancelled by the Australian Government. There has been media speculation and I previously confirmed that we were considering the Kaman offer. If a decision is taken to proceed with the Kaman offer I intend to make a public announcement after the contract with Kaman has been signed.

Advice to Australia

62. I have previously briefed my Australian counterpart concerning our interest in purchasing the ex-Australian fleet and our negotiations with Kaman. I propose to advise Australia of our decision prior to any public announcement.

Recommendations

63. I recommend that the Committee:

Background

1. **Note** that detailed contract negotiations have been concluded with Kaman Aerospace for the supply of the Kaman package comprising ten Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications and for the introduction into service and through life support of eight of these aircraft;
2. **Note** that to retain a missile capability on the aircraft, the most cost-effective and lowest risk option is to acquire a stock of Penguin missiles at a cost of s6(a)
3. **Note** that all airworthiness issues have been examined and the Defence Force Airworthiness Authority is confident that the helicopters can be certified;
4. **Note** that costs have increased to mitigate safety and risk issues. The total capital cost is now estimated at s9(2)(b)(ii), s9(2)(j)

Options

EITHER:

5. **Agree** that the negotiated contract for the Kaman package of an upgraded fleet of Seasprite helicopters be accepted;

Next steps if the Kaman package is to be acquired

6. **Authorise** Defence officials to:
 - a. sign contracts with Kaman Aerospace for the supply of the full Kaman package comprising ten Super Seasprite helicopters, full motion flight simulator, training aids, spares inventory and publications and for the introduction into service and through life support of eight of these aircraft;
 - b. conclude negotiations and enter into a contract for the supply, support and introduction into service of an inventory s6(a) Penguin missiles;
 - c. conclude tender processes and enter into contracts for the design and construction of the required support facilities at Base Whenuapai;
 - d. conclude tender processes and enter into contracts for the ongoing support of the flight simulator and software support centre;

Disposal of the current fleet

7. **Authorise** Defence officials to negotiate with, and appoint, Kaman Aerospace as the broker for the re-sale of the existing five aircraft on a sales commission-only basis and if a sale has not been concluded within a maximum period of two years to break these aircraft down for spare parts;

8. **Agree** that any sale of the fleet be first approved by Cabinet;

Financial Recommendations

9. **Approve** the following changes to appropriations to put into effect the decision in recommendation 6, with no impact on debt:

	NZ\$m – increase					
Vote Defence Minister of Defence	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 & Outyears
Non-departmental Capital Expenditure: Defence Equipment	20.00	50.00	120.00	40.00	12.20	0.00

10. **Agree** that the proposed change to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
11. **Delegate** authority to the Secretary of Defence to:
- commit and approve expenditure of public money up to the amount of \$242.2 million for the purchase and introduction into service of the Seasprite helicopters; and
 - sub-delegate this authority to Ministry of Defence Acquisition staff as required;
12. **Delegate** authority to the Chief of Defence Force to:
- enter into contractual agreements or arrangements for the construction of infrastructure facilities as required at Base Whenuapai or elsewhere and for the in-service support of the new Seasprite fleet;

If the Kaman package is not to be pursued

OR:

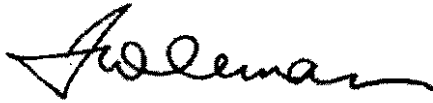
13. **Agree** that a minimal upgrade of the current fleet be explored;
14. **Authorise** the Secretary of Defence to call tenders to scope and cost the upgrade and for the supply of a full motion flight simulator with the Minister of Defence to report the outcome to Cabinet prior to committing to contract;

OR:

15. **Agree** to accept the current operational state of the Seasprite helicopter fleet (with a consequent degradation of capability over time) and direct that the NZDF Output Plan be modified to [REDACTED] s6(a)

Advice to Australia

16. **Note** that I will be advising the Australian Government of our decision regarding the Kaman Seasprite helicopters.



HON Dr JONATHAN COLEMAN
Minister of Defence

3, 4, 13

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s6(a)

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s6(a)

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