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DAS AA62482  
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OUT TLX842/C O N F I D E N T I A L /180036Z FEB 85  
ROUTINE 150504Z FEB 85

DEFENCE DETACHMENT MELBOURNE  
TO DEPARTMENT OF LOCAL GOVERNMENT AND ADMINISTRATIVE SERVICES  
CANBERRA (TLX62482)



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FOR [redacted] FAS PURCHASING DIVISION, ADMIN BUILDING, BLOCK 1,  
PARKES, ACT.

1. MINISTER FOR DEFENCE APPROVED ON 12 FEB 84 SUBMISSION REF 25/2/46 DATED 11 FEB 84.
2. MINISTER HAS SENT LETTERS TO PRIME MINISTER, MINISTER FOR INDUSTRY, TECHNOLOGY AND COMMERCE AND MINISTER FOR SCIENCE INFORMING THEM OF HIS DECISION. THESE LETTERS TAKE THE FORM OF THOSE ATTACHED TO YOUR COPY OF THE SUBMISSION. ONLY CHANGES MADE WERE THOSE TO ALLOW MINISTER FOR SCIENCE TO BE ADDED.
3. IN ACCORDANCE WITH MINISTER'S WISHES, THE PUBLIC STATEMENT WILL BE RELEASED AFTER 28 FEB 85

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DEFENCE SIGNALS DIRECTORATE

*With Compliments*

FAS Purchasing Division

As discussed, I attach a copy of our  
submission to the Minister seeking his  
agreement to proceed to contract. I  
shall advise you once we have his approval.

DSDLO  
Room 303  
Building L  
Russell Hill  
Canberra 2600

A handwritten signature in black ink, appearing to be 'T.W.S. James', written over the printed name and title.

(T.W.S. JAMES)  
Director

**MINUTE PAPER**

REFERENCE: 25/2/46

~~The Minister  
Through: Secretary  
Copies to: DEPSEC B  
                  CCP  
                  FASPB~~

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**NEW DSD ANALYSIS COMPUTER - APPROVAL TO PROCEED TO CONTRACT**

1. The National and International Security Committee of Cabinet (NISC) gave project approval in July 1984 for a new cryptanalysis (code-breaking) computer for Defence Signals Directorate (DSD). This submission seeks:

- a. an increase in project approval to \$A13.397m from \$A12.950m arising solely from exchange rate variations between June 1984 and January 1985, and to increase approval to incur additional expenditure accordingly; and
- b. approval to proceed to contract through the Department of Local Government and Administrative Services with Cray Research Incorporated for computer equipment and support services.

**Previous Consideration**

2. Because of the highly classified nature of the requirement and its cost, the proposal was referred to the NISC for approval. Cabinet Submission 958 refers. At its meeting of 27 July 1984 the NISC agreed that a computer system based on a Cray Research Incorporated processor be acquired for DSD at an estimated cost of \$A12.950m (\$A11.050m equipment, \$A1.900m facilities, April 84 prices, June 84 exchange rate). The full terms of the NISC's agreement are given in Annex A.

3. Subsequently, approval to incur expenditure for the equipment, at a cost of \$A11.050m was agreed by the Minister for Defence on 13 August 1984.

**Consideration**

4. Because the need for the necessary computational power could only be satisfied by a computer acquired from Cray Research Incorporated, Cabinet agreed to limit the source of supply for the prime equipment to that company. A request for quotation was subsequently released by the then Department of Administrative Services to Cray Research on 12 September 1984 and a response was received in October 1984. The prime equipment is now estimated to cost \$A11.242m with specialised peripheral equipment to be purchased through FMS at an estimated cost of \$A0.255m.

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5. In November 1984 representatives of DSD and the Department of Local Government and Administrative Services, visited Sigint agencies in the UK, US and Canada, and Cray Research offices in the UK and US to assess the terms and conditions being offered by the company.

6. It has been concluded that the Commonwealth is not, in this instance, being disadvantaged by the sole source procurement process and,

7. The Cabinet Submission foreshadowed difficulties in meeting the Government's offset policy although there was planned to be substantial Australian participation in support arrangements. The Government's offset requirements were included in the request for quotation and have been pursued with the Company.

8. Cray Research is a relatively small company whose only product is "super-computer" equipment which employs highly specialized technology, the production volume of which is low (systems delivered since the company's inception in 1974 number about 70). Offset possibilities pursued with the company included sourcing of components in Australia, participation in equipment assembly and software research and development. However, it has not been possible to identify any economic and technically reasonable offset opportunities.

9. On the other hand, the planned substantial Australian involvement in support has been successfully established. These arrangements, which are to be supplemented partly through the prime contract and partly through the subsequent maintenance contracts, will provide considerable technology transfer to, and work content in, Australia. Cray Research will establish a subsidiary company in Australia which will:

- a. require an expenditure of an estimated \$A1.8m over five years and will employ about seven Australians,
- b. provide on-site maintenance to component level and require an investment of approximately \$A1.2m, and
- c. involve extensive technology transfer in the form of both documentation and staff training of Australian employees.

10. Because the offset requirements have not been met, it is proposed that the Prime Minister and the Minister for Industry, Technology and Commerce be informed of the intended purchase arrangements. Letters for this purpose are attached.

11. In all other major respects the contract arrangements proposed with Cray Research are in accordance with the requirements of the request for quotation, and satisfy normal contractual requirements of Government. Subject to your approval it is expected that a contract could be let in March 1985 and the equipment installed and accepted by April 1986.

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**Publicity**

12. The NISC noted in its consideration of the Cabinet Submission that minimal publicity was proposed and that the Minister for Defence would release, at an appropriate time, a statement. It is assessed that it is impractical to keep knowledge of the acquisition of such a computer secret.

13.

It declares that the computer will be used 'for tasks associated with national intelligence'. This association with intelligence is considered advisable

14. Since DSD and JIO are the only intelligence agencies in Defence, it is expected that reference to intelligence will quickly link the statement to DSD, and any significant press speculation of this kind could encourage countries that perceive themselves to be targets to improve their communications security. However, if the intelligence link is declared,

15. Price is also an indicator of capability and it will be given security protection. For this reason it is intended that the award of the contract

**Resource Aspects**

16. Obligation and expenditure authority is available to meet requirements in 1984-85. Subsequent expenditure in 1985-86 and 1986-87 will be provided from within funds available to Defence in those years.

**Consultation**

17. The proposal is endorsed by DEPSEC B and CCP. Resource aspects have been agreed by FASPB. DPI agrees with the proposed public statement. Department of Local Government and Administrative Services has advised satisfactory contractual arrangements can be made.

**Recommendation**

18. It is recommended that you:

- a. agree to increase project approval by \$A0.447m to \$A13.397m and approve additional expenditure of \$A0.447m on the equipment component accordingly;
- b. agree with proceeding to contract with Cray Research at an equipment cost of \$A11.242m;

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- c. agree to exempt Cray Research from having to meet the normal Government offsets requirements noting the significant Australian involvement in support arrangements, and the substantial technology transfer, and sign the attached letters to the Prime Minister, and the Minister for Industry, Technology and Commerce; and
- d. agree to the release of the attached public statement.



T.W.S. James  
Director  
11 February 1985

- Annexes:
- A. Terms of NISC Decision on New Analysis Computer for DSD
  - B. Proposed Public Statement

- Enclosures:
- Letter to the Prime Minister
  - Letter to the Ministry for Industry, Technology and Commerce

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ANNEX A

**TERMS OF NISC DECISION ON  
NEW ANALYSIS COMPUTER FOR DSD**

The Committee has agreed that:

- (a) a computer system based on a Cray Research Inc processor be acquired and installed at Defence's Defence Signals Directorate at an estimated cost of \$12.95 million (April 1984 prices, June 1984 exchange rate);
- (b) on the grounds of national security and systems compatibility, the source of supply of the prime equipment in sub-paragraph (a) above be restricted to Cray Research Inc and its associated support to the original suppliers of such items;
- (c) in the event that the cost of the associated capital works increases to an amount in excess of \$2.0 million, on the grounds of national security, it be recommended to the Governor-General in Council that the  
; and
- (d) to the Parliament Committee on  
Public Accounts.

2. It also noted that minimal publicity is proposed and that the Minister for Defence will release, at an appropriate time, a statement.

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ANNEX B

**PROPOSED PUBLIC STATEMENT**

The Government has approved the acquisition of a computer system from Cray Research Incorporated (U.S.) subject to the conclusion of satisfactory contractual arrangements by the Departments of Local Government and Administrative Services, and Defence. It will replace an existing outdated computer used by Department of Defence for tasks associated with national intelligence. There will be a substantial degree of technology transfer to Australia, and its support will largely employ Australian resources. The Government's choice of the supplier, made after very careful consideration of all the issues involved, was determined by the specialized requirements.



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25/2/46

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The Hon R.J.L. Hawke AC MP  
Prime Minister  
Parliament House  
CANBERRA ACT 2600

My dear Prime Minister

I wish to inform you of action taken by me on Australian involvement in respect of the purchase of a special purpose computer for Defence.

You will recall that the NISC meeting of 27 July 1984 agreed to the purchase of a new cryptanalysis (code-breaking) computer for Defence Signals Directorate at an estimated cost of \$A12.95m. It was also agreed on the grounds of security and compatibility that the source of supply be restricted to Cray Research Incorporated in the United States.

Subsequent negotiation with Cray Research has resulted in all of our technical, cost and other requirements being met except in respect of offsets.

The Cabinet Submission foreshadowed difficulties in meeting the Government's offset policy were likely because Cray Research is a small company which makes super-computing equipment in low volumes and employs highly specialised technology. Offset possibilities pursued with the Company included sourcing of components in Australia, participation in equipment assembly and software research and development. However, it has not been possible to identify any economic and technically reasonable offset opportunities.

On the other hand, the planned substantial Australian involvement in support has been successfully established. These arrangements which are to be supplemented partly through the prime contract and partly through the subsequent maintenance contract will provide considerable technology transfer to, and work content in, Australia. Cray Research will establish a subsidiary company in Australia which will:

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- a. require an expenditure of an estimated \$A1.8m over five years and will employ about seven Australians,
- b. provide on-site maintenance to component level and require an investment of approximately \$A1.2m, and
- c. involve extensive technology transfer in the form of both documentation and staff training of Australian employees.

In addition the software to be obtained by DSD represents a valuable transfer of technology to Defence.

For these reasons I have agreed that the procurement should proceed but wish you to be informed in the event that this results in any representations to you.

I am proposing to release a public statement along the lines given in Annex A.

no response to any questions arising from the public statement is proposed.

I am sending a copy of this letter to our colleague the Minister for Industry, Technology and Commerce.

Yours sincerely,

KIM C. BEAZLEY

Annex A: Proposed Public Statement

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ANNEX A

**PROPOSED PUBLIC STATEMENT**

The Government has approved the acquisition of a computer system from Cray Research Incorporated (U.S.) subject to the conclusion of satisfactory contractual arrangements by the Departments of Local Government and Administrative Services, and Defence. It will replace an existing outdated computer used by Department of Defence for tasks associated with national intelligence. There will be a substantial degree of technology transfer to Australia, and its support will largely employ Australian resources. The Government's choice of the supplier, made after very careful consideration of all the issues involved, was determined by the specialized requirements.

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Senator the Hon John Button  
Minister for Industry, Technology and Commerce  
Parliament House  
CANBERRA ACT 2600

My dear Minister

I attach a copy of a letter that I have this day passed to our  
colleague, the Prime Minister.

Yours sincerely,

KIM C. BEAZLEY

Enclosure: Copy of letter to the Prime Minister

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