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FOR CABINET

Submission No. 958

Copy No.

Title

PROCUREMENT OF NEW ANALYSIS COMPUTER FOR
DEFENCE SIGNALS DIRECTORATE

Minister

GORDON SCHOLES
Minister for Defence*Note: Taken by
NISC, 27 Jul 84*

Purpose/Issues

To seek approval for the acquisition for Defence Signals Directorate (DSD) of a very high performance data processing computer together with the provision of appropriate site facilities, the issue of appropriate certificates of exemption from normal open tendering procedures, exemption from consideration by the Joint Committee of Public Accounts and should works cost exceed \$2.0m, a recommendation to the Governor-General in Council that the works not be referred to the Public Works Committee.

Relation to
existing
policy

In 1978 the Government approved roles and functions for DSD which, inter alia, require DSD, together with certain elements of the Defence Force, to maintain an Australian capability in signals intelligence (Sigint) for national purposes generally. The proposed computer to be installed at DSD will be used for analysis necessary to this function.

Legislation
involved

NIL

Urgency:
Critical/significant
dates

A decision is required now to allow DSD's Sigint capabilities to be upgraded to match expected improvements in the level of protection of priority 'target' communications. Contracts for the computer are planned to be let in March 1985 to achieve delivery and acceptance in February/April 1986.

Consultation:
Ministers/Depts
consulted

The acquisition of the computer has been endorsed by the Permanent Heads Committee on Intelligence and Security. The Departments of Prime Minister's and Cabinet and Finance, and ONA have been consulted.

Is there
agreement?

Yes

Cost
this fiscal year

year 2

year 3

Works (\$Am)	Equipment (\$Am)	Total (\$Am)	
1.900	-	1.900	(Annual maintenance
-	7.350	7.350	cost of \$0.600m
-	3.700	3.700	from Year 3 onwards)

Funds provided from within Defence outlays.

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Implications of proposals	N/A
. social	
. economic	
. environmental	
. women	
. employment	
. administrative	
. other	
Wider consultation	N/A
. state or foreign governments	
. unions and industry bodies	
. other special interest groups	
What general or sectional support can be expected?	N/A
What criticism is anticipated and how will it be answered?	
Timing and handling of announcement of decision	<p>A draft public statement acknowledging in general terms the purchase of the computer and its purpose, to be made by the Minister for Defence before contract arrangements are finalised, is at Attachment A. It is proposed that any questions or criticisms be answered to the effect that the Government will not comment further on the grounds that the computer is for intelligence purposes.</p>

BACKGROUND

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security and/or personal sensitivities

security and/or personal sensitivities

security and/or personal sensitivities

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11. The required compatibility hinges on a specially developed software system called FOLKLORE. The only computers available which will provide the required computational capacity and which are capable of running FOLKLORE are those manufactured

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by Cray Research Incorporated. Certain specialised operational support equipments, supplied by Raytheon Data Systems and Network Systems Corporation are also required. All suppliers are US companies, with some Australian representation.

12. Accordingly, it is proposed that the equipment and support items be acquired from the relevant Australian agents for these items utilising Certificates of Exemption for which approval is sought. Because maintenance of the system will require continuing access to highly specialized resources (diagnostic software, engineering services and spares) which are only available from the original suppliers referred to above, it is proposed that the restrictions of the source of supply should also encompass maintenance support.

OPTIONS

13. Hire of all equipment has been considered but discarded because the charges would equal the purchase cost over a very few years and this option is clearly uneconomic. A further option is an initial installation of a less powerful second-hand machine, with a subsequent upgrade to a more powerful model. While this would allow a greater spread of expenditure, it would add approximately \$3.5m to the overall project cost.

AUSTRALIAN INDUSTRY PARTICIPATION

14. The Australian Government's offset conditions will be included in the request for tender. Because of the technological characteristics of the computer system and the very low production volumes, the potential for Australian industrial involvement is limited. However, since Cray Research Incorporated

EXEMPTIONS

19. Approval of the Executive Council will be required to exempt referral of the capital works to the Public Works Committee (PWC) should the cost exceed \$2.0m (presently \$1.9m in April 1984 prices) as seems likely with inflation. Exemption of consideration of the proposed computer acquisition by the Joint Committee on Public Accounts (JCPA) is required. For security reasons consideration by these bodies would be contrary to public interest. Cabinet agreement to these actions is required.

ACQUISITION STRATEGY AND PUBLICITY

20. It is proposed that equipment be procured and supported by sole source solicitation on tenders from the respective Australian agents of the equipments required.

Distribution

of information on the computer configuration will be limited to the companies concerned, who will be required to give the information appropriate security protection.

21. It is proposed that this project be given only minimal publicity with the release, before the award of the contract, of a statement along the lines of that at Attachment A.

CONSULTATION

22. The Permanent Heads Committee on Intelligence and Security has endorsed the need for priority to be given to upgrading DSD's cryptanalytic computer capability. This

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submission has been agreed by the Departments of Prime Minister and Cabinet and Finance. The Director General of the Office of National Assessments also supports the proposal and has commented that the maintenance of DSD's cryptanalytic capability is of great importance in the context of sustaining the level of intelligence currently enjoyed by the Government on the region of prime strategic interest to Australia.

RECOMMENDATION

23. It is recommended that Cabinet:

- (a) agree that 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 \$12.95m (April 1984 prices, June 1984 exchange rate);
- (b) approve on the grounds of national security and systems compatability the restriction of the source of supply of the prime equipment in (a) above 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 \$2.0m agree that, on the grounds of national security, it be recommended to the Governor-General in Council that

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FORM OF PUBLIC STATEMENT

" The Government has approved the acquisition of a computer system from (Cray Research Incorporated) subject to the conclusion of satisfactory contractual arrangements by the Departments of Administrative Services and Defence. It will be used by the Department of Defence for tasks connected with intelligence. The Government's decision, made after very careful consideration of all the issues involved, was in this case determined by the highly specialised requirements."

ATTACHMENT B

RESOURCE ASPECTS

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The following table summarizes the Project costs.

\$Am (April 1984 prices, June 1984 Exchange Rate)

	1984-85 Draft Ests	1985-86	1986-87	1987-88	1988-89	1989-90	Total Project
A. Obligation							
- Equipment	11.05	-	-	-	-	-	11.05
- Facilities	1.90	-	-	-	-	-	1.90
TOTAL Obligations	12.95	-	-	-	-	-	12.95
B. Expenditure							
- Equipment	-	7.35	3.70	-	-	-	11.05
- Facilities	1.90	-	-	-	-	-	1.90
TOTAL Expenditure	1.90	7.35	3.70	-	-	-	12.95
C. Manpower	+3(1)	+1(1)	-	-	-	-	+4
D. Operating Costs							
- New Equipment	-	-	+.600	+.600	+.600	+.600	+.600 pa
- Cyber Support	-	-	-	-	-	-.530	-.530 pa
Phase Out (Aug 89)							
TOTAL	-	-	+.600	+.600	+.600	+.070	+.070 pa

Notes: (1) Additional manpower will be provided from within DSD's authorized manning levels.

Note: Exchange rate (29 June 84) \$A 1.0 = \$US 0.8613.

6(2)

ATTACHMENT C

IMPLEMENTATION SCHEDULE

Implementation is planned to be achieved in the following timescale:

- | | | |
|----|---|---------------|
| a. | Project Approval | Jul 84 |
| b. | Release Request for Tender | Aug 84 |
| c. | Contract Let | Mar 85 |
| d. | Equipment Delivery | Feb 86 |
| e. | Equipment Acceptance | Apr 86 |
| f. | Phased installation of US
software | Apr 86-May 87 |
| g. | Phased transfer cryptanalytic
tasks from CYBER | Apr 86-Jul 89 |
| h. | Decommission CYBER | Aug 89 |