A New Strategic Vision for The Australian Defence Sector

THE DEFENCE CAPABILITY PARTNERSHIP MODEL

2014
The Abbott Government’s commitment to rebuilding a strong, capable and sustainable Australian Defence Force (ADF) through an increase in defence spending equivalent to 2 percent of GDP within the decade has given new hope to all those involved in the Australian defence sector.

As analysts look to interrogate the logic and practicality of such an undertaking, an essential pre-requisite will be to develop a new and valid Defence Sector Strategy to add substance, prioritise spending and build the business case for such an investment.

Australia’s long-term defence strategy, policy and capability are largely guided by the Defence White Paper (DWP). As the new DWP is being drafted for release in early 2015, now is the time to re-engage with Industry in a meaningful way.

Industry is however acutely aware that this will be the third DWP to be released in six years. This has driven an increasingly skeptical view of the value the DWP holds as a valid strategy and policy setting instrument - not least through the lack of Industry involvement conducted in previous DWP developments.

Of critical importance will be the development of the revised Defence Industry Policy Statement (DIPS) and 10-year Defence Capability Plan (DCP) in support of the DWP. This creates an opportunity for Government to rethink its approach, rebuild its relationship with Industry and create genuine confidence about the future of the sector.

To achieve this, Government must decide whether it will take a “strategic approach” to Australia’s Defence Industry and work with them to position the sector for future success, or simply “regard its capabilities as a by-product of procurement decisions”.¹ This was the challenge set out in the 2000 DWP, and some 14 years later, remains a key strategic question.

The early signs of a more strategic approach are encouraging following the release of the ‘Defence Issues’ paper. The Government has outlined its intention to address long-standing issues and challenges in the way Defence operates and increase stakeholder engagement through public consultation for the 2015 DWP & DIPS.

As a contribution to the consultation process, the duMonde Group has compiled this submission, which advocates a strong Government and Industry partnering approach to setting the long-term strategic vision for the Australian Defence sector.

This provides an idealistic blueprint for the implementation of a national framework approach to industrial strategy development which duMonde has named the Defence Capability Partnership Model (DCPM).

The model is designed to provide a strategic roadmap built around four core goals to create a more successful indigenous defence sector capable of meeting the future capability needs of the ADF as well as those of international customers. In so doing, it hopes to articulate how the Government can in fact take a “strategic approach”.

The DCPM has been specifically developed for Australia’s defence sector, using elements of similar successful reforms in the United Kingdom (UK). The DCPM is illustrated in Figure 1.

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¹ Defence 2000: Our Future Defence Force” (Para 9.1)
THE ‘DEFENCE CAPABILITY PARTNERSHIP MODEL’ AND ITS RECOMMENDATIONS FOR CHANGE

The DCPM simplifies the Defence sector strategic focus to a proposed set of collaborative goals and underpinning objectives for Government and Industry to collectively work towards as they look to adopt a strategic approach to an Australian defence sector that is:

- More focused and better structured for the achievement of a valid and robust, long-term, sustainable strategy;
- More self-reliant and better equipped to meet the needs of the ADF and international customers;
- More innovative and competitive to encourage inward investment;
- More supportive of Industry & SME development and continuous improvement; and
- Better positioned to safeguard and grow the many high-value jobs supported by defence throughout Australia.

To achieve this, the DCPM suggests the pursuit of four interwoven Goals that form the basis of the model. To assist with referencing and review, each of the four sections of the model represent a goal and these have been numbered accordingly.

There are two overarching themes, which guide the implementation of the model, each with their own recommendations for change. Those themes are ‘capability’ and ‘partnership’ and they are central to the successful adoption of the DCPM.

A COMMON FOCUS ON ‘CAPABILITY’

The term ‘capability’ is one that is often used within the defence sector but rarely defined. Defence, through the Capability Development Group (CDG), has a term referred to as ‘Fundamental Inputs to Capability’ (FIC). This term is used to analyse requirements and set out the strategic business case for, and proposed procurement approach to, new projects put forward to Government for first pass approval. The Defence Issues paper, when referring to capability, states that within defence this is “a form of shorthand to describe the array of inputs that are needed to field and use complex weapons.”

Fulfilment of this task, almost without exception, requires the involvement of Industry as the supplier of...
From an Industry perspective, the term capability means having the right people (skills/knowledge), processes (systems, policies and procedures), tools, technology and infrastructure to deliver these inputs to the customer on budget, on schedule and at the right performance specification. So closely related are these two undertakings that we see the focus on capability as a unifying factor between Government and Industry.

Successful joint Defence-Industry initiatives, such as Rapid Prototyping, Development & Evaluation (RPDE), have been in place since 2005. With more than 140 Tasks and Quicklooks delivered since inception, they have repeatedly demonstrated the value of a more integrated approach. However, despite this success, defence Industry is not yet identified as a key stakeholder in the Government’s capability development process, nor is it in the scope of FIC elements set out for consideration. Such omissions fail to recognise the critical role that Industry plays in fulfilling Defence’s needs and are born from outdated views on the need for above-the-line and below-the-line separation in the procurement process.

A move to rectify this would help strengthen the relationship between Industry and Government and facilitate a more strategic approach to the definition and long-term sustainment of critical industrial capabilities required for self-reliance.

**Recommendation 1:** Update the list of current FIC elements to include ‘Defence Industry Capability’ requirements and include Defence Industry as a key stakeholder in the Capability Development process. Defence Industry requirements should be considered for each DCP project on a whole-of-life basis and be supported by a plan for sustaining those elements of Defence Industry capability and capacity seen as essential to the delivery and through-life support of that capability as an independent sovereign nation.

A COMMITTED GOVERNMENT AND INDUSTRY PARTNERSHIP

Working together, Government and Industry have an opportunity to create a truly competitive, sustainable, and globally successful Australian Defence Sector that provides affordable, leading edge capability and whole-of-life support for our ADF whilst bringing wider economic benefit to Australia through exports. Delivery of this objective would maintain the Government’s policy of value-for-money and support the commercial interests of Industry.

Accordingly, the concept of ‘partnership’ pervades every aspect of the DCPM, in that we advocate a joint approach to the achievement of each goal.

The 2015 Defence Strategy update is an ideal opportunity to build on the Government’s initial engagement of Industry through its consultation process and experts panels, to evolve this into a more permanent arrangement through the establishment of a joint working group (shown at the heart of the central cog in the DCPM). This would include Government representatives (across agencies and jurisdictional boundaries at all levels of Government) and Industry (across the supply-chain). The group would be tasked with working together to set the strategic goals and objectives for the sector as well as providing ongoing oversight during strategy implementation.

**Recommendation 2:** Form a Joint Defence Partnering Committee (JDPC) made up of Government, Defence and Industry representatives to enhance collaboration on key strategic defence sector issues. Use the JDPC to develop future versions of the DWP and DIPS and drive success across each of the DCPM Goals. This committee would be responsible for reviewing, updating and delivering Defence’s long-term strategic goals and objectives.

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GOAL 1: SETTING A JOINT STRATEGIC PLAN

The first goal of the DCPM targets a more integrated Government and Industry approach to the development of all the various inputs required for robust strategic planning. This includes producing a suite of strategic documents required to both maintain and implement a robust and valid long-term Defence Sector Strategy. As highlighted, we recommend this joint approach be managed through a joint Government and Industry partnering committee specifically tasked with achieving the following key objectives:

1.1 IMPLEMENTING A TRULY WHOLE-OF-GOVERNMENT APPROACH

A long-standing fundamental challenge between Defence and Industry lies in the cultural and operational disconnect between Defence, a department with primary responsibility “to promote the security of Australia, and to protect its people and its national interests”; and Industry, which is predominantly driven by long-term sustainable business growth and the creation of shareholder value. With that in mind, it seems peculiar that unlike other sectors, industrial strategy and policy development within Defence is not driven by the Government’s lead department for economic growth, productivity and competitiveness, the Department of Industry (DoI). Whilst the DWP is intended to be a whole-of-government product that reflects the overall strategic, national security, fiscal and broader policy priorities, to date, there has been little evidence of broader Government input in the formulation of a Defence industrial strategy.

To address this disconnect, we strongly advocate a more active involvement of the DoI and the Department of Foreign Affairs and Trade (DFAT) in the development of a more sophisticated and appropriate industrial strategy for the sector.

Such a move would also open the door to a more integrated policy output, one with the potential to embrace cross-sector thinking in such critical areas as innovation, exports and foreign policy - particularly in those sectors which naturally over-lap with Defence (i.e. aerospace, manufacturing and information, communications and technology (ICT).

Over time, this would pave the way for a more sustainable Industry base in Australia that is less dependent on Defence to shoulder the burden of implementing an Industry policy that extends beyond its natural focus, such an Industry base would represent a win-win for all.

Recommendation 3: Formalise the involvement of both the DoI and DFAT in the Defence Sector Strategic Planning process through involvement in the Joint Defence Partnering Committee (Recommendation 2) and transfer lead responsibility for Industrial Strategy & Policy planning to the DoI.
1.2 A NATIONAL STRATEGY WITH LOCAL FOCUS AND GLOBAL REACH

The ‘crown jewels’ of the Australian Defence Sector strategy are the DWP and DIPS - which this year will be developed as an integrated output.

The current Force Structure Review, designed to assess Defence’s future capability needs and propose a force structure that addresses this and the First Principles Review, an initiative designed to ensure Defence is fit for purpose and able to promptly respond to future challenges, will both inform the DWP & DIPS. The DCP and the identification of key industry capabilities. In the Defence sector will both likely be bi-products of these and should be major focus areas in their own right. Hence, we will discuss these separately.

These interconnected cogs of the DWP & DIPS, the DCP and key industry capabilities represent the fundamental outputs of the Defence strategic planning process and as such, have the potential to define whether Australia does in fact address the challenge set out in the 2000 DWP to adopt a “strategic approach” to its Defence Industry policy. The significance of this statement goes to the heart of whether Australia is serious about securing the long-term, sustainable future of an Industry base capable of providing value-for-money capabilities required to meet the needs of its own Defence Force as well as those of international customers.

Through the joint development approach advocated, the output of the DWP & DIPS should ensure a Defence Sector strategy focussed on making an essential contribution to our national security, as well as to our economy.

In doing this, the new strategy must assess the full spectrum of future capability demands of domestic, international and non-Defence customers and consider how the Australian defence sector can take advantage of Australia’s key strengths in these areas.

Clearly, unlocking the full economic value of the global defence sector depends on maintaining Australia’s competitive advantage. The new DWP & DIPS must define the roadmap for achieving this and support the building of a prosperous, innovative, efficient and competitive Australian Defence Industry. This will make a significant contribution to developing and sustaining key defence and security capabilities, while delivering export-led growth.

**Recommendation 4:** Ensure that as a central tenet of both the DWP & DIPS is the need to clearly identify and develop a plan around how the Australian defence sector can take advantage of its key strengths and discriminators, to provide a focused and coordinated response to customer needs in the global defence market. This should be supported with an action to assess how opportunities for export potential can best be built early into Australia’s own equipment and support requirements.
1.3 A MORE ROBUST DEFENCE CAPABILITY PLANNING PROCESS

Since its introduction in 2000, the Defence Capability Plan (DCP) has come to control the ADF capability development process and become a highly-valued national investment indicator used by Industry to forecast the future opportunity landscape within Australia. Currently, the DCP primarily serves as a financial management tool setting out the approximate funding and schedule projections for future projects. In this capacity, it has been subject to criticism for lacking accuracy and long-term certainty in terms of the projects it contains and the cost estimates associated with them.

A lack of detailed information available early on in the requirements definition phase and the inability of CDG to control variations in Federal Government budget allocations to Defence from year-to-year contribute to this. Whilst the latter is difficult to control, the former could be better managed through the implementation of Recommendation 1.

Building on this recommendation, it is proposed that through an increased level of Industry engagement in early stage capability development planning, Defence would also benefit from significantly improved cost and schedule estimates on DCP projects as well as better identification of and sustainment planning for Key Industry Capability requirements, reducing downstream risks.

Recommendation 5: Look to engage Industry more formally in the development of the DCP. Explore a formal extension of the current RPD&E arrangement to facilitate this. Industry involvement should be focused on providing better definition on key industry requirements; capability performance, pricing and delivery schedule options as well as exportability assessments going into first pass approval. A new section of the DCP should be created for each project highlighting what local capabilities are seen as critical for Australian self-reliance and these should in turn shape our proposed procurement approach and local industry involvement.

1.4 A STRATEGIC FOCUS ON ‘KEY INDUSTRY CAPABILITIES’

Internationally, Governments across the world are increasingly leveraging their investments in major defence projects to further their national interests and industrial development plans for expansion of Key (strategic) Industry Capabilities.

Implementation of Recommendation 5 positions Australia for a more strategic approach to the identification and ongoing management of ‘Key Industry Capabilities’, which we define as those capabilities essential to meeting the in-country support needs of our ADF for military self-reliance as well as those of export customers.

However, this needs to be supported by an appropriate policy with sufficient grunt to mobilise a dedicated domestic investment and procurement program and international engagement plan focused on their sustainment and growth. Such a move, would better allow us to safeguard our national security interests for self-reliance across these Key Industry Capability areas, better manage the flow of work passing through Australian Industry and build a more focused and “strategic” export program.
Australia’s current Australian Industry Capability (AIC) policy as an alternative to an Economic Offsets program has come under much scrutiny over recent years, not least for its perceived lack of effectiveness when it comes to securing work for local industry and positively contributing to the sustainment and promotion of key industry capabilities. A recent report produced by Frost & Sullivan\(^6\) indicated that as international Defence customers become more price conscious, they are responding with higher military offsets obligations, with significant technology transfer expected as part of the procurement. Not having a similar policy mindset when leveraging the billions of dollars we spend on military equipment to enhance our key industry capabilities..., economy and competitiveness will, over time, put Australia at a serious disadvantage on the global stage.

In the 2010 DIPS, to sharpen the AIC focus, Defence released its list of 12 Priority Industry Capabilities (PICS) as its view on what Australia’s key capabilities were. These were defined as those “elements of broader industry capabilities that confer an essential strategic advantage by being resident in Australia and which, if not available, would undermine defence self-reliance and Australian Defence Force (ADF) operational capability”\(^7\). This release came with a renewed commitment to regularly review and update the PICS given their stated importance to Australian national security and self-reliance.

More than four years on and Defence has little to report on these aside from a small reference made in the 2013 DWP to the establishment of a PIC Development Fund designed to help Defence address relevant capability shortfalls.

The fund was set to commence this year and a detailed progress update has not yet been released. As a critical piece of policy with the potential to undermine Australia’s military self-reliance, it lacks prominence in the Strategic Planning process and the contribution it makes to our overall policy agenda in the sector is underwhelming. A perceived lack of industry consultation in the formulation of the PICS, infrequent reporting on PIC health, no clear alignment with Defence procurement decision-making, an overly narrow focus on ADF-only capability needs and a general lack of commercial focus on how best to nurture and grow these capabilities are among some of the reasons for this lack of impact.

Furthermore, one of Defence’s default get-out-of-jail-free cards for its lack of results on AIC & PIC policy is Australian industry’s supposed inability to adequately present value-for-money proposals to Government. In fact, it has been argued that this is the very reason why Australia decided to abandon the adoption of an Economic Offset policy. Local industry involvement in the supply chains of major overseas Prime Contractors (who Government now buys the majority of its systems and equipment from) was perceived to carry with it a cost premium that the Government was simply not willing to bear. If, for the same reasons, we are now failing to secure industry involvement in PICS, which by definition have the potential to jeopardise national security, one must really wonder what the point of this policy is, or at least ask why we are not taking it more seriously.

Recommendation 6: Use the JDPC to review as a strategic imperative, the current list of PICS to assess their ongoing validity as Key Industry Capabilities for Defence. Once confirmed, work with the research and development organisation to develop roadmaps for future sustainment and growth of these capabilities through both domestic (DCP) procurements and the targeting of international customer projects opportunities.

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\(^6\) Frost & Sullivan report on “Military Offsets & In-country Industrialisation” (2013).  
\(^7\) DMO Website (2014)
GOAL 2: INVESTING IN WORLD CLASS TECHNOLOGY AND INNOVATION

Building on a defence sector strategy focused around the development of world-class capabilities (aligned to our Key Industry Capabilities), we must look at how Government and industry can work together to secure the long-term future of the sector, through joint investment in research and innovation to develop leading-edge military capability, enhanced competitiveness and support exports.

Australia has a rich pedigree when it comes to investing in Research & Development (R&D), however, within Defence, resources are limited, driving the need for a more focused and collaborative approach to this challenge. Logically, investment in R&D would need to be prioritized, with our Key Industry Capabilities providing a good focal point to start this within Defence.

To improve our chances of success, the DCPM advocates enhanced collaboration and the pooling of resources between Government, Industry and Academia in this area. This would centralise and build on the established strengths of the Defence Science and Technology Organisation (DSTO); Cooperative Research Centres (CRCs); and other key Government research institutions, such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO), and complement this with insights and investments from Industry and Academia which carry out strategic capability and technology planning largely in isolation.

Benefits to be gained from this more integrated approach to innovation development could be realised through the establishment of a dedicated ‘Defence Technology and Innovation Centre’ (DTIC) formed from senior representative from across Government, Industry and Academia. As an independent organisation, the DTIC would be accessible to all Australian companies and be open to engagement with international customers. It would logically report into the JDPC and be responsible for identifying innovative and tailored defence capabilities aligned to ADF requirement as well as the needs of international customers.
Recommendation 7: Explore the viability of establishing a centralised Defence Technology & Innovation Centre in Australia focused on aligning all existing and emerging technology innovation programs around five key objectives:

1. Develop a coherent and holistic approach to R&D investment aligned to the defence sector strategy and Key Industry Capability areas of focus (broadening these out beyond the Australian PICS);
2. Align early stage research and cross-sectoral R&D innovation through cross-agency and overseas collaboration;
3. Establish the best environment, operating model, and team infrastructure for innovation and commercialisation;
4. Support the development of capability road-maps for key areas of focus; and
5. Stimulate engagement and alignment of investment with opportunities in Industry value chains of local and global customers to maximise future return on investment and export success to be gained from R&D.
GOAL 3: OPTIMISING INDUSTRY COMPETITIVENESS

As Australia looks to compete internationally we must consider the joint investment required in knowledge, skills and business processes to maximise industry’s readiness and position it for success in the global defence market.

Government engages with Industry at many levels and in a wide range of forums to progress new and existing investment strategies in skilling, contracting and delivering complex projects both here and overseas. It is evident that collaborative partnerships in the Defence Industry are increasingly becoming capability-focused. Strengthening the national commitment to our existing Supplier Continuous Improvement Program (SCIP) as the flagship program for building the capability and overall ‘readiness’ to compete both domestically and overseas has to be a key part of the industrial strategy framework solution in this sector.

The establishment of a Defence Industry Centre for Excellence (DICE) would create a centralised platform dedicated to building globally competitive companies with the skills, knowledge and business processes needed to better compete in the global marketplace. Led through a culture of continuous improvement, the DICE would be driven by key performance indicators (KPIs) focused on driving advancements in Industry productivity, efficiency and cost competitiveness. This would be managed an co-funded by Government and Industry and provide Australian industry associations and State Governments a natural focal point for contribution and support. This should logically report into the JDPC.

Recommendation 8: Explore the viability of establishing a centralised and jointly funded ‘Defence Industry Centre for Excellence’ to execute an integrated approach to Industry development focused around five key objectives:

1. Assess and set a baseline for Industry readiness (for both domestic and export markets) and competitiveness through Business Reviews and SCIP assessment;
2. Address priority capability gaps from SCIP (CSIP reports) and DICP findings to maximise competitiveness;
3. Provide training, mentoring, and ongoing enabling support (advisory services);
4. Align and provide centralised and coordinated access to targeted State and Federal initiatives and investment (support funding, grants, recognition, etc.); and
5. Measure the centre’s performance against continuous improvement related results and KPIs.
GOAL 4: ENHANCING DEFENCE TRADE AND EXPORTS

Government and industry must look to build on current strengths and successes in the international trade and export arena as a key vehicle for the sustainment and growth of its Key Industry Capabilities. This goal should help better focus current Defence export activities as well as Australia’s broader agenda for international trade and investment.

Positioning for success in the global marketplace must be supported by an assertive policy and dedicated program focused on assisting export-ready suppliers to win work overseas. This would be a natural result of investment in Goals 2 & 3 and would build on existing successes in this area, such as Defence’s existing Global Supply Chain (GSC) program.

The GSC program is one of the more positive pieces of Australian Industry Policy to have been released in recent years. It has intelligently identified the need to incentivise global defence prime contractors (many of which have subsidiaries based in Australia) to proactively seek opportunities for Australian companies to supply their offshore business units.

To date, this program has yielded excellent results for both Government and industry generating returns of more than $650 million of work for Australian companies from less than $60 million invested.

With that said, there remains significant scope for improvement here in terms of better aligning this with the supply-chain competitiveness program outlined in Goal 3 and the programs specific targeting of more strategic work packages linked to our Key Industry Capabilities.

To consolidate our efforts, and apply a true ‘Team Australia’ approach to our international engagement program, this should be coordinated through one centralised agency, which links directly back to Australia’s overarching trade agenda (led by Austrade). This should again be focused around strategic engagement of key target customers in high-growth markets, where we can further our Key Industry Capability agenda.

To achieve this, a new ‘Defence Export Trade and Investment’ (DETI) team should be established. It should be tasked with strategically growing Australian exports through the identification and targeting priority investments in areas of Australia’s key industry capabilities.

Recommendation 9: Explore the viability of establishing a centralised Defence Export Trade and Investment team to execute an integrated program of work focused around four key objectives:

1. Foster links with overseas companies in key growth markets to secure focused Australian supply of key industry capabilities into their supply-chain;
2. Broaden trade partners to boost direct inward investment for technology innovation and industry development around key Industry capabilities;
3. Foster national engagement through export, trade mission programs to strengthen competitiveness, maximise investment return and collaboration; and
4. Deliver ongoing business cases to map short-term and long-term export growth opportunities and successes fed back to R&D and innovation hubs.
SUMMARY

The DCPM sets out a logical albeit ambitious and idealistic approach to achieving the Government’s objective of developing “a realistic and affordable plan to meet Australia’s defence objectives, align policy, strategy and capability plans with resources and enable Defence to address key challenges and set a new course for the future.”

Through this positioning paper, duMonde has outlined a strategic roadmap for the realisation of a bold new Australian Defence Sector Vision, which has the potential to unlock the following key military, economic and political benefits:

- A Defence sector strategy capable of delivering both our national security and economic prosperity goals and objectives,
- Enhanced collaboration between Government, Industry & Academia,
- More strategic focus on “Key Industry Capabilities” and their ongoing sustainment,
- Stronger emphasis on the role of Innovation, Research & Technology in the building of world-class defence capabilities
- Industry commitment to Continuous Improvement as a vehicle to more reliable supply to defence and the building of global competitiveness,
- A more strategic approach to Exports as well as ongoing International Trade and Partnering efforts,
- A blueprint for operational transformation against which synergies and efficiency-based savings could be realised,
- A simple and logical framework and set of next step for the FPR and DIPS,
- An ability to showcase Australia’s willingness to look internationally for insights and lessons learned and in so doing strengthen our relationships with key allies.

Building on the last of these points, reinforcing our decision to left-shift to a more collaborative approach, we strongly encourage an alignment with the UK’s recent Defence Sector review driven under the Defence Growth Partnership (DGP) initiative. Given the parallels between the UK and Australia in terms of reform issues and challenges, we firmly believe in the merits of embracing a similar approach here in Australia.

With that said, the DCPM is Australian specific and goes beyond what the UK has done to date. Its adoption could allow us to expediently and cost-effectively yield similar downstream benefits for the Australian defence sector, in a fraction of the time and cost. Our hope is that this document be used as the starting point of a more detailed implementation planning activity focused on refining the framework model, concepts and recommendations outlined.

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