Defence White Paper 2008

Submission

Australian Business Defence Industry Unit

1. **Introduction.** The Australian Business Defence Industry Unit (DIU), a wholly owned subsidiary of the New South Wales Business Chamber, represents the interests of Australia's defence industry to both the Department of Defence and the Federal Government. The current membership of over 200 companies is representative of all sectors of Australia's defence industry not just in New South Wales but other States and Territories and includes large, medium and small businesses. DIU believes the following should be considered in the new Defence White Paper:

    a. The Nature of Australia's Defence Industry;

    b. Acquisition and Sustainment Processes;

    c. Defence Support to Small to Medium Enterprises (SMEs);

    d. The Use of Private Public Partnerships;

    e. Skilling and Industry Capacity; and

    f. Accuracy of *Key Questions for Defence in the 21st Century*.

The Nature of Australia's Defence Industry

2. Australia's defence industry will reorganise itself in accordance with the outcomes of the White Paper and market forces, however, it must be recognised that at present Australia is a difficult market due to:

    a. the relatively small fleet sizes,

    b. capability acquisition strategies based on replacing fleets on the basis of block obsolescence,

    c. complex Defence Materiel Organisation (DMO) processes,

    d. lengthy delays between tender submission and second pass (up to two years),

    e. reduced profit margins which do not relate to the risk and effort in competing every requirement.

3. **The need for a Government endorsed strategic defence industry policy.** DIU believes that a clear set of strategic industry capabilities must be defined and prioritised, and must then appear in a single source of guidance to which industry can respond with the development of industry capabilities. At present, guidance to industry is provided in a number of separate documents including the Defence White Paper, Defence Capability Plan (DCP), sector plans, roadmaps and others. In regards to industry policy, DIU members have stated that the Capability Manual, Acquisition and Sustainment Manual, Australian Industry Capability (AIC) Information Kit and Defence Procurement Policy Manual all lack a consistent narrative thread regarding industry involvement in defence capability.

4. **Priority Local Industry Capabilities (PLICs).** PLICs are a system by which Defence can ensure that industry has the capability to support critical ADF operational capabilities. PLICs must be set by Defence because industry does not know what capabilities are critical to Defence, nor should industry be setting these capabilities as they require a strategic view of ADF requirements. However, PLICs are important to industry because they indicate where industry should be investing and what areas Defence and Government will actively support, particularly in the SME sector. DIU believes that Defence must define PLICs in a timely fashion to ensure that industry and Defence together, can invest in developing and maintaining these capabilities. DIU members also advocate developing PLICs based on systems capabilities rather than platforms to assist industry and Defence in overcoming block obsolescence.

5. **Defence and Industry Engagement.**

    a. **The Defence Industry Advisory Council (DIAC).** DIU was a member of the original Defence Industry Advisory Council (DIAC) and would support the continuation of this council and its aims. DIU supports a broad membership of DIAC and would is willing to assist in setting terms of reference for the future of DIAC.

b. **Defence Functional Directory.** A major constraint to enhancing the cooperation between industry and Defence is the lack of a Defence Functional Directory such as the former DRB6 which has not been issued since 2003. The issuing of an annual functional directory to Defence industry would greatly improve connectivity, communication and cooperation between Defence and industry, particularly the understanding and engagement of Defence by SMEs.

Acquisition and Sustainment Processes

6. **Earlier Engagement of Industry.** DIU believes that acquisition and sustainment projects would be enhanced and risk lessened by the earlier engagement of industry by Defence in the acquisition (before First Pass) and sustainment process. The original concept of the Capability Development Advisory Forum and DIAC was the engagement of industry in the initial development of Defence capability requirements. It is questionable that this has been as effective as originally intended. Offshore examples of this include the Independent Systems House (armoured vehicle – FRES – acquisition) as used in the UK or the recent New Zealand Project Alexander (base and unit level logistics support) while domestically departments such as the Australian Taxation Office (information technology systems procurement) use this early industry engagement. In these cases industry is engaged early to assist the customer in defining requirements based on the real need of the customer and ensuring that what the customer wants can actually be delivered. The result is that when the tender is released, much of the ambiguity has been removed and realistic options are understood by Defence and industry.

7. **Industry Impact Statements.** Defence needs to adopt a broader inter-project approach when it presents its business cases to Government, and in doing so address a whole-of-Government approach to issues such as resources, facilities and budgets. Defence needs to look at broader outcomes than the just the delivery of capability. An Industry Impact Statement before First Pass that focuses on the effects on regional economies, job creation, and skilling of the workforce should be mandatory in any project development process.

8. **Through Life Support Contracts.** Through Life Support (TLS) contracts for several systems in ADF service continue to be supported using Standing Offer and periodic contract arrangements including several Army and Navy systems. DIU believes that this is a capability gap because it provides no incentive for Original Equipment Manufacturers (OEMs) to invest and develop TLS capabilities in Australia. Using Standing Offers/periodic contracts increases the direct costs of TLS, the ability to maintain capability as these systems age and reduces industry surge and development capacity. The consideration of TLS early in the acquisition cycle, such as signing both acquisition and TLS contracts at the same time, will also lead to minimising costs later

in design and the life of the platform/system.

9. **Alliance Contracting.** Some DIU members believe that the use of alliances, particularly for the acquisition and support of platforms, is not cost effective as alliances may not allow effective competition and can create capability gaps as many OEMs or alternative suppliers may be precluded from participating. Alliances may also not take into account the synergies between other projects or capabilities that may already be in-service or in the process of being acquired or planned elsewhere. This can result in increased costs, block obsolesce of systems and disjointed support arrangements.

10. **Project Delays.** It has been noted by DIU members that while Defence requires Contractors to perform to contracted requirements, extensive delays in tender processes and contract awarding are common which result in expense, staffing and planning problems for industry. Recent DMO reviews have stated that 50% of project slippage could be attributed to industry. However, as industry is not engaged early, in general, this figure only takes into account slippage post-contract. It does not take into account slippage pre-contract which is largely due tender processes and contract awarding. DIU believes that, along with the earlier engagement of industry, that an improved adherence to first/second pass and tender/contract release schedules would provide a baseline for improved project scheduling.

11. Industry capabilities cannot generally be brought online quickly due to cost and staffing limitations thus when there are significant delays between the tender process and the contract award an issue is created for the contractor. Delays in this period can adversely affect the contractor's ability to complete the work as originally planned for which the contractor is held accountable. Ongoing project delays also impact on industry's ability to retain skilled employees for future work thereby directly impacting on industry's ability to support Defence capability.

12. **Off-the-Shelf Acquisitions (MOTS/COTS).** The inclusion of MOTS/COTS options in the First Pass Approval process enables the potential advantages and disadvantages to be assessed. If the MOTS/COTS options deliver the desired capability in accordance with the value for money requirement, then these options should be considered.

13. However, there are two aspects that must be monitored :

    a. COTS purchases should not be over-specified which can result in the cost; simplicity and quick delivery advantages not being seen and can preclude many COTS options. Some DIU members advised that there have been cases of over-specification occurring at the DMO level where the originator of the COTS request has been satisfied with a relatively unmodified COTS purchase.

    b. In considering these options however, the through life support of MOTS/COTS purchases must be considered in order that a support capability is readily available in Australia.

14. **Project Management and Contracting Approaches.** Project management and contracting within Defence typically relies on the approach set by the Defence Materiel Organisation (DMO). However, different project management and contracting approaches are required for different types of projects, for example in the Chief Information Officers' Group (CIOG). DIU believes that Defence needs to be more cognisant of the requirements to manage projects and contracts based on the types of work being undertaken and provide more DMO cultural focus on the *management of projects* rather than simply the management of contracts.

15. **Intellectual Property.** Some DIU members believe that the value of Australian defence industry intellectual property can be further enhanced by leaving IP ownership with industry and licensing to the Commonwealth. This would allow industry to further develop the IP for the benefit of Australian industry and the Commonwealth such as for export markets.

16. **Concerns if aspects of the acquisition and sustainment system are not reviewed.** If aspects of the acquisition and sustainment system are not independently reviewed and changes made, DIU believes that the issues relating to industry capability and capacity will continue, thus having a direct effect on major platform procurements as we have seen in the past 12 months.

17. The current protracted processes within the DMO are seeing a growing Defence procurement strategy based on Foreign Military Sale (FMS) and Rapid Acquisitions in order to deliver capability in a realistic timeframe. With little consideration being given to TLS, at the time of acquisition, a scenario of block obsolescence is created, i.e. over 15-20 years of the life of the platform, capability is eroded until the equipment becomes uneconomical or outdated. A capability gap is then created while an acquisition project is formulated to replace the platform.

18. A good example of where continual improvement through the life of a platform, in line with allied capabilities and technology developments, has led to the maintenance of a world-class capability is the P-3 Orion Maritime Patrol Aircraft.

Defence Support for Small to Medium Enterprises (SMEs)

19. SMEs can provide the innovation element of defence industry and as stated by the Federal Government this year, "innovation policy is industry policy." DIU believes that Defence support for SMEs can provide the innovative solutions sought for national security challenges. There are three aspects in which Defence can foster this support :

    a. **Reduce the $50 million threshold for Supply Chain Management Plans.** DIU believes that setting a compulsory fixed level of Australian Industry Involvement would undermine Defence's flexibility in choosing the most efficient and effective solution. However, reducing the threshold for Defence procurement and sustainment contracts requiring Supply Chain Management Plans from its current level of $50 million could increase Australian industry participation, particularly SMEs. At present the $50 million threshold has not been justified to industry.

b. **Reduce the threshold for the Minor Capital Equipment Program.** SMEs would also benefit from improved communication and transparency within the Minor Capital Equipment Program with a reduction in the threshold to $2 million. The main advantage of reducing the threshold in the Minors Projects is that it is these projects that allow Australian SMEs to develop world-class capabilities and up-skill their project managers to support future and Major Capital Equipment programs. SMEs are also better able and more inclined to manage the financial risks of a $2 million project.

c. **Actively Nurture defence industry SMEs.** Along with reducing thresholds for SME participation, Defence should seek to increase funding to Capability & Technology Demonstrator (CTD) and Minor Capital Equipment programs and not leave the responsibility for developing SMEs to Prime Contractors.

The Use of Public-Private Partnerships

20. DIU believes that a proper review of overseas and Australian experiences using Public-Private Partnerships is required given that Defence has been considering additional public-private partnerships for a number of years with little progress to date. Some DIU members believe that there is significant scope for additional public-private partnerships, particularly based on evidence from experience in the United Kingdom and to a lesser extent in Australia. DIU believes that further consideration should be given to greater private sector involvement based on recent studies such as *Performance of Public Private Partnerships and Traditional Procurement in Australia* dated 30 November 2007 (found at http://www.infrastructure.org.au/research/publications.htm).

21. This study concludes that the cost savings of public-private partnerships over traditional procurement only becomes apparent after the project has been concluded. Given that savings can range from 11-30%, there is a need to capture likely cost overruns in traditional procurement in the tender evaluation process in order to give proper consideration to any benefits of a public-private partnership.

Skilling and Industry Capacity

22. The availability of skilled labour within defence industry is a fundamental aspect of industry's ability to support Defence procurement and a major constraint in the current labour market. In the past, the various Government-sponsored apprenticeship schemes provided a feed of skilled workers to defence industry. With the demise of many of these schemes this resource no longer provides sufficient skilled workers, particularly those that might see defence industry as a career.

Defence, and DMO, may need to work closely with industry to determine means to provide sustainable career paths within defence industry that will ensure that Australian industry retains the capability to support procurement in the future.

23. **Defence Investment in Education and Training.** DIU supports continued investment by Defence in education and training, in particular in skills training, and would support an increase in Defence technical colleges and training programs. While this supports Defence, in the longer term it supports industry and Australian society more broadly.

24. **Sponsored Reserves.** A Sponsored Reserve system would enhance the ability for Defence and industry to support each other both in recruitment/retention but also in terms of capability. At present, there is little incentive for a skilled industry employee to join the Defence Reserves in a related skill category, i.e. motor vehicle mechanic. The Sponsored Reserve concept would allow industry employees, with suitable skills, to be sponsored by Defence to perform roles, in line with their skills, as Reservists thereby allowing a faster and easier means to deploy skilled people than would be the case in deploying contractors. In addition this program could be used within Australia whereby industry personnel are sponsored to perform tasks as Reservists which could assist Defence to meet critical skills shortages and help industry retain staff through the peaks and troughs of the Defence acquisition cycle. These reserves may not need to meet the same physical, education, age or military training requirements as a typical reservist due to the nature of their service. DIU would support trials of such a program to develop a system that would meet both Defence and industry's needs. Similar programs are already being utilised in the US and UK. In an example case in the UK, the employees of a company that supplies a defence capability deploy as Sponsored Reservists in a fly-away support capacity. This enables the company to best support the deployed defence capability while the employees, as Reservists, are best covered under Defence legislation and requirements to work in a Defence or deployed environment as uniformed Reservists.

25. **Security Policy.** Some DIU members have also highlighted difficulties with the National Security Policy and gaining security clearance waivers for non-Australian nationals. This could restrict UK/Allied nationals from contributing to defence industry in Australia, particularly during the current skills shortage. In the UK, Australian nationals can be security clearly more easily and the clearance is valid for 11 years and across Defence projects unlike in Australia whereby waivers are project specific and takes significant time to gain.

26. **DMO Skilling.** DIU members also support the trial of DMO-industry exchanges and would like to see this expanded. Industry can provide opportunities to train junior DMO technical staff by having them work in industry on Defence related activities in a commercial environment not readily available within DMO.

Further Comments regarding the accuracy of the *Key Questions for Defence in the 21st Century*

27. DIU members pointed out that aspects of the White Paper discussion paper *Key Questions for Defence in the 21st Century* could be misleading and not a good baseline to begin a Defence White Paper including sections from the Army Capability (pages 44-45) :

    a. To properly man and support the capability outlined on pg 44-45 the permanent personnel requirement is closer to 42,000 than the 27,461 listed;

    b. Current personnel is listed as 27,461 which is a forecast figure for enhanced land capability whilst the current level is closer to 22,000;

    c. 1st Brigade does not have a genuine armoured regiment. The capability is at best only two tank squadrons with a limited support capability;

    d. The Army's mechanised battalion capability is based on a 40 year old M113 armoured personnel carrier which has only marginal greater capability than what was used at the Battle of Long Tan in August 1966;

    e. The Armoured Personnel Carrier Squadron in 3rd Brigade is equipped with the Bushmaster. Bushmaster is a protected truck not an armoured personnel carrier and does not provide an Armoured Personnel Carrier/mechanised capability. It is a motorised capability only;

    f. Under principal Army equipment, the UH1H helicopters listed were retired from service in September 2007;

    g. The 81mm mortar is not an artillery capability as listed; and

    h. The RASIT radar has not been serviceable since the mid 1990s.

About the Australian Business Defence Industry Unit:

The Australian Business Defence Industry Unit (ABDIU), a wholly owned subsidiary of the New South Wales Business Chamber, was established in Canberra in 1998 as a strategic investment by the NSW Business Chamber, to represent the interests of Australia's defence industry to both the Department of Defence and the Federal Government and assists members in their business related activities with specialist defence related business advice.

The current membership of over 200 companies is representative of all sectors of Australia's defence industry not just in New South Wales but other States and Territories and includes large, medium and small businesses.