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Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Financial reporting and equipment acquisition at the Department of
Defence and Defence Materiel Organisation**

WEDNESDAY, 28 MARCH 2007

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**JOINT STATUTORY COMMITTEE OF
PUBLIC ACCOUNTS AND AUDIT**

Wednesday, 28 March 2007

Members: Mr Barresi (*Chair*), Ms Grierson (*Deputy Chair*), Senators Mark Bishop, Chapman, Hogg, Humphries, Murray and Watson and Mrs Bronwyn Bishop, Mr Broadbent, Dr Emerson, Dr Jensen, Miss Jackie Kelly, Ms King, Mr Laming and Mr Tanner

Members in attendance: Senators Mark Bishop, Chapman, Hogg and Watson and Mr Barresi, Mrs Bronwyn Bishop, Ms Grierson, Dr Jensen, Miss Jackie Kelly and Ms King

Terms of reference for the inquiry:

To inquire into and report on:

Progress in implementing systematic reforms in the areas of financial reporting and equipment acquisition at the Department of Defence and the Defence Materiel Organisation (DMO), as identified in ANAO financial and performance audits, the Defence Procurement Review 2003 (the Kinnaird Review) and the Senate Foreign Affairs, Defence and Trade References Committee's 2003 Report on the Inquiry into Materiel Acquisition and Management in Defence, including the following:

- Progress in implementing Defence's financial remediation plans, relative to international best practice in these areas, and recommend any further measures that can be adopted;
- Progress in implementing the Kinnaird Reforms, relative to international best practice in these areas, and recommend any further measures that can be adopted;
- Review Australia's relative achievements in procurement and financial reform relative to international best practice in these areas of defence administration; and
- Assess progress in Defence's adoption of international business accounting standards relative to international best practice in this area of defence administration.

WITNESSES

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Committee met at 11.26 am

CHAIR (Mr Barresi)—Welcome to the public hearing of the Joint Committee of Public Accounts and Audit inquiry into financial reporting and equipment acquisition for the Department of Defence and the Defence Materiel Organisation. Today we will be hearing from Mr Joe Moharich, who provided a written submission to the committee on the basis of his experience with defence acquisition, in particular the tender process associated with the Tiger helicopter project, Project AIR 87. We will also be taking evidence from Raytheon Australia Pty Ltd, a company with an annual turnover of around \$390 million, 80 per cent of which is dedicated to ADF related projects.

Before beginning, I advise witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence today will be recorded by Hansard and will attract parliamentary privilege.

[11.28 am]

MOHARICH, Mr Joseph (Joe), Private Capacity

CHAIR—Welcome. We have your submission before us and the correspondence between you and the previous chair. We will get to that in a moment. Do you wish to make a brief opening statement before we proceed to questions?

Mr Moharich—Thank you. I would first point out that I have a background of some 35 years working initially with the Department of Supply and then with the various acquisition organisations in the Department of Defence. I am sort of retired. By that I mean that I am not on the payroll of any defence contractor or manufacturer, I am not a consultant and I have no retainer. So I speak as a private individual.

When I look back over the past 20 years, I see that the Parliamentary Accounts Committee first reported on defence project management and, during the same period, the Australian National Audit Office has been active in reviewing defence contracts. Looking back over the records, I see that the Defence responses to ongoing criticism have been somewhat repetitive. The recent assertions by the Defence Materiel Organisation's Chief Executive, Dr Gumley, that 75 per cent of Defence's major acquisition programs are 'on time and on budget' should not be accepted at face value. To describe 75 per cent of programs as on time and on budget often neglects to mention that many of the projects have been significantly altered from their original approval and have subsequently received government endorsement of the changes.

Do the 'on cost, on time' descriptions refer to the specifications and timing required in the original request for tender, were they in the contractual terms that were negotiated after the preferred tenderer was chosen or are they on time and on budget in accordance with the most recent—of possibly several—contract amendment changes? These three descriptions can be very different, and they are not open to public scrutiny on the grounds of commercial confidentiality; DMO will not discuss what was in the contracts. In the media release of 10 August 2001, the then Minister for Defence, the Hon. Peter Reith, said:

As part of the requirement to fulfil Australian industry involvement targets in the Air 87 Project, Eurocopter will also be establishing a second production line—

and I emphasise 'production line'—

to produce EC120 civilian helicopters in Australia. Eurocopter has proposed this production line be established in Queensland. It will produce between 30-50 helicopters per year for the Australian, New Zealand and Asian markets. This production line will have a turnover of about \$50 million dollars per year and employ approximately 30 people.

This is over and above those needed for the Tiger ARH.

In a series of recent letters with the defence minister's current adviser, I am told that Defence has no involvement in Australian Aerospace's civil helicopter production activities. In response

to a letter I wrote to Dr Gumley's office on 14 March—just a few days ago—Major General Anthony Fraser wrote back:

There is no requirement in the contract, nor have I been able to establish that there was ever any intent or stated defence requirement for any of the Air 87 bidders to manufacture helicopters in Australia.

The minister made a statement saying that this was a very big deal but, for some reason which is beyond anybody's knowledge or which has not been released, it was never included in the contract. There is strong anecdotal evidence that, because of its contracting practices, the DMO must accept responsibility for the delivery delays and cost blow-outs. This is really what I am getting at. Notwithstanding the protracted requests for tender and tender evaluation processes and subsequent contract negotiations, the DMO has a well-known policy of not enforcing contracts. Contracts seem to be treated as statements of intent rather than as legally binding documents.

At the Senate Foreign Affairs, Defence and Trade References Committee hearing on Friday 15 November 2002, Senator Gavin Marshall asked the Defence representatives:

Can you advise the committee about whether any action has been taken against suppliers and/or contractors under penalty clauses for failure to deliver specified requirements ...

Dr Ian Williams, the former head of Land Systems Division, said:

... under the terms of contract law, we do not have penalties as such; we have liquidated damages, which are meant to compensate the Commonwealth ...

It has been reported elsewhere that, in the case of Project Air 87, liquidated damages were capped at five per cent of contract value, and that that cap was reached long ago. Mr John Fitzgerald, the former Director-General of Contracting Policy and Operations, said:

We prefer to negotiate rather than to litigate.

...

We ... want to establish long-term relations with our suppliers ...

He then said, 'We rarely terminate contracts. Normally we negotiate.' Following further questioning he went on to say that the Commonwealth has never been knocked back in litigation.

By not enforcing contracts that are entered into, DMO really invites the practice of low bidding. There is a practice—and it is well known—of bidding whatever you think will get you to the negotiating table and then negotiating something a lot more favourable. When the contract is three or four years down the track and you know that it cannot be cancelled—the Commonwealth could not afford the cancellation or the delay—you start ratcheting up and making more demands. My suggestion is that if there is a contract, why does Defence not enforce it? Send a signal to the contractor that says, 'That was what you promised.'

Defence contracts with what we call the ‘elephants’—EADS, Boeing, Lockheed Martin and the big companies. They contract with them because they have deep pockets. So why not enforce the contract? Dr Gumley said in one of his press conferences that DMO is now getting tougher about contracts, but at the same time it is mindful of the need for the contractors to be profitable. I am sure that the likes of McDonnell Douglas, Boeing and EADS would be very appreciative of the DMO’s concern for the profitability of their Australian subsidiaries.

I am not asking or suggesting that anything be changed in the contracts, but let us enforce them. The final point I would ask is that this committee ask DMO to ensure that the further claims that may be made for the through-life support costs on Project Air 87 be denied. That Senate report said that the first request for an increase of about \$860 million was denied, but then Australian Aerospace—Eurocopter—was invited to make a further submission. This tells them that they may not get that, but they will get something. The company I represented was wiped out when our offer was declined because we were too high on the through-life costs.

CHAIR—Thank you, Mr Moharich. My understanding is that you are now retired.

Mr Moharich—I am.

CHAIR—You have described yourself as—and these are your words, not mine—a disgruntled losing bidder. They were the words.

Mr Moharich—They were.

CHAIR—How long ago did all that take place?

Mr Moharich—About three years ago—that description—but the contract was awarded in 2001, so I was disgruntled from before that!

CHAIR—Five or six years ago?

Mr Moharich—Yes.

CHAIR—I am looking at what changes may have taken place between the time of your involvement and where we are today, but I do not wish to in any way make a judgement about your experience in this process. You have indicated in one of the points in your submission:

Adverse comments and recommendations by the Australian National Audit Office are said to be accepted by the DMO, but there is no perceptible change in conduct.

How accurate is that statement in 2007 compared to when you were involved, and what evidence do you have to support that?

Mr Moharich—I am out of the business and I had not spoken to a DMO representative until I got a call from Major General Fraser two days ago in response to this letter. Frankly, I have seen no changes. The only exchanges I had were with the current minister’s adviser, Mr Hughes, when he wrote to me and said, ‘This civil production of helicopters that was referred to by the

then minister has got nothing to do with Defence.’ So I have no evidence one way or the other. I do not really know too much about what goes on in DMO any more.

CHAIR—We have heard evidence from others, particularly those organisations that are still active in the relationship, that things have improved, that upskilling is taking place. We have heard that there is a move towards having the defence capability advisory forum set up, with the service chiefs being involved in that, and having outsiders—including CEOs from external organisations—coming in as part of the process. That has all made a considerable difference to the relationship.

Mr Moharich—I would like to comment on something that happened quite recently. DMO claim that they are going to be tougher on contractors and watch for performance. It is now public knowledge that Project Air 87 has been running very late and not running very well. I am not talking about the helicopters; I am talking about the project itself. Yet, at the same time, that contractor, which I would call delinquent, is being awarded a second major contract to provide utility helicopters. The debrief that the losing tenderers had was that they were deemed to be too risky. With that contract, I can mention that Sikorsky had already delivered the same helicopters to the US navy. So my complaint is that here is a contractor that is not performing as per the contract and yet it is favoured with a further contract.

CHAIR—But it is a brand-new contract. So you are saying that because you have had a less than satisfactory record with one contract you should be discounted for a second one?

Mr Moharich—Correct, or—

CHAIR—Wouldn’t that person be judged against the criteria for the second project?

Mr Moharich—Suppose he is not performing on the first one. To be simplistic, if a builder builds my house, he does a lousy job the first time and does not finish, I am not going to give him another contract to go through. The contract is to be performed in the same facility by the same people.

Miss JACKIE KELLY—The contract that was signed on 21 December 2001, as far as you are aware, resembled nothing like the request for tender that went out to your company and that you responded to.

Mr Moharich—I really do not know because I have been unable to get any information as to what was actually contracted. With regard to the Australian Industry Involvement Program, which includes the manufacturers of helicopters in Australia, I know that that has not been done.

Miss JACKIE KELLY—Have you read the Audit Office’s report?

Mr Moharich—I have.

Miss JACKIE KELLY—If you take that as a fair view—which we all do—of this whole Air 87 contract, it is very much behind the times. It is not the commercial off-the-shelf project that we thought it would be and it has really overrun its budget. In your response to the request for

tender, as you saw it, was there another option? Would you have experienced the same delays in delivering the capability that we now have?

Mr Moharich—I do not know. I can say that Bell Helicopter, in a contract for a similar type of product with the US Marine Corps, have not performed as well as they should have. What I am critical of is not so much the performance of the contractor but DMO's contracting practices. There is no way of knowing, but based on what Bell Helicopter have done in the US, I think that they may have been in similar strife.

Miss JACKIE KELLY—My issue is that Defence does not refine the statement of requirements sufficiently to then have a contract built around it that can deliver. So often the fault is in the statement of requirements.

Mr Moharich—I agree with that entirely. In that request for tender, Defence did not state how many helicopters they wanted. They said, 'This is the job we want to do and this is the availability.' Then they criticised and said, 'We don't think you are going to get that availability.' Frankly, I think they had in their own mind how many helicopters they wanted, and it was almost a challenge by them: 'You! Contractor! Can you guess how many we think we want?' It was not defined.

Miss JACKIE KELLY—What impact does that have on your ability to tender?

Mr Moharich—It has a major impact because unless you know what the customer wants, it is very hard—

Miss JACKIE KELLY—But this is just numbers-wise. You are talking about getting your price down on that.

Mr Moharich—Sure.

Miss JACKIE KELLY—A lot of the delays are in avionics and electronics.

Mr Moharich—There was plenty of time available, as we saw it, for the preparation of the tender. My view is that you tender for something, that is an offer, and if it is accepted you should deliver on that offer. If you guess wrongly, it is kind of bad luck.

Miss JACKIE KELLY—It has not been that way, because we have paid the full contract price. But apparently the helicopters are going to function to the statement of requirements.

Mr Moharich—There is no way of knowing that because we do not really know what is in the statement of requirements.

Miss JACKIE KELLY—So you would like the statement of requirements to be a public document?

Mr Moharich—Yes.

Miss JACKIE KELLY—Is there any downside to that?

Mr Moharich—If I could add to that, I think for there to be the appearance of transparency and probity it should be a condition of the contract—and the winning tenderer would have to acknowledge it—that losing tenderers would know in some detail the basis of the choice. They would be told why you picked that one. At the Defence debriefs, the usual thing is to sum it up as: ‘In our view it was the best value for money.’

Miss JACKIE KELLY—You said that in your submission. You also mentioned that you have done work in Canada, the US and Singapore.

Mr Moharich—Correct.

Miss JACKIE KELLY—Do any of those countries make their statement of requirements open to the defence industry, the public or parliament?

Mr Moharich—The contracts I was involved with overseas were more to do with the repair, overhaul and maintenance of helicopter rotor blades. We worked in the UK as well. I cannot claim any firsthand knowledge of it, but talking to the people I know in defence and the marine corps, they are quite a lot more open about saying, ‘This is what we want and this is when we want it.’

Miss JACKIE KELLY—Can you give us any detail on the differences between what we do in Australia and what is done internationally?

Mr Moharich—No, not on major contracts. I regret I cannot. In the work I did, the contracts were limited to about \$5 million to \$10 million, with one exception which went to about \$15 million. That was very detailed. We had a contract to repair some transport aircraft.

Miss JACKIE KELLY—In submitting your bid on the Air 87 tender, did you have plans on how you were going to flesh out the statement of requirements and what price tag you would place on that?

Mr Moharich—I was the managing director of the Australian representative, but the planning and the pricing was put together by Bell Helicopter Textron in the US.

CHAIR—You mention in your submission that you sold your business.

Mr Moharich—We did.

CHAIR—But in your evidence this morning you said that your business basically suffered and was almost unprofitable because you missed out on a bid; is that correct?

Mr Moharich—No, I did not say that; however, it was a disappointment. We had a successful business and we sold that at a price acceptable to us.

Dr JENSEN—Joe, your problem with DMO seems to be that the contracting process results in a situation where the final document that is signed is not representative of what was originally asked for. Given that, would you say that DMO could be seen to be run as a commercial enterprise?

Mr Moharich—I think DMO is far from a commercial enterprise, notwithstanding the claims made. The first task of a commercial enterprise is to generate a profit; DMO does not have to do that. DMO is given some money to supply and support defence contracting. To claim that it is a big, complex business organisation is wrong. If the size of the money throughput is any indication then the Australian Tax Office would be the biggest business in Australia. DMO are far from commercial. As far as audits go—and this is quite important—DMO does get audited, but then DMO chooses to ignore these audits. They say, ‘Yes, that is fine,’ but DMO and Defence executives have been known to call Australian National Audit Office reports ‘nonsense’. In a commercial enterprise, if I had a qualified audit and was criticised by the auditor, my board would have had me out the door tomorrow; you just cannot do that. So to say, ‘We are audited,’ and then to say, ‘We acknowledge that but we will keep going in the same way,’ is far from commercial.

The other point I would make about commercial enterprise is that DMO has 6,500 employees in 50 countries. The Department of Supply, DMO’s predecessor, owned and ran munitions factories and shipyards. As I understand it now, DMO does not do anything like that. I wonder what the 6,500 people do if they are not actually making things. There is great emphasis on project management—and I know it is important—but, to me, the responsibility for managing a project should rest with the contractor, and DMO’s job should be to make sure that things are delivered as requested and on time.

Dr JENSEN—Joe, I agree with the point that you made about penalties being applied where you have contracts that have been signed and then the schedules and prices have not been met. DMO’s argument with that is that you have some SMEs where the various components of the contract represent a very significant amount of their business and applying strict penalties to those companies would put them out of business. What model would you use to get fair compensation from companies that fail to meet their contractual guarantees?

Mr Moharich—DMO chooses to deal with the major primes. I would look to impose the penalties on the major primes and then it is up to them to deal with the subcontractors, because it is the major primes that select the subcontractors. That is the solution if they are going to be commercial. A lot of it is similar to what happens in the building industry. You make a small change—you know, a door moved from here to there—and that is an invitation to jack up the price.

Dr JENSEN—As an example, ASC is building large ships, or whatever, and it is not one of the huge companies around there. If it did not meet its contractual obligations on time lines and so on, the penalties might very well be such that they had problems with liquidity. What do you do with those sorts of companies?

Mr Moharich—If you are talking about ASC as a commercial company, that is a problem for the shareholders. If the company is mismanaged to the extent that they put in incorrect bids, let the shareholders suffer. For example, Multiplex put in a bid to build a football stadium in London and the shareholders had to dig in their pockets to do it. I acknowledge that there would be short-term hurt, and it could hurt Defence and defence capability if this was done or projects were cancelled. But, in the long-term, the message would be: bid for what you can deliver and then make sure you deliver it.

Senator MARK BISHOP—On page 8 of your submission, you stated:

The situation is now such that a very large potential supplier, a US based aircraft manufacturer, has made it known that it is most unlikely they will again respond to an Australian DMO RFT; the manufacturer has lost all confidence in the integrity of the DMO's acquisition process.

That is a very serious allegation to make. Could I ask you to put on record: firstly, the background to that assertion; secondly, the name of the company involved; thirdly, to the best of your knowledge, why the company made that decision; and, fourthly, if the decision has been made and is being carried out, what impact will that have on choice and options for the purchaser—the DMO, the ADF—in that particular area, where they presumably want platforms? Do you want me to say that again?

Mr Moharich—No, I understand what you are saying but I am a bit apprehensive. I will prefix my answer by stating that I made that statement with absolutely no authority from the contractor. The background to the statement is this. Having been in the business for years and having had a rotor blade business, I have got to know and visit virtually every helicopter manufacturer in the world.

I will identify the company first. I emphasise that it is without their authority, and they will probably growl at me for this. The company concerned is Sikorsky. The background to it is that the current president of Sikorsky and the senior vice-president of marketing are friends of mine from a previous business relationship. They were both employed as senior executives at Bell Helicopter. My relationship with them is very much a personal one. If I happen to be in the States I will go and have lunch or a drink with them—or something like that.

They expressed the view to me—not as a threat; it was sort of in conversation—that: 'We spent a lot of money doing it. We can't get a reason why we missed out. We can't get a decent debrief on this last utility helicopter contract and it doesn't make any sense. We are not going to bother anymore.' I speak without the authority of the company and probably will upset the company by having said that. But I did make the statement and I made it in the knowledge that this is what they said to me. The gentlemen concerned are the president, Mr Jeff Pino, and the senior VP of marketing, Steve Estill. Both are former Bell employees, and it is interesting that they were Bell employees at the time of Project Air 87.

Senator MARK BISHOP—So they essentially said to you, because of your personal friendship based on past business relationships, that they are unlikely to bid again in future because the procurement and acquisition process was unsatisfactory. They did not understand why they lost, and the debrief process was unsatisfactory.

Mr Moharich—That is correct.

CHAIR—I should let you know, Mr Moharich, that we will forward this kind of evidence to Sikorsky, and, if they have any comments to make, they can make them to us as well.

Mr Moharich—I am sure they will.

Senator MARK BISHOP—The background of your submission outlined your extensive involvement in defence supply industries from the most junior level to the most senior level, both in big corporations and start-up companies. If this position that Sikorsky have adopted is eventually approved by their board or their management and is given effect to, what does that mean for our ability to get alternative competitive advice and our ability to purchase different platforms?

Mr Moharich—Your options in that particular category are going to be very limited. It will be either the one European manufacturer or the Russian manufacturer.

Senator MARK BISHOP—Is that it?

Mr Moharich—That is it.

Senator MARK BISHOP—Is that in the field of helicopters generally or in the field of—

Mr Moharich—No, in the field of utility helicopters.

Senator MARK BISHOP—What is a utility helicopter?

Mr Moharich—You would normally describe utility helicopters as being able to carry 10 to 12 passengers or lift freight.

Senator MARK BISHOP—I see.

Mr Moharich—Sorry, there are two European manufacturers: AgustaWestland, which is the recently formed joint venture between Finmeccanica, Agusta and Westland helicopters, and there is also Eurocopter. They are the two European ones. In the United States there is, in that class of helicopter—I am talking about the Black Hawk and the NH90—only Sikorsky. Bell Helicopter is not in that league. Bell Helicopter has gone to a different type of airframe. So the choice would be limited to what is available.

Senator MARK BISHOP—Are you aware that our defence capability plan—and really the entire ethos now of the Australian Defence Force—calls for the significant integration of both personnel and equipment with the United States defence forces? If we are unable to get access to major US platform suppliers, does that have any impact on the position of the Australian government with respect to significant integration with US operations?

Mr Moharich—I very much believe so. In the lead-up to Air 87, I tried to say that Defence should follow the example of buying the same equipment as the US Marine Corps and the US army for commonality, interoperability and support. I made the smart alec statement about how many French flags there were in Dili harbour at the time of the Timor thing. That was quoted, and of course there were none. In the theatres we are going to operate in, I wonder where we are going to draw spare parts and supplies from. I was told by a retired air marshal that when Australia had F18s over in parts foreign we relied entirely on the US for the support of them. If it had not been for the US presence in the area, we could not have supported them. I know firsthand that that also happened in Vietnam with the support of the utility helicopters there—the Iroquois.

Mrs BRONWYN BISHOP—That is not our normal policy. Our policy is that we need to have a defence industry here that can sustain deployment.

Senator MARK BISHOP—It was the policy in East Timor, because we had to rely on the Yanks to get everything there. That was only four years ago.

CHAIR—Let us stick to the questions. Mark, are you finished?

Senator MARK BISHOP—Yes.

Senator WATSON—In the letter attached to your submission, you state:

... the lack of transparency in the acquisition process makes some decisions seem entirely illogical.

Can you give us some good examples?

Mr Moharich—Can I take that question on notice?

Senator WATSON—It is a serious issue. I am all for transparency, but I can see that there can be some problems. My second question also relates to your letter. How can you have complete transparency while preserving a high degree of confidentiality?

Mr Moharich—Where is the confidentiality necessary? If taxpayers' dollars are being spent, the number of dollars being spent should be in the public domain. The confidentiality could arise when you talk about performance, design or things of that nature. Until you get into source code on technical things about performance and, I would say, the most advanced fighters, there is nothing confidential. You can go to an air show and get brochures on any of the utility helicopters and current helicopters. The brochures will tell you what they are, what they will do, the time between overhauls—it is in the public domain. The transparency I am asking for is that the people who make the decisions be asked to state why they made those particular decisions, rather than just saying, 'Well, in our view, it offered the best value for money.'

Senator WATSON—That answers the second question but I would like you to take the first question on notice.

Mr Moharich—I will.

CHAIR—You mentioned in your submission that you had no hard evidence of significant impropriety or corruption. Do you have any evidence at all, even if it is not significant?

Mr Moharich—No, I do not have any hard evidence. I can give an example of perceptions. We were going to assemble these Air 87 helicopters three kilometres from Brisbane airport, and my office was there as well. Brisbane airport is the thoroughfare for army aviators to get to Oakey. During the whole period that Air 87 was underway, not once did Brigadier Patch—who was then the project director—or any of his staff take the time to visit our facility to have a look at it and say, 'Gee, they are on the ground.' They never once visited Bell Helicopter and accepted an invitation to look over the aircraft and fly it. Yet, there were umpteen visits to the south of France. Now I will confess that, if one were looking at the food and wine, the south of France

would be preferable to Texas. But why not talk to all the contractors equally? I am not even sure that they went to Boeing.

CHAIR—The other comment you made—and it is important because we do hear from players that are currently involved in the DMO process—was that DMO has a ‘reputation for vindictiveness’ but that you are now able to speak freely. The implication of that is that those who are currently in the process are not speaking freely. What evidence is there that DMO has been vindictive?

Mr Moharich—As I said, I have had no dealings with DMO recently, not since retiring. I cannot quote the date, but I ran into the then Head of Aerospace Systems Division, Air Vice Marshal Conroy, in the lounge at Los Angeles airport. It was before Air 87 was announced—I do not say that that had any influence on him—and I cannot remember the actual words that he said, but it was a case of: ‘Don’t think you’re going to be doing any business with this organisation while I’m around’. It was words to that effect.

Senator Watson interjecting—

CHAIR—That is hearsay, isn’t it?

Mr Moharich—Maybe it was emotional in the same way that I get emotional. I do not know.

CHAIR—It was a conversation in the lounge. I do note that part of your answer.

Mr Moharich—It is very hard to get evidence like that. The people who are still in the business are most reluctant to be critical; you do not bite the hand that feeds you.

CHAIR—As you have said, it has been a while—five or six years—since you have been involved. To your knowledge, the problems that you have encountered seem to have been process driven, but were they also personnel based?

Mr Moharich—I do not really think so. Criticising the process in a way criticises the personnel involved in it. The relationship with the project director at the time, even leading up to the tender process, was not good. Things may have gone a bit astray. When Bell Helicopter was ruled out in the first place—because the acquisition process was not followed through—we went to the minister, and the minister told DMO to reopen the process. That caused a lot of antagonism in the DMO.

Mrs BRONWYN BISHOP—I gather that Sikorsky was the firm that you were representing that was not successful.

Mr Moharich—No, it was Bell Helicopter.

Mrs BRONWYN BISHOP—I beg your pardon. What involvement did Bell have at that time in an established investment in the country in terms of people, manpower and intellectual property?

Mr Moharich—I will boast that I headed it up. The investment was very substantial. A couple of years before that we spent \$6 million on a new building at Pinkenba. At Pinkenba at that time we had 110 employees. The technology that we brought in from the US enabled Australian industry to overhaul every piece of the Bell helicopter and also some pieces, particularly the rotor blades, of the Black Hawk. Prior to me getting that technology—and I will say that personally—

Mrs BRONWYN BISHOP—It could not spin any blades.

Mr Moharich—we could not repair blades in Australia. They used to be shipped to the US at a shipping cost of \$30,000 each. So that investment was in Australia. In addition, we had instructor pilots at the Oakey Army Aviation Centre, and they were all Australian. We had maintenance workers at Oakey, and they were all local employees; there was not one foreign employee. The company was known as Helitech. It started off as Bell Helicopter Australia, a subsidiary of the American Bell Helicopter Textron. In 1986, with the backing of some Australian investors, we did a management buyout. We bought the company from Bell and we were able to retain the technology and gain more technology in Australia.

CHAIR—We have all of that information in your submission.

Mrs BRONWYN BISHOP—I will not take it any further, it is just that there were a number of helicopters available for consideration. You say in your submission that the government is entitled to choose the one that best suits its needs.

CHAIR—Thank you very much for the evidence that you have provided to the committee today, Mr Moharich. If members have questions which they, through the committee, want to advance, we will put them to you in writing.

Mr Moharich—Thank you for the opportunity.

[12.11 pm]

FISHER, Mr Ronald David, Managing Director, Raytheon Australia

CHAIR—Welcome. Do you wish to make a brief opening statement?

Mr Fisher—I have no opening statement.

Senator MARK BISHOP—Before asking questions, I should congratulate whoever it was in your organisation who prepared your submission. It was succinct, exact, intellectually rigorous and it gave a very interesting perspective, which I quite enjoyed reading. Thank you for that significant contribution.

Mr Fisher—The people responsible are sitting behind me.

Senator MARK BISHOP—I will refer you to a couple of quotes and ask you to develop the point further. In your submission you write:

Where a project appears in the Defence Capability Plan (DCP) is not based upon industry advice as to the necessary lead time for capability definition studies, design activity, production, and test and evaluation activities. It—

I assume by ‘it’ you mean the DMO—

is largely a “wet blanket over the head” exercise by public servants and military officers with no commercial or industry experience. Hence the starting point is often flawed and this is before any potential delays due to slippage in studies and decision points.

What caused your organisation to make that significant comment, and has the DMO improved in more recent times? What is the particular problem with the lack of industry participation or industry expertise at this level, that you allege, and how can it be remedied?

Mr Fisher—Currently we are under General Hurley and the defence capability forum. Before that was established—a couple of years ago, when Kinnaird first started off—we had a government and a DMO that were very open, and all industry came. What happened in those days was that industry came for information and never provided advice. This was recognised by General Hurley, and as a result of that he introduced CDAF, as it was called, which would only have CEOs.

The comment that was made on it is that, if you go back in time, the projects that were developed initially did not have industry input. What you had was people looking at the capability that was required and making sound judgements in their sphere about how long it should take, such as whether a project would need six, nine or 12 months to get it to mature. The point made, and the wet blanket statement made, was that you should have industry helping you when you are initially developing the schedule. Before you get to DCP—we used to call it the pink book once upon a time—you should get industry in there. Under General Hurley, they are

now doing this. General Hurley is saying to the CEOs that these are the projects coming up in the out years and he is then inviting us to look at them and give him ideas.

They have also introduced a thing called the RPDE—rapid prototype development environment—where they are establishing quick looks. An example is a big training solution job that is coming up. They have asked industry to come in and have a quick look at the project and see if we can measure it and do it up. The comment made there was that there are still factions within the organisation that need to embrace industry. But it works two ways; industry needs to embrace DMO more to help them establish realistic schedules. That is why the comment was made.

Senator MARK BISHOP—You have put it into a submission prepared within the last month or so?

Mr Fisher—Yes. But it is not through the system yet. What I want to clarify is that it is not that they are not doing it, but that they need to do more of it.

Senator MARK BISHOP—But the problem is still so significant that you wish to draw it to our attention?

Mr Fisher—It would make a point, yes. I am being quite candid about it with both General Hurley and Dr Gumley. We are well aware of it. General Hurley has quarterly meetings with all the CEOs of industry to give them insights into the projects going forward. He seeks advice from them and working groups on that.

Senator MARK BISHOP—When your company—and presumably industry generally—has a degree of input prior to decisions being made at the formulation stage, how does it add value to your company and to your industry? Also, how does it add value to the DMO, if at all?

Mr Fisher—I will start with value to the DMO. It gives the DMO an industry perspective, because industry has been developing projects longer, sometimes, than the people who are on the projects today. So you bring expertise in; you exchange ideas. The value to DMO is that you are getting outside input, and the value to industry is that it is getting input from the customer community. So it is a two-way communication street. That is the value of it. From an industry perspective, keeping in mind that we are now at the stage, under General Hurley, of looking three years out, it helps us to prepare a workforce and skill it. So it is of great benefit like that.

Senator MARK BISHOP—In your submission, you state:

Further contributing factors to unrealistic schedules are inadequately articulated, and over-stated, requirements, and poorly understood risks associated with the technical solutions and acquisition strategies (the Seasprite helicopter program is a prime example). These need to be addressed as early as possible in the capability process and certainly well before the competition point.

Of the things you mentioned—unrealistic schedules, inadequate articulation, overstated requirements, poorly understood risk—is there a root cause, or causes, for them occurring within the DMO that has led you to highlight them?

Mr Fisher—I want to put on the record that I am a fan of DMO. My view is that industry and DMO need to continue to mature. So it is about the level of maturity. If you go back and look at us against the UK or the US, you see that their defence industries have been doing it for 50-plus years. Therefore, you have a level of maturity in the acquisition process. I have worked in Canada, south Asia and here, and we have good practices here compared to other nations. But you have a level of maturity in those countries that we have not got here because we are young at doing defence. It was not until the eighties, with the submarine stuff, that the defence industry really dealt with major projects. So, to me, it is where we are in the time line.

Senator MARK BISHOP—In your submission you made some quite critical points about a series of high-level capabilities that exist within the ADF and the DMO in this country. So it is a maturity point and it is a time point?

Mr Fisher—It is an evolution. If you go back and look at the Kinnaird process—it is a fabulous process which has been in and going for a couple of years now—you see that it is maturing its way through and you see the reforms going through to DMO. The comment that I also made in my paper was that, while we are reforming the DMO, one of the things that is difficult—and it is a long journey—is to change the culture. Dr Gumley and the team are changing the culture by bringing outside people in.

Senator MARK BISHOP—Later on in your submission you refer to the role of the service chiefs. Correct me if I am wrong, but you appear to be concerned that the ongoing whole of organisation and breadth of knowledge processes are possibly not being used adequately and that, as there are successive reviews and changes, their critical role is being either downplayed or ignored. Is that an accurate assessment of your company's position? If so, why is it occurring, and why do you seek a more prominent role than is currently the case for the service chiefs?

Mr Fisher—Over a series of reviews within organisations, it is possible for the service chiefs—through staff attrition and the resizing of various Air Force, Army, Navy and headquarters staff—to get more involved in it, because of lack of staff. I also have a personal view that the service chiefs need to be more engaged. I am not saying that they are not engaged; I do not see the other side of the fence. I am an outsider looking in. I currently have—with the air warfare destroyer—interaction with the Chief of Navy. He is very much engaged. To counter the statement in the paper, in the last couple of months the Chief of Navy has been very much engaged with the air warfare destroyer. But as an outsider looking in, I would say that other service chiefs—and there could be a point of ignorance—are as engaged as they were when I was in the Navy 20 years ago.

Senator MARK BISHOP—Do you seek a heightened role for their involvement?

Mr Fisher—After seeing that the Chief of Navy has a major role with the air warfare destroyer, and assuming that the chiefs of the Air Force and Army do the same, it would appear—if it is light tight, and I am not privy to it—that my fears are unfounded.

Mrs BRONWYN BISHOP—Could you tell us the history of your company, why your company chose to invest in Australia and whether you consider that investment to be worthwhile, both in terms of what you can deliver for Australia—perhaps that is the primary

point that interests me—and the benefit that you see, in the global environment, with a monopsony purchaser.

Mr Fisher—Raytheon Australia has been supplying equipment to the Australian Defence Force for 50 years. I joined Raytheon Australia in 1996, and in 1998 the government made it quite clear to industry that they had to invest in people and in plant facilities. So we went back to the corporation and said to them, ‘If you wish to continue as a supplier to the Australian Defence Force, you need to invest in local capability.’ Being an ex-serviceman, I understand the need to be able to modify, enhance and adapt the equipment that we get from overseas for the Australian war fighter.

As a result of that, Raytheon acquired a couple of companies in order to get an initial footprint. Over the last nine years we have gone from me, in 1996, to 1,200 Australians. Our turnover now is \$350 million plus. But the neat thing that we have done for Australia, for Raytheon and for the Australian war fighter is to develop people who are able to modify, enhance and adapt anybody’s equipment. So we are agnostic. We have clever, highly skilled people. We have been able to do that, from a Raytheon perspective, because we have invested in processes, resources and training. We have people who go to the US and people from the US who come here. From an Australian perspective, we have employed 1,200 Australians. We can modify, adapt and enhance major products for the Australian Defence Force. So the benefit to the war fighter is that you have Australians looking after Australians, which is very important to us. I might add that, despite my accent, I have been here for 48 years—like all Scotsmen, we never lose anything. We are truly Australian. So that is why it is important.

Mrs BRONWYN BISHOP—I notice in your submission, on page 19 particularly, you say:

... Australia leads the world, at least for those countries with no clearly identifiable threat, in its planning processes for structuring the ADF.

You go on to say:

... DMO officials are open and willing to engage with companies ...

You also say:

Negotiated terms and agreements are generally reasonable for major acquisition contracts ...

We put in place the rules for foreign firms doing business in Australia—and I have to disclaim here; I guess they were my rules—but the way it has developed from there is that the DMO, after the Kinnaird process, is now moving more to negotiated contracts where we do not have 80 per cent of payment made for 20 per cent of the work, and that seems a reasonable way to proceed. You then say that one problem is that we like to make special specifications and that we could have more rigour in testing whether those specifications are of benefit to us before we require them.

Could you tell us more about how you think the DMO could better handle the suggestions that come up that say, ‘We want this especially for us.’ How could the DMO better handle the way in which they are tested so that they do not result in blow-outs or in what the Auditor-General then

gets very upset about, but so that we could still have a product that meets our need? What is wrong in that bit of the system?

Mr Fisher—Again, I will use the word ‘maturity’. I will try not to be sexist. It is about persons and their toys. It used to be boys and their toys. You get somebody who wants the best, the brightest and the sharpest. That is fine, and we should do it for strategic reasons and go and get it. Then they want to bring it back to Australia, and we want to modify it because we really like a round one—but it is a square one. We did not have discipline sometimes when we modified the specification. The thing that we bought from overseas could do the job for 98 per cent, but the guy wanted 99 per cent, so it ended up costing us 1½ times the money. I talk about a level of maturity because under the two-pass process now you can stop that in major capital acquisitions.

At the lower level—and again it is about maturity; you have to be very careful—we have not caught up yet. In the major procurements that we are doing now there is rigour. Military off-the-shelf is military off-the-shelf, and that is the end of it. It can do the capability; it did not get you what you really wanted as service chief, but it can give you the 98 per cent and you can have it tomorrow—but if you muck with it you will get it a year from tomorrow. So again, it is about the level of maturity. I go back to industries again because—God bless us—we say that we can do it all. We genuinely believe that we can do it—that we can modify and that we can enhance—but these are complex systems.

My point is that a deep breath has been taken within General Hurley’s and Steve Gumley’s groups to have a think about whether you really need to do something with it or whether it meets the requirements. Once you have said, ‘This will do,’ we are not changing it—we are delivering it. You are dealing with businessmen in DMO and the mature businessman says, ‘I will deliver you the widget, as we agreed. I will not modify the widget because I promised you that I would deliver you the widget.’ So they are acting like industry and making industry more accountable for the widget.

Mrs BRONWYN BISHOP—I see. With that degree of complexity, one of the things that I always find is not stressed enough in defence is that when we embark on major procurement we are usually at the cutting edge, so there has got to be associated risk. When I read a lot of the Auditor-General’s reports, I do not see any reference made to the fact that, in the defence industry, with monopsony purchaser competition between the firms who are complying with government requirements, consideration of the risk factor for something that is new or at the cutting edge is built in.

As someone who is a supplier, do you see that there is a need for this committee, in its report—or for others—to make the point better known that we are not always buying that which has been tried and tested for 10 years to go and do that job, and that very often it is, of necessity, something which is new and will take on board a new risk?

Mr Fisher—There is a recognition within DMO that you have got to go and take the high-risk programs. The reason is demonstrated in this letter I have from DMO to the Australian Industry Group, dated 14 March, concerning fixed-price contracts. When they are risky, you can make bigger profits. There is not—I do not want to give the wrong impression—a shutdown within Defence or DMO that would take off high-risk programs and where we would just take

something off the shelf; there is not that. There is a balance and it is up to industry to decide whether it is going to take the risk on or not. In the letter from Dr Gumley on 14 March he says that he believes in fixed-price contracts and he believes that industry should profit and that the profit should be commensurate with the risks you take because you could lose the profit. So there is a balance. But we need to be very careful when we look at this and say, 'We really need to modify this and enhance that,' because strategically we want to do this. In the region we need to be that step ahead. If we can buy something off the shelf and do something clever with it to give us the extra edge then we should do that. That is recognised, and the government has also recognised that industries taking on that risk can get a higher profit, whatever that number is—whatever the market will bear.

Mrs BRONWYN BISHOP—That is happening?

Mr Fisher—Yes, it is happening.

Mrs BRONWYN BISHOP—The DMO has come in for quite a bit of questioning one way or the other. I can remember the pre-DMO days where it was almost a one-man decision. I see the DMO process as being a greatly enhanced one. Do you see that there is a need for a stream of project managers? At the moment we do not have such a stream; perhaps our Defence Force is not big enough to have such a stream of professional, uniformed project managers. Do you think that that side of it needs to be looked at and improved or do you think we are doing all right at the moment?

Mr Fisher—No. It is recognised that we need project managers. Industry needs sensible, sound, strong program managers on the government side, as the government needs them on our side. There has been an embarkation over the last two years on professionalising both industry and the DMO. An example is that we have 132 certified program managers in our organisation. We were the first company to lead a strategic alliance with the Australian Institute of Program Management. We stepped out first to a strategic alliance and we now stream them.

DMO, I am pleased to report, was No. 2 behind us to do the same thing. Also, there was a recent initiative by the DMO called complex project management where they were going worldwide for best-of-breed in program management. In two to three years, if you ask about the level of maturity, there will be more program managers. To go back to uniformed personnel, my personal view is that we use uniformed personnel to fight on our behalf in the nation's defence and I would rather have civilian staff executing projects, with uniformed personnel giving capability advice and user requirements, but not doing the program management. I would like to develop a breed of program managers, like Dr Gumley is doing, so that when you look back in 10 years time you have had people in projects for 10 years rather than for three years, as it is today. He is getting around it—and I have had a chat to him about it—because he is pinching industry program managers. That is actually a good sign for the DMO because it means industry guys are now saying, 'I wouldn't mind working at DMO.' From an industry perspective, we need good project managers as well and it is beholden on industry to go and train them.

Dr JENSEN—I have a few questions. You have already gone into changing requirements and the impact that they have. Regarding the rigour of requests for tender documents compared with the final contract, we have had one submission in which it was suggested that these can be significantly different. What is your experience? Raytheon tends to have a good experience in

terms of costs and guidelines, whereas other companies might have problems as far as that is concerned. What do you think that Raytheon does well when dealing with DMO that perhaps other companies do not? Finally, what are three main areas you would suggest where there should be changes to improve process?

Mr Fisher—With regard to requests for tender documentation, it depends on the project—this is not a cop-out—and the level of maturity of the person who is putting it together. Sometimes you get excellent specifications and sometimes you do not get such excellent specifications. The tender process is asking you for capability. You get a specification, and industry is sensible enough—because of dialogue we have with our customer base—to understand what the customer really wants. The specification is a guideline in some cases and in other cases it is the master template.

In the tender process we have found a mixture of some good specifications that are very strong and well put together and some specifications that are at an evolutionary stage. Do not forget that when you tender it does not stop there. We put in a tender based on the specification, and the customer comes back and asks you a series of questions. He has got his specification; you have answered the specification. He comes back and says, ‘You have got this right or this wrong.’ During the tender process all the people who are submitting a tender get asked questions based on the tender response. It is acknowledged that when you get into across the table, face-to-face discussion there are misunderstandings. There is always that kind of face-to-face discussion about grey areas, no matter what business you are in—building buildings or building a car. Raytheon, with respect to costs and guidelines, may it continue. We are very fortunate that we have no red programs; all our programs are green and they are all within budget. One of the things that we have been able to do is work with the DMO and the SPOs on how we put this together.

So back to the cry of: ‘Don’t give me unrealistic schedules.’ You are not aware that we were the first Australian company to deliver a simulator ahead of schedule. We have just delivered the replacement combat system on schedule because we work with the customer and say to the customer, ‘This time we believe that that is the cost,’ and the customer makes the decision. He says, ‘I agree to take you on.’ If he does not we will go somewhere else.

CHAIR—You have not had to revise those schedules?

Mr Fisher—We have not had to revise our original tender. As I said before, there have been changes along the way. An example is the replacement combat system. We delivered TI No. 2, technical insertion No. 2: it was in the contract and it was delivered. Now the customer is looking at the new No. 6, but we have finished the contract—it is done and signed off—and we are looking at the next stage. They have asked us to re-tender for the next stage of the contract, so we have not changed in the process. I have not had any experience in the last five years of changing the price of any of the contracts I have gone into. I have never done hundreds of millions of dollars worth of contracts; I am doing \$10 million, \$20 million and \$50 million worth. I can say that we have not had a need to change because we know what the job is, we know what the price is and we have costed it.

To improve the process, I really believe we should provide General Hurley’s team with more resources to engage industry more so that we get it right up-front. In a two-pass process, we

should go to Kinnaird for first pass and say that it is \$10 for 10 weeks. Then what I like to do is spend more time with industry and the capability people working together in partnership—and they are doing this, by the way.

CHAIR—In terms of more resources, are you talking about specialised personnel, similar to what Mrs Bishop was saying about perhaps them being service personnel?

Mr Fisher—That is correct. We want them for the capability up the front. Industry says, ‘We know from experience that it takes X weeks to do this,’ but this is the capability that we want. We should use the capability guys before they get to first pass so that when the program manager goes for first pass, he genuinely believes that, based on an industry survey and input from industry, it is 10 weeks and 10 days and \$10.

Mrs BRONWYN BISHOP—Brendan Nelson brought down, fairly recently, the latest procurement statement. Has that been well received by industry? Do they feel that the parameters for doing business in Australia are going to be pushed harder as a result of this statement? I think we went through a phase where the policy was right but the pushing of it did not happen.

Mr Fisher—It has been well received by industry and it has been even better received by SMEs. Major industry players make sure they look after SMEs. From our perspective, it kind of justifies why we invested in the country and why the other large multinationals invested in the country. Again there is a balance: there is a need sometimes to procure equipment offshore, but modifying, enhancing and adapting should be done onshore.

Ms GRIERSON—I think that the capability issue has to be explored a little bit more deeply. You are talking about the partnership between industry and DMO to improve the capability assessment and therefore reduce risk, or get risk profiles right. How do you do that in a commercial environment where you are all competitors? Are you saying that it is only related to that particular contract that everyone puts in? How can it be done?

Mr Fisher—I do not know if you are aware of the rapid project development environment, but under that there is a thing called the ‘quick look’, where you invite all of industry in. Industry works with the capability group to develop what we think it is.

Ms GRIERSON—Is there enough detail at that stage?

Mr Fisher—There is enough detail at that stage for everybody. What it really does is two things: it gives us insight to what the customer wants and it allows the customer to pick the brains of half a dozen people rather than just a single guy.

Ms GRIERSON—Who would you send in to that?

Mr Fisher—It depends—in my area it is sometimes purely engineers. The next quick look that we are doing is a project called Air 5428, which is the air training solution for the Australian Defence Force. I am sending ex-army guys who are in the training business to go in and talk to them.

Ms GRIERSON—So it is a serious capability exercise for the people who are participating. Does that help to identify a reasonable risk profile for drawing up a contract that takes into account commercial risk and the risk of slippage?

Mr Fisher—No, it is an education process. We believe that you need this, that and that to do it. It makes the government more aware while it is away developing its schedule and capability requirements and so forth. Just as we are better aware on the other side of the house.

Ms GRIERSON—How does industry impact on those improved risk profiles in the initial stage of a contract being drawn up? Sometimes the risk is pushed solely to industry, and they really cannot meet it because it has not been identified properly. I would imagine that it is sometimes the case that industry just makes the choice to wear the risk and win the tender in the hope that they will vary it throughout and therefore get a better deal. What is industry's involvement in getting those risk profiles more responsible and more predictable?

Mr Fisher—I see our role in this stage to be identifying the risks.

Ms GRIERSON—But is DMO doing that as well?

Mr Fisher—DMO, in fact, uses the same tool and project risk managers as industry does. What has happened over the last couple of years is that, because you have put industry people into DMO, they have come with the knowledge, tools and processes from industry. What you are getting is light-tight tools and processes so that when you sit down and talk about risk management, you see it happening.

Ms GRIERSON—In your submission you mention that unique technical solutions are sometimes high risk. Are DMO's and the service's expectations for unique technical solutions realistic?

Mr Fisher—It depends on whose eyes you see them through, I suppose. It is a balance.

Ms GRIERSON—Some are achievable and some are not.

Mr Fisher—Some are not achievable. As a businessman, your responsibility is to tell your customer, 'This is far too risky and that is why, when I gave you my tender response, I did this part and not that part.' So we in the industry, just like the DMO, have the right to say that we do not believe you can do this and therefore we are not compliant.

Ms GRIERSON—Have all parties been burnt enough now to be more realistic?

Mr Fisher—Burnt is a strong word. Again I would use the maturity aspect. Industry is now more mature than it was and we have learnt lessons because we all have responsibilities to shareholders—as the DMO has to taxpayers—and you therefore look through different eyes when you go through projects. There are some companies that may decide that it is worth the roll of the dice—and so be it.

Ms GRIERSON—The capability plan was very well received and it has given some guidance, but recently it has been varied with some non-programmed items like the Abrahms tanks, the C17s and the 24 Super Hornets. How does industry respond to that?

Mr Fisher—I believe they were supplementals.

Ms GRIERSON—So they are bonuses?

Mr Fisher—Supplementals in that sense. Taking the FA18F—

Senator MARK BISHOP—What are supplementals?

Ms GRIERSON—Additional items not replacing something that is on the plan.

Mr Fisher—In the DCP, it did not have an impact. From an industry perspective, we are planning for a DCP. We are training, skilling and so forth. Then, as you say, up came a large ticket item. From my perspective, the FA18F Super Hornet was an opportunity for us because we have a workforce in Amberley, Queensland, which is working on F111s. Everybody knows the F111s will get to a stage in their lives where they will no longer be able to fly, so I am trying to maintain a skill set which is highly unique and interested in staying on in avionics maintenance. I am now working with Boeing and the government to see if I can use that purchase—which was a pop-up for me—to tell my workforce that we can re-skill them to look after it. Therefore, as a nation, we will not lose that skill set. That is the positive I have got out of that one. I cannot speak for the guy down the road who is not in that business but, overall, his business will not have changed, because the DCP did not change.

Ms GRIERSON—In terms of capability, we have unique situations in Australia with distance and with using our equipment in very different environments, such as deserts and the tropics. Have we made mistakes because of that or are we getting better at modifying to our own particular needs?

Mr Fisher—You need to have the skill set in Australia to be able to do it. Go back to the 1,200 Australians who are working for Raytheon Australia. You need to have that workforce. Once upon a time we used to have overseas suppliers come in and you would offset it by buying a fire pump or something. Now we are forcing overseas suppliers who do not have a footprint here to use the locals. That to me is the right way. We need to be far more self-sufficient indigenously. We are working that way and everyone is working towards that. It would be a mistake to buy equipment that you do not have the skill set here to modify and enhance and adapt. There are plenty of us in industry—not just Raytheon—who have got these skill sets. And by the way, we are going to be looking after these products for 30-plus years, so we had better be able to understand them.

Ms GRIERSON—When you spoke about cultural change in DMO, you praised some of the moves that have been achieved under Steve Gumley. If there were one area in which you still saw a need for cultural change, what would it be?

Mr Fisher—As an outsider looking in, I would say that he has not yet pierced the fifth level. Culture change is a long journey. I have said to him quite openly that one of the things he needs to do is to call in the leadership of industry, as he does with his own leadership team.

Ms GRIERSON—Are you talking about the top level?

Mr Fisher—Yes, the top level. Get them around the table like this and use it like his own leadership team to drive the behaviour both in industry and in the DMO. Don't forget it is just not—

Ms GRIERSON—That requires a high level of trust. Do you think that can be achieved?

Mr Fisher—My view is—and I have said this to Steve—that if they do not want to come to the table, then you will know it.

Ms GRIERSON—The Defence department and the ADF chiefs do not have that outlook generally. Usually they are trusters.

Mr Fisher—Today's society is far more trusting than it was 20 years ago.

Miss JACKIE KELLY—The basis of this committee inquiry is obviously the Air 87 project, the FFGs and the defence supply systems. There were a number of failures that were obvious to the Audit Office. DMO's response to that has been: 'They were all negotiated pre Kinnaird. It is okay; she'll be right now,' and it has been a little bit frustrating in terms of transparency. When you look at the UK reporting system to parliament it is incredibly transparent. The opposition is given a lot of good information for which it can hold the government accountable very early in these projects, before they go off the rails. I happen to think that good government comes from good opposition; whereas here even the government is in the dark until something is over budget and beyond schedule. What do you think of the UK style of transparency in terms of their reporting to parliament?

Mr Fisher—I do not know enough about the UK.

Miss JACKIE KELLY—Are you saying that we are good compared to Canada and Singapore but not necessarily compared to the UK or the US?

Mr Fisher—I cannot comment on the UK because I am not close to the UK, but in Canada and in South Asia—and I ran the South Asian arm of the corporation as well as the Canadian one—we are doing very well.

Miss JACKIE KELLY—Okay. You also mentioned that Dr Gumley has established performance against contracted schedule as his primary concern and goal. That is the second time that I have heard that mentioned, and yet Dr Gumley denies that any payments or any performance bonuses are made according to schedule.

Mr Fisher—Could you say that again, please.

Miss JACKIE KELLY—The implication has been that the people within DMO are paid or given bonuses—or given some benefit—if they deliver contracts to schedule.

Mr Fisher—I do not know anything about that.

Miss JACKIE KELLY—Hence there is the impetus to say, ‘This payment was made at this time and that payment was made at that time.’ So some sort of OER or performance thing is being clicked over as long as these schedules are met.

Mr Fisher—I cannot comment on what DMO gets; I am not privy to that. In Raytheon Australia’s case, we have six to nine contracts where we have put our fee—or part of our fee—at risk as a performance measure. We were unique in one case in doing that, in fact. We have said in our mission support business that we will set a margin in and we will put a percentage at risk to make sure that we do not let the customer down. We will earn our fee and we will take this risk. From an industry perspective you will see that.

I want to make another point with regard to Dr Gumley about schedule. I am a great believer in, and one of the things that I harp on about is, a thing we have called a DMO scorecard. To me it is very important. Companies who perform well on the DMO scorecard should be recognised that bit ahead of those guys who are mediocre, because we want to keep on lifting the bar.

Miss JACKIE KELLY—Do you have confidence in that?

Mr Fisher—I have confidence in the DMO scorecard.

Miss JACKIE KELLY—The other point you make is that if performance is going to be measured against your contracted schedule then a lot of energy has to go into this contracted schedule; it cannot be compressed. We had presentations from Qantas where they said 30 per cent was spent in the pre performance and then nothing was paid until the planes were delivered. In our case, somehow we manage to get into these extraordinary situations where it is all paid and we do not have anything. I will use the Tiger again as an example. The Tiger capability was flagged in February 1994. The contract was not signed until December 2001. That is a pretty long time to get it right. Having signed in 2001, it was supposed to be delivered in 2005—and we are still waiting. It has got to be something more than just compression of the schedules or the time available in which to get the statement of requirements right.

Mr Fisher—I do not know enough about it, but I would ask you the question: since the year 1994 has the strategic environment changed?

Miss JACKIE KELLY—Obviously.

Mr Fisher—I would not know what the answer is, because there are many reasons why things get delayed.

Miss JACKIE KELLY—You are happy that there has been a significant change in culture within DMO. Have you seen that with the personnel changes or with training?

Mr Fisher—With both, actually. As I said before, I am a fan of the current DMO. We are now dealing with businessmen so, from a business perspective, they understand the risk, the fee and the profit. By the way, I understand how they think, too. So I have to make sure that I deliver on time.

Miss JACKIE KELLY—That is an interesting statement to make because you then go on to say that the service chiefs should be better involved—

Mr Fisher—They should.

Miss JACKIE KELLY—whereas Qantas do not have their pilots anywhere near their purchasing. They are basically operating with a group of people who have been there for quite some time—a core group of people who have a high amount of expertise. You are after a business outcome, rather than, as you say, the boys with their toys. It often seems that they go, ‘Ooh, that would be really great to fly. Let’s try and get that because it would be a hoot.’ They should rather be saying, ‘Hang on a minute. We have this much money to spend over this much time and this is what we can realistically get for it.’

CHAIR—I think if there were a squadron leader involved you might be able to have that argument. But a service chief would be a different level.

Mr Fisher—Yes, he would be when he got to that level.

Miss JACKIE KELLY—Recently we have seen some service chiefs come through with a supply background, but it is very rare. Normally they are from the sharp end.

Mr Fisher—In fact, all of them are from the sharp end.

Miss JACKIE KELLY—So you are not really dealing with ‘suppos’ who have had more experience in acquisitions, through-life costs, maintenance and those issues that are incredibly important to government—because we have to fund it for the next 35 years.

Mr Fisher—I think the service chiefs really get engaged now, and they understand what the capability is. From my personal perspective, I would like to see a process where the services—and I saw the Chief of Navy just recently, so it may happen—are more engaged up the front end with capability. I go back to Qantas: once that is done, get out of it and let us deliver the widget and then take the widget away.

Miss JACKIE KELLY—So you really do need some sort of strategic architecture that is better than the defence capability plan?

Mr Fisher—I think the development of the capability plan, and I am not privy to it, must be done in concert with the service chiefs and strategy, because it just does not get done by itself. I would like the service chiefs—and they use General Hurley because he is head of capability—to be more engaged up the front end and then keep a watchful eye as it goes through. I am talking about major projects.

Miss JACKIE KELLY—What about DSTO? Wouldn’t that be a better organisation?

Mr Fisher—I see DSTO as the technical arm of the acquisition process for the ADF, and I see it peppered all through the projects. We deal with DSTO regularly. Everybody has a strategic alliance with DSTO. So DSTO are engaged both with the operational end and with procurement.

Miss JACKIE KELLY—Is that a better way of obtaining your technical outcomes?

Mr Fisher—I am an advocate of DSTO because you do get people who are very impartial in that sense.

Senator MARK BISHOP—Mr Fisher, I read the recent ANAO report into the air maintenance performance of Australia's aircraft fleet—the F111s, the Hornets and the training aircraft. That report was extraordinarily praiseworthy at all levels: procurement, maintenance, staff retention, staff training, culture and behaviour patterns. It is probably one of the most praiseworthy reports I have ever read by the ANAO of the work of the ADF, and in a particularly critical area.

You commented that you have a group of highly skilled people in avionics up in Amberley and that you are going to shift them over to the Super Hornets. You would have considerable experience and, as the ANAO report identified, considerable knowledge of a lot of the intricacies of the F111s: their background, capability, structure, maintenance and their abilities. Is it your view that the F111s are capable of being maintained in an airworthy manner for another five years after their current retirement date of 2010?

Mr Fisher—I am in the avionics business, not in the structural business, so I could not answer that question. You would be better served by another industry player. In all airframes you can pull out old avionics and put in new avionics, so you can maintain the avionics. Structurally it can fly past 2012. You would have ask the experts; I am not that privy to it. It then becomes a balance between cost—

Senator MARK BISHOP—Yes.

Mr Fisher—and, again, you can change our avionics till the cows come home, if the airframe is structurally sound. Since I cannot address that I cannot give an answer; but you could do it.

CHAIR—I notice that Raytheon is also responsible for the deep space tracking station, on behalf of NASA and the CSIRO. How does the management of that operation differ in terms of the relationship you have with DMO? Is there a significant difference when it comes to purchasing, acquisition and the whole management of that versus what you are doing with the DMO?

Mr Fisher—No, I think the ethos is—and I have got to be careful we do not put tickets on ourselves—to please our customer. That is our role. It does not matter who your customer is. What we tell the new people who join the company on a monthly basis is that if you went to a shop and the assistant paid attention to you, you would go back. If they did not pay attention to you, you would not go back. I have one customer in NASA. So the ethos we have is that we are here to please the customer—within economic bounds, of course. Therefore, the culture we have within our company is that we are very customer focused, in the sense that our job is to make everybody successful.

Ms GRIERSON—What is the length of that contract?

Mr Fisher—I have another two years. It was a three-year contract and they rolled me over for another two.

Ms GRIERSON—You had an option—

Mr Fisher—In fact, they rolled us over because they were so pleased. I might add, when we first started off, the workforce said, ‘Here comes another contractor to take us over.’ They had been here for 25 years. Two years down the track they presented me with a valve from an old Raytheon radar. That, to me, was a sign that really they had become part of, as we call it, ‘the family’.

CHAIR—Thank you very much for your evidence today. We appreciate your time, as we know you are a busy man. We also appreciate the submission that you made. As Senator Bishop mentioned, it was very thorough and very informative from our perspective. So we thank you for the written submission but also your personal evidence today. If there is anything else that we want to ask, we will get in touch with you in writing.

Resolved (on motion by **Senator Bishop**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 1.02 pm