



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES  
COMMITTEE

**Reference: Defence Materiel inquiry**

FRIDAY, 27 JUNE 2003

ADELAIDE

BY AUTHORITY OF THE SENATE

## SENATE

### FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Friday, 27 June 2003

**Members:** Senator Cook (*Chair*), Senator Sandy Macdonald (*Deputy Chair*), Senators Hogg, Johnston, Marshall and Ridgeway

**Participating members:** Senators Abetz, Boswell, Brandis, Brown, Carr, Chapman, Collins, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Knowles, Lees, Lightfoot, Mackay, Mason, McGauran, Murphy, Nettle, Payne, Santoro, Stott Despoja, Tchen, Tierney and Watson

**Senators in attendance:** Senators Cook and Johnston

#### **Terms of reference for the inquiry:**

To inquire into and report on:

1. Whether the current materiel acquisition and management framework of the Department of Defence is effective in meeting the organisation's equipment requirements.
2. In considering this matter, the committee is to examine and report on the following issues:
  - (a) whether the current materiel acquisition and through-life support system is meeting, and will continue to meet, the needs of Defence and Defence industries in a timely, cost-effective and qualitative manner;
  - (b) the impact of the Defence Materiel Organisation acquisition reform program on materiel acquisition and management;
  - (c) the current status of major equipment projects in meeting the organisation's requirements;
  - (d) the impact of the creation of decentralised System Program Offices on materiel acquisition and management; and
  - (e) any other issues relevant to the effectiveness of the current acquisitions framework which arise in the course of the inquiry.

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**Subcommittee met at 12.32 p.m.**

**ARTHUR, Mr Paul, Business Development Manager, Daronmont**

**COLE, Mr Wally, Senior Defence Consultant, InfoPeople**

**GABB, Mr Andrew, Defence Consultant**

**GOON, Mr Peter, Managing Director, Australian Flight Test Services**

**KOPP, Dr Carlo, Defence Analyst and Air Power Theorist**

**HAMMOND, Mr Nick, AO, Managing Director, SAAB Systems**

**MINCHAM, Mr Darryl, Managing Director, Mincham Aviation**

**SCHACHT, the Hon. Chris (Private capacity)**

**CHAIR**—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade References Committee and I welcome members of the defence industry sector. This meeting is being held pursuant to the committee's inquiry into defence materiel. It is being held at the request of Mr Peter Goon on behalf of colleagues in the defence industry sector. The proceedings are being recorded and the committee may resolve to table the transcript of the proceedings. Today's meeting will proceed as a roundtable style discussion. Anyone who wishes to make some preliminary remarks may do so, and we will then move straight into discussion.

**Mr Goon**—Firstly, my facilitating this meeting came as a result of my contributions to and view of what was happening in the inquiry. I suggested to the senators and to the committee that I may be able to facilitate them having access to a group of domain experts from the defence industry out of Adelaide and other areas in the industry, with a view to having the opportunity to have a roundtable discussion on matters pertaining to the terms of reference of the inquiry but also the broader issues of defence industry and defence industry relations and where we as a community may be able to progress and advance.

I have tabled a list of those who nominated to attend. Unfortunately, Mr Kailash Sriram is on a flight from New Zealand to Australia so will not be able to attend. My particular interest in availing myself to the committee for questions and discussions is my concerns about the Australian defence position and the Australian defence community at large, specifically in relation to where I see that there are some very important decisions and very important strategic considerations to be made in terms of the industry as well as our security at large in the region. Our community at large is not well placed to be able to address those, both in the short to medium and, moreover, in the longer term.

I am a firm believer in the philosophy put forward in the strategic policy for Defence and industry which was developed back in 1998, which called for teaming, partnering, closer associations and interaction between industry and Defence to strengthen our defence capabilities. However, I am deeply concerned that the philosophy is yet to be implemented and applied in practical terms. One of the reasons for suggesting this meeting is to promote that concept and,

hopefully, engage relevant people within the community to push it forward and implement it. I do see as a result of the last 15 years downsizing to the right size, as a result of the cuts in budgets and the resulting deskilling in Defence, that there has been a loss of capability and capacity and increasing reliance upon the defence industry. But we still have not made the connection to enable that process to move forward progressively and positively.

That is my interest. I do not intend to say a lot today. As I facilitated the meeting, I am happy to answer questions, but I think it is important that the experts here have the opportunity to express their views and also to be questioned in relation to their areas of expertise. On that basis I will hand over to Andrew Gabb.

**Mr Gabb**—I am a defence consultant, semi-retired—mainly retired from the defence consulting business since I presented and published a paper at a conference last year called ‘A decade of wheelspin in acquisition reform’. I was going to retire at the time anyway. I have taken this opportunity to present the views as I see them. I have been working in the general area of acquisition reform for some 25 years now, through the Defence Science and Technology Organisation and as a consultant. I am very concerned that the Defence Materiel Organisation in particular does not have the ability to fix its own processes to do this. I provided a reasonable amount of evidence on that in my paper. I felt that at any time when asked the same questions—say, if this committee had done that five years ago—the same answers would have been given: ‘It’s all in hand. We have plans,’ and so forth. I do not think it can be done without reasonably extreme outside pressure. I will leave it at that.

**Mr Schacht**—I am an interested citizen now in the defence industry. In particular, I have been involved since this inquiry got under way advising particularly Mr Goon, who has had an ongoing dispute with DMO and Defence. But it again raised with me issues that I have been interested in for a long time, when I was in the Senate, about the collaboration between Australian industry getting a fair shake of the defence expenditure in Australia and encouraging the growth of Australian defence industries that provide jobs and good outcomes for Defence as well, so that we have an indigenous industry. Your inquiry providing this facility for experts to come forward is very welcome.

**Dr Kopp**—I am a defence analyst, air power theorist and formerly a chief engineer in the industry. What has brought me here today is the fact that I am quite deeply concerned about what I see as a coincidence in timing of what appears to be progressive systemic deskilling within the Department of Defence. This is, of course, coinciding with a historical period where we are seeing some very significant changes in fundamental technology used in military affairs—network centric warfare being a good example. Also we are in a period of some profound strategic changes globally and regionally in terms of proliferation of advanced high-technology weapons into various parts of Asia, particularly parts of Asia we are concerned with.

One might be able to philosophically tolerate an inefficient or dysfunctional defence acquisition system and a poor structuring system in a period that is strategically benign, but certainly with the way the region is, and is likely to continue to be over the coming years and decades, one would argue that it is simply not acceptable. As a defence analyst I have been observing this environment for 20 years and I am very deeply concerned at this point.

**Mr Cole**—I am currently a senior defence consultant with InfoPeople, one of the ‘body houses’ around—human resources. I talk across the defence industry. I have a background of 30 years as a uniformed Air Force officer. I am probably guilty at some time of doing some of the things these gentlemen are complaining about. I have been through a lot of the change processes and have some bits and pieces that I believe I can contribute on that. Like them, I am concerned with the way things are going at the moment, simply because it has a fairly personal effect on me. I earn most of my income from commission and, if the defence industry is not achieving and Defence itself cannot source the people it needs to do its job, I do not earn an income.

**Mr Mincham**—I am here on behalf of manufacturing—the hands-on approach to things. I am very concerned about the trend of deskilling in training and the effect that is having in the industry. I am also here to talk about the SMEs and trying to enable the Australian SMEs to have a fair go and opportunity.

**CHAIR**—Everyone has introduced themselves and provided us with a thumbnail sketch of their interest. You are all aware, no doubt, that we have completed our report on the DMO and that has been tabled. It is certainly a report that, from the perspective of our inquiry, captured the issues that needed to be addressed. One thing in our minds when we wrote our conclusions was some of the issues we were interested in, particularly the culture within DMO, are issues which change slowly because they involve the change in attitudes among people. They are not issues you can change quickly by administrative direction. While we were relatively approving of the DMO structure, we thought one of the weaknesses in it was the ability to make a cultural change by the people that manned the scales and the high turnover and lack of continuity in certain areas.

They were our conclusions. We then said we believed our committee should come back to this inquiry at some future time and provide ongoing scrutiny of DMO. Once we had a chance to provide ongoing scrutiny, we would know whether the administrative structures that looked fine to us now were in fact, having been road-tested, still the right structures. As a committee, we were a bit wary of the fact that there has been almost change fatigue. Things have been changed constantly and to try to assess how a system is effective when it is being constantly fiddled with is very difficult and for us, at one remove, with an interest in guarding the taxpayers’ money but ensuring that the country is well served, it is a problem. Our recommendations took the form they did for that reason.

One of the elements that came to us was how the military deal with unsolicited proposals. The view we took in our report was that maybe the success rate of unsolicited proposals is at a far lower level than the number that come forward, and maybe that is a reasonable assumption—that out of every 100, maybe 10 or 20 get picked up; whatever the ratio is—but it was important to maintain an environment in which Defence was encouraging of unsolicited proposals because, by doing so, it is encouraging lateral thinking and inventive thought, and who knows what might come out of that harvest.

That culture of innovation and constant ferment about new ideas was something you could not put a dollar value on easily but, if you had it, you would be pretty sure that any new idea that was able to be captured could be examined, discarded if necessary, but folded into the network if it had an advantage. The element of the report that you raised with us, Peter—and not just you; I

think the Cairns shipbuilder and some others raised it with us—is the reaction to how Defence deals with unsolicited proposals. The image we had was they do not deal with them very well and we made a recommendation that they should be more open. We have not received a response and it is a bit premature to expect one by now, but I am advised we are expecting a government response in the near future.

**Mr Schacht**—Yes, I've heard that before!

**CHAIR**—Possibly when the spring sittings resume in August. Our hearing is over. This is a sort of *repechage*, having put our report down, for people—and for us too I might say; this is a two-way thing, not a one-way thing—to say we maybe still lacked a bit of the essential detail or focus here; that, because there was a body of argument coming at us that we had not properly got to the bottom of this, we should provide these proceedings in order to do so and to make an additional report if we felt we needed to. That is how we are approaching this. Peter, you have lobbied for this very hard and that is entirely appropriate. We do not in any way complain about inspired taxpayers asking for their voices to be heard in the parliament. That is what democracy consists of.

You have given a couple of lines by way of introduction. Can you go to the point again about how you believe the DMO deals with unsolicited proposals and the adequacies and inadequacies of the system. Address the issue, if you wish, of our recommendation and our report because we would like to hear you on that. But while opinion is important to us, facts are persuasive. If there are concrete examples we can look at or that you can provide us with of where things have been ham-fistedly or badly handled, we need to know about them in order to have something concrete to talk to the DMO about if we choose to do so. Do you have any views, David?

**Senator JOHNSTON**—No, that is good. You have covered it well.

**Mr Goon**—Firstly, I need to recap one of the points which I only softly touched on. One of the reasons that I and many of my colleagues are concerned, both in Defence and in the industry, is that we are in a position now, as a community, where we are dysfunctional to the point where we are fielding capabilities which—if they are not already—have the potential to put our fighting men and women at risk. That is an unacceptable situation in peacetime but when one is in a wartime environment it is totally unacceptable, to the point where I believe strongly and fervently that we need to do something about it—and the emphasis is on 'we'.

One of the problems we collectively and individually have is that we are dealing with a monopsony, a single-customer market, which has over many years been subject to a number of changes, as you rightly point out. There is a tiredness of change and that has engendered in the organisation a number of cultural traits which, when one stands back and looks at them, are perfectly understandable—perfectly predictable, in fact—but because many people are busy trying to move forward, trying to do the right thing, they cannot see the wood for the trees. Unsolicited proposals is a good example of one of the things that I see are root causes of the ailments we have in our community. Let me quickly recap on unsolicited proposals. I do not wish to dwell on it but to use it as an example.

**CHAIR**—Can I interrupt you at this point. I understand what you have said. They are quite important statements and clearly they are statements you are strongly committed to. What we

need and what we would like to hear is how you back them up. What are the examples that prove the conclusion that you have come to?

**Mr Goon**—Part of what I see as the root causes of the ailments in Defence is continuous improvement or continual reinvention. I have some 26 years experience in the defence business, 14 of those in uniform and the rest in the private sector. You will hear me and my colleagues say, almost with monotonous regularity, ‘We’ve seen that before. We’ve seen that attempted previously.’ We see this continual reinvention of, principally, a process to the point where the process is still the same; it is just the names that have been changed because there are new people involved or engaged in that process. There seems to be an extensive effort applied in reinventing the process rather than in implementing it, applying it and achieving output.

**CHAIR**—Can you give us an example?

**Mr Goon**—Unsolicited proposals is a good example. In 1988 the strategic policy for Defence and industry was all about Team Australia. It was all about encouraging engagement between Defence and industry. It asked for industry to come forward with innovative, cost-effective solutions to defence capability needs. Programs such as the Capability and Technology Demonstrator Program were initiated; programs that were seeking unsolicited proposals were initiated. My company and companies like mine put in proposals or requests—in fact, agreed positions between Defence and industry—on the basis of those solicitations or requests; proposals that went into the system and to which no responses were received. There was no engagement. No discussions were held, despite the efforts of the parties and industry players—my company, as an example.

In 2001 at the Defence and Industry Conference the then defence minister put forward five key points in relation to industry policy. One of those was the need for a formal process for unsolicited proposals. That was laid out in black-and-smudge in his papers at the conference. Discussion papers were developed by the industry division of DMO. They went forward, under the minister’s hand, to cabinet in September-October that year and were endorsed by cabinet. One of those was the unsolicited proposals process for management. It was embodied in what is called the *Capability systems life cycle management guide* of December 2001, put out under the VCDF’s signature. A group of companies under the Defence Teaming Centre in 2002 put forward a number of proposals in respect of the new air combat capability following that process—extensive proposals which consisted of almost 1,000 pages of quite detailed technical, strategic and managerial input to which there has been no response. I believe we tabled at the Defence and Industry Conference this year this unsolicited proposals process.

**Mr Gabb**—What Peter is pointing to there is a document which I downloaded from the DMO web site yesterday, which is ‘Defence unsolicited proposals policy’. I believe it is the current formal policy. It goes through the formal procedure for handling unsolicited proposals.

**Mr Goon**—In 1998 there was a push for innovative, cost-effective solutions from industry. Industry responded, and I and others I know put in certain proposals—nothing. There was no engagement—not even any critical debate on the issues. In 2001 a policy was put up by the minister, endorsed by cabinet, detailed in the *Capability systems life cycle management guide*, which is the accepted doctrine for capability systems management. Industry followed that and made the submissions, having made the investment—no response. And here we are in 2003 with

another policy. This gets back to the point I was making earlier. We talk about continual improvement but, from my perspective and certainly that of many of my colleagues, what we see is continual reinvention of process, spinning of wheels, without achieving outcome or output.

**CHAIR**—Is that a new policy?

**Mr Gabb**—I can leave this.

**Mr Goon**—You will find it is a refinement of the current document.

**Mr Gabb**—Like a lot of important Defence documents, it is undated but I believe on the webpage it was two weeks old.

**CHAIR**—Does that make any changes that address the recommendations? We have not had a response to our report.

**Mr Hammond**—It pretty much follows what was in there. I note in here it says:

Proposers will then be notified if Defence is interested in their proposal—

but not otherwise. We need some balance. Defence gets flooded with unsolicited proposals from all sorts of places. Some people might have invented a widget which might be useful in some sort of defence capability but is of absolutely no interest at all to Defence, because they do not design systems; they buy systems. Others that I spent time fielding when I was in Defence were clearly ridiculous. You just throw them off the table; they are a waste of time. There are some that ought to be considered.

I make a couple of points. One is that Defence is better able to assess its needs than industry is, so industry should not be upset if what it proposes is rejected because it does not fit. On the other side of the scale, there are two issues in Defence that do need addressing. One is ‘not invented here’, and that is natural human reaction: ‘I didn’t think of it, therefore it’s not even worth thinking about.’ The second one is this mad risk aversion that is currently rife in Defence, promoted by this government. The thing Peter was talking about was a proposal for a different aircraft for the JSF.

**Mr Goon**—Not quite so.

**Mr Hammond**—Maybe not, but that was one of the proposals that was put up. If you look at the risk balance, the proposal was probably doable but in the current climate there is no way in the world Defence would dream of proposing it to government because they know the cabinet committee would kick it off the table straightaway. We need some balance here but the two points I have made do need addressing. One is risk aversion: ‘Let’s go and buy it from the US rather than try and invent it in Australia.’ The second is ‘not invented here’ and is a natural reaction—which is not the DMO incidentally; it is the Capability Systems Division that is responsible for that.

**Mr Gabb**—Adding a third one to that, there is also the situation that if Defence had to do a full analysis of every unsolicited proposal, you would never get started. It would cause delay after delay after delay, which of course is part of what the DMO is being accused of.

**Mr Goon**—When I was in the Industry Policy Consultative Forum 2000-01 that particular forum and members on that forum worked quite hard in developing the unsolicited proposal process. We put in a front-end filtering process which filtered out those which you do not waste your time on, but the process advised the proponent of the decision, in order not to create ill will and to maintain engagement. Those proposals that needed to, went forward to the relevant domain experts for a first-pass filtering. There was quite a detailed process developed.

That was endorsed by cabinet in 2001. It made its way into doctrine at the end of 2001. Industry followed it, yet we have had very little, if any, response formally from Defence, DMO and the people charged with ensuring accountabilities within Defence in relation to that. That particular suite of proposals was not to do with replacing the JSF with some other aircraft; it was all about the risk management of the new air combat capability and how we move forward over the next 10, 15 or perhaps 20 years while we are trying to resolve the new air combat capability requirements, while still maintaining a capability which is going to maintain our strategic position and defence posture in the region.

It was basically amalgamation of a number of disparate projects which already existed in the Defence Capability Plan, bringing them into it in a program centric way so they provide focus in terms of risk management for the new air combat capability. The kinds of things recommended in the Macintosh Prescott report and in the ANAO inquiries into defence materiel are all about risk management and risk mitigation, all about drawing upon our current expertise to ensure that we are able to manage the introduction of new capabilities in a more cohesive and aggressive way. Yet we have heard no response.

What I am giving there is an example—and I am not trying to grind an axe here, because that is what you have asked for, Senator—of what I see as a more endemic and broader issue, and that is the propensity now within the defence community—and I say ‘community’, not just ‘defence’—for us to focus on process and reinvent process, rather than focus on output and aim to achieve output by implementation of process. Another good example of that continuous improvement versus continual reinvention is the current coronial inquiry in the *Westralia*, where findings from the board of inquiry talked about people not implementing processes.

One of the primary findings—they do not use the term ‘root cause’ or ‘primary cause’—was that people were not following process. However, of the 114 recommendations made in that board of inquiry—each one has been signed off as completed—if you go down the list of the actions that have been taken to complete it, it is all about producing new process. The question must be asked: if process not being implemented was one of the principal findings, why is the close-out on the recommendation producing more process? That is a fundamental point in our community which we collectively need to acknowledge and then address.

**CHAIR**—No doubt all of you are familiar with the findings in our report. I have just referred to our approach to unsolicited proposals. What I seem to be getting is not dissent from our findings rather a re-emphasis of importance of what we have put.

**Mr Goon**—Definitely.

**CHAIR**—I take it that you would like us to put it more emphatically or with greater emphasis, which is fine. Is that the only area you guys want to draw our attention to?

**Mr Cole**—Perhaps I can add something practical from my time as the logistics finance manager. Unsolicited proposals, in my experience—and they were put to me by the support groups and so forth—usually only got up when there was an in-service sponsor, when the in-service sponsor was prepared to forgo something that was already funded or it was at the end of a financial year where we were running behind the expenditure profile and the money was available for a quick spend. They were the circumstances. Anything else that came up had to go into the program and be forecast out in the future years. Somebody had to do the analysis that it was actually a requirement and a need that fitted the Defence activity.

I have personal experience of a couple of projects where Defence probably spent \$300,000 or \$400,000 bringing people in to do studies. When they tried to put their product that they were developing into the defence organisation, it did not fit with the Defence information technology base and had to be pushed aside and the money written off.

**Mr Hammond**—In response to your question, there is another issue that I was disappointed not to see addressed—that is, the need to get some sense of urgency in DMO. I proposed, somewhat tongue in cheek—and a number of other companies proposed the same thing—that we corporatise. The Kinnaird review appeared to be going that way but I understand it has now come back from that. That is perhaps a radical answer, and I accept that it does cause problems.

**CHAIR**—Not if you read the newspaper gossip—and I do not put it any higher than that—about Mick Roche’s resignation. The gossip seems to focus on the belief that he had a strong disagreement about corporatisation and that corporatisation was imminent. We are led to believe—and, again, I refer to it as newspaper gossip—that was a factor in his resignation.

**Mr Hammond**—It may be. I spoke to one of the authors of the Kinnaird report some weeks ago and I said, ‘Where are we going with this?’ He said they initially looked at corporatisation and they had drifted back from it now. Regardless of that, there needs to be some way to get into the culture of that organisation the fact that time is money. At the moment it costs the DMO nothing: their salaries come every week and their expenses come every year so there is no problem with delay. If you face a difficult decision, why wouldn’t you have another study? It is a no-brainer.

There are a number of ways short of corporatisation you could do it. Probably the simplest way is to require the DMO to put on a public web site for each project its key dates, the dates they actually achieve those milestones and an explanation of why they are delayed. Public servants do not like to be embarrassed and that is one way of getting some attention to the fact that there is some pain involved in wasting time.

If you want to be a bit more radical, another way you could do it is to say, ‘Let’s take a global measure of how the DMO did, according to its plan for this year. If it achieved 80 per cent of its plan for this year, then the maximum bonuses that are paid to senior people should be reduced by 20 per cent.’ That is another way of putting some more pain into it but there has to be some way.

What the organisation really does need is—perhaps not private sector-like—some sense that time really is money. That is currently lacking. I could not see anything in the report which addressed that point.

**Mr Gabb**—You have to watch out for some of these manoeuvres by focusing on milestones—it will get traded against performance, you know that.

**Mr Hammond**—Yes, I have been there and done that. Yes, I know.

**Mr Gabb**—If it is the milestones that you make public, then that is the one they will—

**Mr Hammond**—But there is always a trade between time and money and performance and that sort of thing.

**Mr Arthur**—As an Australian SME, the current policy where we need to deal through tier 2 and tier 1 players totally defeats the time value of money for us. We need to deal direct with Defence and are capable of doing so. It does not seem to be a whole of government approach. Other areas like Customs are quite happy to deal with us direct; in fact, they do not like the sense of an overhead because of having to deal through a prime. That is a very good example of an organisation which is at war every day, with a much smaller budget than Defence, and which gets on with the job and actually seeks us out on the basis that we can respond to that. The time value of money is a consideration in a number of factors in terms of how the organisation even responds to us little guys.

**Mr Goon**—Regarding the point about the policy of dealing with tier 1s to get access to tier 2s and SMEs, even as a young lad I knew from my fish collection not to put the little fish into the same fish tank as the big fish. There is that predatory element that exists, which I see as eroding Australia's innovation and high technology, because the bulk of our innovative capabilities and high-technology capabilities reside in our SMEs.

**Mr Hammond**—I have not had a chance to look for it but there was supposed to be a draft electronic industry plan released at last week. One of the proposals in there was to address those two points. It was basically that primes would be scored by the amount of use they made of SMEs; in other words, there would be a sort of figure of merit. That would be taken into account in whether they got future follow-on work without competition. It is a good way of attracting attention. But I have to agree with both of the speakers: we need some way to stop primes just deciding they would rather have the work and taking it off the SME or exploiting them.

**Mr Arthur**—I was at the procurement conference on the last two days and they certainly briefed us all on the unsolicited innovative proposal process. It is good to see it out. It still needs some work but at least it is out there and it is tabled so that we know now what we are dealing with. As Nick says, there is a draft electronics plan as well as an aerospace industry plan, and we welcome all of those. We are not convinced the areas that put those papers out have a whole of Defence agreement on how they deal with things like those unsolicited proposals. It still seems that there will be double handling and those sorts of issues because the processes are not entirely clear yet internally. When questions were asked in the last two days, there were some that stumped those briefings. Clearly, it is new and it has some way to go, but that sort of thing is good to see there.

**Mr Goon**—The time it has taken for that to come out is reflective of Nick’s comment—that there is no imperative on the basis of time is money—whereas for Australian industry primes, tier 2s and SMEs, time is money, time is most important to us. If I look back over the last 10 years of my own company and various other companies I have worked with—for the Defence Teaming Centre, both big and small—I see the level of contribution those companies have made to the critical debate of defence industry, defence acquisitions, improving the processes—unpaid, I might add; all coming out of their own hides—and see how they basically have turned into dust collectors on the shelves in Defence. I am not talking small submissions; I am talking multiple-book submissions that have been put in by people over the years and have just become dust collectors.

I suggest one of the reasons for that the view that, unless there is a dollar value attached to a submission, there is no value in it, whereas I see on the other side of the coin quite large consultancy contracts being awarded to, say, the big 5 or the various PSPs—professional service providers—and that sort of information is listened to, because money has been paid for it. I have seen equal, if not better, submissions put forward either unsolicited or in response to a request for a proposal or as part of our marketing through to our contributions in the various forums that have developed since 1998 between Defence and industry, yet they sit on the shelf and collect dust. It gets back to Nick’s point: there is not this imperative.

**Mr Hammond**—One thing I would say for Defence, though, in the new industry plans they have put out there is a recognition of the need to substantially increase the amount of money available to capability technology demonstrators. That is one of the best ways for SMEs to get their product in front of Defence and actually test it. Currently the allocation is trivial and it is pointless. But if they significantly increase it, it will make a big difference to industry. It will give an opportunity to demonstrate to Defence, ‘Here is something,’ and because Defence is paying part of it there is the point that Peter makes—there is a stake in it.

**CHAIR**—Paul, I understood from your remarks that, since the conference, the guidelines are out for unsolicited proposals and that is welcome because it gives you some certainty as to what those guidelines are. But did I hear you correctly: were you reflecting on whether those guidelines are sufficient to answer the problem?

**Mr Arthur**—Correct.

**CHAIR**—Do you think they are not sufficient? Even though they now are clearer as to what you should do, they still will not solve the problem. Is that what you are saying?

**Mr Arthur**—There was a question that was asked: if a proposal was put in to someone within the capability division so that it did not actually go into the unsolicited office, how would that be dealt with? There was then an internal panel discussion: ‘How do we get it across from you to me to make sure I can go back and advise the minister that we are aware of the fact that this proposal exists?’ Perhaps that is an internal education requirement, given that it is a new proposal, but what came back to us on the floor was that it was not thought out well enough yet, and certainly was not indoctrinated well enough for me to be convinced it was going to work totally. But it is early days.

**CHAIR**—Is this the right impression: it is a good thing the guidelines are out there, that gives you some degree of certainty, there is still a question mark over how effective they will be, but you are prepared to give them some time to bed down to see whether they do work?

**Mr Arthur**—Yes. It was made quite clear, for example, that there is no funding for unsolicited proposals, so they will be judged on merit. They will have to fit against the priorities for Defence at the time, but that is the reality of how we would be putting them in anyway—to argue the case that they have a higher priority than some other program or are a better way of doing business. We are very comfortable with the approach, yes.

**CHAIR**—You are an SME and you are concerned about having to talk to Defence through the first- and second-tier primes.

**Mr Arthur**—Yes.

**CHAIR**—I am trying to paraphrase your view so I have it clear in my head. That cuts off your ability to fully explain to Defence what contribution you, as an SME, can bring. What would you propose we do about that, Paul?

**Mr Arthur**—Our recent experience was: the only way we achieved getting one of our programs up was by going to the minister, which you would not think is a normal process.

**CHAIR**—No. If that became a regular process, it would be impossible.

**Mr Arthur**—Yes. It would seem to us that you need to give the people we deal with more power. In terms of corporatising the organisation, if I am dealing with a regional guy, he needs to have sufficient powers to deal with me rather than to say, ‘You need to talk to these people in Canberra,’ or, ‘You need to go elsewhere.’ ‘Sufficient power’ means that he needs to be able to act as my company does. He needs financial authority, authority to sign off on contracts et cetera, to the level that we would like to deal with. At the moment the procurement policy for Australian industry is that government has to show due cause why it has not gone to Australian industry if the dollar value is \$100,000 or so. Make that \$5 million or \$10 million. That would give us more business. The big guys will have to deal with us more because we are then picking up a bigger component of the work share. That will generate the business for us and it will force others to deal with us who at the moment do not if they do not have to.

**CHAIR**—Are you comfortable that Defence understands who you are as a company and what your capabilities might be?

**Mr Arthur**—There are elements in Defence who understand who we are. We may be unique. We are a 40-person company. We have been on the defence market since 1998, so we are relatively new. We have picked products that are relatively unique. They are based on DSTO IP, so our ability to turn that IP into product and then sell it back into the department has probably been a hard path to row anyway. In doing that, we have certainly gained a presence, largely because of the fact that our principals are ex-service people that gained entree into levels in capability and procurement that other SMEs would not, or would not even know to look for.

**CHAIR**—You have 40 people. That is not a small company. Usually the small companies are 20 or fewer.

**Mr Arthur**—I have described ourselves as a large SME, based on the Defence definition.

**CHAIR**—Yes, a large SME. You get a special resonance because of your particular niche and stature, but—and I do not want to put this as a leading question; I am just trying to get to the truth of it—do you think that Defence have a good understanding of what the capabilities of SMEs might be and the prospects of what might be achieved if they work more closely with them?

**Mr Arthur**—I would say generally they do not have a good view.

**Senator JOHNSTON**—Do you have a DMO person here in Adelaide that you relate to?

**Mr Arthur**—We do.

**Senator JOHNSTON**—I met the one in Western Australia the other day for the first time. How often do they come over here to meet with you in an informal sort of two-day session on what is happening here in terms of your business and their business? Does that happen?

**Mr Arthur**—Rarely. We will often seek them out when we intend going to Canberra to brief them so they are not embarrassed.

**Senator JOHNSTON**—Are you a member of any peak body group that interacts with them on a one-on-one basis to cut through all the multifacets?

**Mr Arthur**—Our business is our business so we do not really let others do that for us. In that sense, we are certainly a part of AIDN and the Defence Teaming Centre, who lobby and act on our behalf, but we still take our own actions in terms of—

**Senator JOHNSTON**—What does AIDN stand for?

**Mr Arthur**—Australian Industry Defence Network.

**Senator JOHNSTON**—That is the one I have been working with in Perth. We will have them over there on 6 and 7 August, and they will be touring around and seeing capability that they do not know about. Then there will be a function in the evening, where a whole host of SMEs will provide displays and presentations, with military personnel and what have you. I was hoping that would be an annual event where people could strut their stuff and get to know some of the senior personnel, but the problem you have is—isn't it—that they are never going to talk to you when you have a prime?

**Mr Arthur**—No.

**Senator JOHNSTON**—Is that so unreasonable?

**Mr Arthur**—I had an instance recently where we developed a product for the Malaysians. I had an Australian general come through and he said, ‘Are we looking at this?’ and I said, ‘No, I can’t get you guys to come down here.’ He said, ‘I guess if you sell it to them, we’ll get real interested,’ and I said, ‘You are probably right.’ There is an attitude thing.

**Senator JOHNSTON**—Yes, it is an attitude thing. But the business about them being engaged with you—and you are probably one of half-a-dozen in a major project, if not many more—they are just never going to do that, are they? It is an unrealistic expectation that they bypass the management expertise of the man who is sitting at the top controlling the whole thing, who has paid all the tender money to get his foot in the door and get the project. They are never going to come down to your level and talk to you. They are going to go through him, aren’t they?

**Mr Arthur**—From the service side, you mean?

**Senator JOHNSTON**—From any side.

**Mr Hammond**—A good project manager will go and see his key subcontractors and typically the prime will try to shield them because he does not want anybody talking to his subcontractors; he wants to keep them in the dark. A good project manager in Defence will visit the key people just to see what they are doing.

**Senator JOHNSTON**—But he will take the prime with him, won’t he?

**Mr Hammond**—The prime will send somebody. They will send a minder! That is a given.

**Mr Goon**—And it depends upon what philosophy management applies to the process. If they adopt what Defence has been pushing for some time now—the integrated product team approach—it is an integrated management construct and you do have representation for every key function on the project, sitting around the project management table with the customer, with the project manager.

**Mr Arthur**—I get to brief people at staff courses. We had Sikorsky with us today on the Air 9000, as a matter of course—they are doing the right thing. At the end of the day, none of these guys will give us any business for any other reason than the system says they must. At the moment, the impetus, apart from the Australian industry involvement program, is that if they are going to buy something that is less than \$100,000 they have to look at people like us; if it is more than that, they do not have to. That is why I am saying raise the bar. That may be trivialising it a little bit, but—

**Mr Hammond**—I am not aware of that policy.

**Mr Goon**—Are you talking about the Buy Australia policy?

**Mr Arthur**—The procurement policy for product for Australia and New Zealand is: if it is less than \$100,000 you have to show due cause why you did not buy Australian.

**Mr Hammond**—That is the basic procurement policy. Every project will have an AII requirement.

**Mr Arthur**—Correct.

**Mr Hammond**—Sikorsky, for example, if it wants to get an Air 9000, is going to have to put together a team of Australian subcontractors. You are playing on a level playing field and there is an incentive for them to choose Australians rather than people from Seattle, or wherever Sikorsky is.

**Mr Goon**—What is that incentive?

**Mr Hammond**—The incentive is to meet the AII plan and to get accepted. The problem to date has been all this sort of fluff in the tender process but then, when the decision is made, it has got to be the one with the whitewall tyres—they couldn't give a stuff about it. But this has changed. The new industry plan which they appear to be willing to sign up to is going to make a significant difference to that.

**Mr Goon**—But there are still no metrics there. There are still no quanta to be met.

**Mr Hammond**—There is. The new plan involves preselecting it. The initial request for proposals or invitation to register will select down to a smaller number of potential primes who meet those criteria, and one of the criteria is use of Australian companies.

**Mr Arthur**—That is all true. As an SME, my time scale, my vision, is about six months. My people want to know that I can pay them in seven months time. An Air 9000, for me, will not come along for three to four years, even though I talked to them today. Every big project is simply not in that market space.

**Mr Hammond**—It is probably a problem with Defence. The defence cycle is just long. It is hard for small companies because they live and die in six months whereas Defence rolls on. This gets back to the point about a sense of urgency. At least you get the cycle down to what they say it is going to be at the beginning.

**Mr Goon**—That is a key point. We can see that happening in other forces overseas—for example, the American transformation program, where they are deliberately and diligently compressing the acquisition cycle down. They are bringing it down because they need to. They recognise they need to and they are putting imperatives in place to ensure that.

**Senator JOHNSTON**—Darryl, what do you do? What does Mincham Aviation do?

**Mr Mincham**—We manufacture and overhaul aircraft components. We manufacture and do a lot of prototype work for the DSTO, the airline industry and a lot of R&D companies.

**Senator JOHNSTON**—Do you quote to Pacific Aviation at Perth airport? Do you know them?

**Mr Mincham**—I know of them.

**Senator JOHNSTON**—You have expertise in aerospace and aviation type technology with respect to what?

**Mr Mincham**—Aircraft composites, aircraft sheet metal work and all those sorts of lines.

**Senator JOHNSTON**—And they know about you, or not?

**Mr Mincham**—Not in Perth, no.

**Senator JOHNSTON**—I am talking about the DMO and their senior people who deal with SMEs. Are they aware of your capability and have they used you before?

**Mr Mincham**—No.

**Senator JOHNSTON**—What have you done about that?

**Mr Mincham**—I am in the process of trying to find a route into the DMO.

**Senator JOHNSTON**—It is a very common problem in South Australia and Western Australia. It equates to a very similar type of environment. You have to grab somebody, maybe even a federal politician, and say, ‘Tell these people about our capability. Get them over here and start bringing them to the table that we sit at right now.’ His name is David Cruickshank, from memory. He is the sort of person that you email and say, ‘This is what I can do. When are you going to send someone to see me?’ For instance, you are probably talking about the boron fibre that goes on the bottom of an F111 wing that has a crack in it.

**Mr Mincham**—Yes.

**Senator JOHNSTON**—I have someone in Western Australia who does a non-autoclave system, a hot liquid system, that sticks that patch on without a long curing time. It is a simple system. To get them into the loop, I have had to hammer them and say, ‘Come over and see these guys.’ They are just one example. Nortronics had the same battle for a very long time. That is the way you go about it. It is just a question of getting someone to talk to someone who knows a DMO person.

**Mr Mincham**—There is a lack of trust as well. You feel like a crustacean as a SME.

**Senator JOHNSTON**—It is a closed shop.

**Mr Mincham**—Yes, it is. We have the skills and the capabilities to do this. A lot of times the primes come down and see that and they use us. The next minute they set up their own capabilities. It just drives me mad to see the Australian industry hurt in this manner. We need to build up the industry.

**Mr Hammond**—The idea is a good one. The Defence Teaming Centre is looking around for ideas and that would be a very good thing to take up—your idea of an open day. South Australia has advantages over Perth in that there is a fair stream of people from the DMO and other places who go to DSTO, so it is reasonably easy to grab them for an hour or two. It is an excellent idea.

**CHAIR**—That might be true, Nick, but neither David nor I can think of what those advantages are that Adelaide has over Perth.

**Mr Hammond**—Distance from the DSTO.

**Senator JOHNSTON**—The funny thing is I do not think the competition is that much—

**Mr Hammond**—We are a good place to stop off on the way to Perth.

**Senator JOHNSTON**—The Australian Submarine Corporation is a classic example. We want to swim off the South Australian cabinet presence because those two senior cabinet ministers in South Australia—this is all very political, of course—Minchin and Hill try and get everything they can for Adelaide. Good luck to them! We can relate to that. But we have the base in terms of naval capability. I talk to these guys and say, ‘Yeah, the ASC being taken over by Raytheon is very prospective for us in Western Australia, if that’s going to happen. It looks great for us.’ Bringing them into that sort of loop with our submarine connection there is fantastic.

The model is this: we got the state government to provide the bus, the chamber of commerce to provide the food and the publicity, and we have the network to provide the connection with all of the various SMEs. All I did was to provide the boardroom table for them all to come together and meet, and off they went. It is so simple. I took David Cruickshank out to lunch at Parliament House and said, ‘This is what I want to do. When can you get over?’

**Mr Schacht**—He is based in Canberra?

**Senator JOHNSTON**—Yes. He has just told his man—who I had never heard of—in Western Australia and he came along to that meeting, and it is all happening. So 6 and 7 August, hopefully it is going to take place and there will be a whole lot of people turn up—120—swap cards and do all the things that we need to do and hand brochures to people who go back and spend the next week looking and saying, ‘Crikey, here’s someone who does this thing.’ That is the model.

**Mr Mincham**—We need to do that here in South Australia. It needs to be proactive.

**Mr Schacht**—Is Perth the only place with a DMO officer? There isn’t one similar in South Australia?

**Senator JOHNSTON**—I think there is. I think there is one in each major capital.

**CHAIR**—This does raise the question of the SPOs. What is their role? Have you talked to the systems project officers, Darryl?

**Mr Mincham**—I am in the process of talking to them about a couple of things at the moment. I have been trying to get them out.

**CHAIR**—We do not want to build a system that goes around them, if they are in the system to do this job.

**Senator JOHNSTON**—Are they feeding into the DMO the sorts of things the DMO wants to hear? I rather think the DMO sees them as a one-way street of providing capability without taking what they have learnt back in.

**Mr Hammond**—The Anzac one in Perth is operating very well, from our point of view.

**Senator JOHNSTON**—Is the SPO on the Anzacs a commander?

**Mr Hammond**—Presumably. He is just about to leave and become a civilian level 2 or something.

**Senator JOHNSTON**—Usual stuff.

**Mr Hammond**—There is a Captain Griggs there who is the capability element manager. He basically has all the money and he says what changes he wants for Anzac. He tells the SPO and the SPO says to the DMO, 'We're going to do this,' and they do it. It is a very effective organisation. I was sceptical about the SPOs in the beginning but I have eaten my words. They really are working well—the 2IC closest and the rest, from general observation.

**Mr Gabb**—The SME problem is really difficult because there are thousands of them. Whether the DMO knows them or not, there is little chance that the person making the decision to go and see them will be at the commander-captain level—a person with the appropriate knowledge. I think perhaps the best thing for people like Paul and Darryl to do is to regard the DMO, the SPOs, the SMOs—these regional capability organisations—as individual clients. That is the way it has to be done. I am an SME as well. If I was marketing, as I did, I would go and see the people who are going to be making the decisions.

**CHAIR**—I want to come back to Peter, because I cut him off a moment ago and I apologise for that. I have two final points on this line of discussion. Darryl, you seem to be suggesting that, when the prime looks at what you do, they go away and set up duplicate systems.

**Mr Mincham**—That has happened, yes.

**CHAIR**—Effectively, what you are saying is they copy your intellectual property.

**Mr Mincham**—That has happened, under non-disclosure agreements. We are just too small.

**CHAIR**—Is that the reason you haven't taken them on?

**Mr Mincham**—Yes.

**CHAIR**—Because they are your prime and if you take them on and offend them, it might lead to you being shut out. I do not want to put words into your mouth.

**Mr Mincham**—You are exactly right. You have hit the nail on the head. I have seen it happen to other friends and colleagues in the industry, I have seen what has happened to them, and I do not need to go there.

**Senator JOHNSTON**—There are costs and expenses.

**Mr Mincham**—That is right, and I cannot afford it.

**Mr Goon**—It is suicide.

**Senator JOHNSTON**—Yes, we know.

**Mr Goon**—Put my axe to one side, please; in fact, I left it downstairs out of sight!

**Senator JOHNSTON**—You were not the only one who brought that axe to the table.

**CHAIR**—You weren't, no.

**Mr Goon**—It also happens with the Commonwealth.

**Senator JOHNSTON**—There is no protection stamp.

**Mr Goon**—The issue that Darryl raised before—trust—is one of the significant issues that we as a community need to address.

**Mr Gabb**—It is something that happens right through industry—little fish and bigger fish.

**Mr Goon**—It is the whole community.

**Mr Gabb**—It is part of business.

**Mr Goon**—One of the ways of doing that is engaging in critical professional debate. Let me go back to when I was in uniform—a young flying officer, joined the Air Force; bright-eyed, bushy-tailed, raring to go, working the F111. I was encouraged by my commanders and my generals to question. I was encouraged to think outside the box. I had training from some very experienced people: officers, noncommissioned officers and warrant officers. In fact, what they used to do with Air Force officers in those days was stick them under a warrant officer engineer; an old crusty, very experienced technologist who also had good management skills and a wealth of general service knowledge. They trained you; you were their apprentice. I mean, you were their boss in terms of the organisational chart but really they were God.

**Mr Gabb**—They had flying officers for dinner.

**Mr Goon**—Exactly. You did not walk into a hangar unless you reported to the warrant officer, including the commanding officer. The commanding officer would not walk into an aircraft hangar unless he reported to the warrant officer engineer. That is how it was back in those days. Many of my peers today who are still in uniform are two stars. All of them had the same sort of training; many of them were lateral thinkers up to about the iron colonel level. I speak with them today and I say, 'Hey, what's happened? You used to think outside the box?' and to a man the response is, 'Can't think outside the box today. Can't operate outside the box today, firstly, because I will not be effective if I do because I'll be seen as a non-team player, a dissident, and asked to leave like so-and-so was back in 2000,' or 2001 or 2002.

We have a level of compliance now at senior levels of Defence which is holding us back. To get promoted today, one must realise at the iron colonel level you need to be compliant. That is why I and many of my colleagues say we have gone beyond the pale in terms of this idea of teaming, the team of teams approach that people espouse: great concepts, but I think for a whole variety of reasons we have gone beyond the pale to a point where we are now steeped in group thinking.

**Senator JOHNSTON**—Isn't that a product of surveillance and the imbedded nature of publicity?

**Mr Goon**—Yes.

**Senator JOHNSTON**—Once upon a time you could be insulated by virtue of the fact that you were enlisted. We have just seen a war in our lounge rooms, with blokes riding on tanks. We were watching prisoners being interrogated, virtually. That is the problem, isn't it?

**Mr Goon**—Yes. But the solution, I would suggest, based upon what our colleagues overseas say—including the great and powerful American ally across the Pacific—is transformation, openness. It is going to happen anyway in today's day and age with technology and communications, so let's use it for a positive rather than a negative.

**Senator JOHNSTON**—We saw a mind-set from DMO in the way that it deals with the tender process and deals with SMOs. The mind-set was a very old traditional model that says, 'I've got all the cards. You've got none. Do as I say, if you want to play in the game.' You give us, in this environment, a different model that is going to work, given the amount of money involved, the time, the expediency, and with the requirement for a product that is the very best, lowest cost.

**Mr Hammond**—I will give you one. It is alliance contracting. There are currently two running in Defence. There has been a report recently by Codan which has said, 'This is a good way to go. It's not a panacea but it should be expanded.' There is one which is the Anzac alliance, which is the Commonwealth, Tenix and SAAB as the three parties, driven by a board of management with two reps from each of the three participants. It works on a consensus basis. The key thing about it is that, instead of Defence having all the cards and industry is kept in the dark, Defence says, 'We want to do this.' Industry can say, 'Yeah, we understand where you're trying to get to. Here's a better way to do it.'

From the Codan report—this is not just me talking—there have been significant time savings. Projects which would have taken three years to get out of the door are taking a year and there are significant advantages with substantial savings in money. I repeat: it is not a panacea. You cannot do it with everything. But if you have a situation where there is no natural competition, it is a very effective way to work.

**Senator JOHNSTON**—Yes, that is right. We came to that conclusion very early in the piece when we talked about that. But in terms of SMEs that are competing amongst themselves for even smallish tenders and having a hard time underneath a prime, it is very unrealistic to expect the DMO to actually come down and immerse itself in those sorts of problems.

The model I attempted to put to Mick Roche was that he needed to take himself out of the central desk or the single desk that he uses for the handling of all of these contracts. If there is a dispute, he sits it in front of himself. I said, 'Why do you waste your time doing that? Why don't you send it off, like Centrelink does, to an appeal process that is transparent and clear? It's not that expensive, I don't think, in the scheme of things.' He just refused to do that.

**Mr Hammond**—That has been a practice in the US for the last 20 or 30 years. The problem is it is abused. Everybody who loses a tender appeals, so you add basically 18 months to every tender because they appeal and 95 per cent of the appeals are rejected. It has been a significant problem in the US and it is, I suspect, one of the ways of doing it. Defence have project boards, governance boards or whatever they call them. My understanding is Mick delegates a fair bit to them.

**Senator JOHNSTON**—He did not tell us about that.

**Mr Hammond**—I do not have any problems with that idea. They have external members on them and they are usually chaired by somebody with some Defence experience. They do not have the same person involved that the project manager has, so that they can go to the project manager. That is an effective way of doing it.

**Mr Gabb**—This is the PRINCE project boards?

**Mr Hammond**—Yes. Well, it used to be the PRINCE.

**Mr Gabb**—PRINCE is still alive. They just have a new name.

**Mr Hammond**—There is a series of project boards that work fairly well.

**Senator JOHNSTON**—We saw the PRINCE technology and the PRINCE system, but it was not universal. Maybe it could not have been universal but it could have had a broader application.

**Mr Hammond**—I think they have done the right thing. They have chucked away all the gibberish and jargon. They have picked the eyes out of it. PRINCE is a way to do the project but they have picked the good things out of it. I was sorry to see Mick go. I think he has done a good job, given that it was Mission Impossible when he started. He has achieved by no means all, but 70 per cent of what he set out to do, and that is a pretty good record.

**Senator JOHNSTON**—We are seeing it at an early stage and I think we will see the aerospace success rate, which is very high because of that project management system, spread, in time, to those other broader areas in addition to aerospace.

**Mr Goon**—There is a very tight time line on that. Because of the downsizing and the deskilling consequent upon the downsizing, Defence has quite rightly taken the approach of putting more reliance on industry, but this change process, the whole white paper introspection and paralysis in projects in Defence—which is still very much there today while they are trying to sort things out—is delaying things now, to the point where, when you combine that with the non-embedded overseas syndrome that pervades Defence, we are seeing less and less

contribution into Australian defence industry, upon which Defence is now seriously reliant. The risk I see in the not-too-distant future is that when Defence comes out to Australian industry seeking its support it is not going to be there, particularly in the innovative high-technology areas, resulting in more and more of that going offshore or into overseas companies based here in Australia.

**Senator JOHNSTON**—You come back to the equation of what type of company is going to be the most successful in Defence contracting. Is it going to be a purely dedicated Tenix model or is it going to be a commercially oriented Austel model? That is just a simple example, because Austel's prime function is to sell into the commercial ferryboat and other boat markets, and compete out there in the big wide world, whereas Tenix is purely a Defence contractor. I think that the Austel model is a much better model because of the duality.

**CHAIR**—That is my view, too, I might say.

**Mr Hammond**—It is horses for courses. For the patrol boat I could not agree more; for things that are particularly Defence, like weapons or complex systems, where there is no commercial market, then clearly you have a defence specialist.

**Senator JOHNSTON**—That is the exception, yes.

**Mr Hammond**—I am not sure that the Tenix model is a good one. Tenix's problem seems to be that they started off life as a construction company.

**Senator JOHNSTON**—Yes, it is probably not a good example, but you know what I mean.

**Mr Hammond**—They are having real difficulties understanding that electronics engineers are not the same as construction workers, that is all.

**Mr Cole**—Certainly across the area that I look at, where I get out and talk to the companies about what they are physically doing with Defence, I find that most of my clients at the moment are not dealing with Defence. There are probably three or four very small boutique companies that have specialist activities into the submarine area or specialist activities across to engineering materials on Air Force aircraft. They are working specifically to Defence and, of course, if that funding dries off, they die. But the majority of the companies out there at the moment are living off their commercial activity because there is nothing coming to them from the defence arena.

**Senator JOHNSTON**—That might start changing.

**CHAIR**—I want to go to a third point that has come to my mind since we have been following this discussion. Dr Kopp, you were making some earlier remarks, when you introduced yourself, about us not being able to keep up with the strategic requirements because of not thinking properly about what our needs are. Would you like to give some more detail on that point.

**Dr Kopp**—Yes, I am most happy to elaborate on that. I think this is a very unusual time historically. We are one decade past the end of the Cold War. We have what the Americans are now referring to in their strategic literature, that borrowed Professor Paul Dibb's term, as an arc

of instability, but they have extended it and they say really there is an arc of instability but it starts at the northern part of the South American continent and it runs all the way through the Pacific islands and encompasses—

**CHAIR**—We have just been out to the Pacific islands, so we have seen it first-hand. We were in Honiara three weeks ago.

**Dr Kopp**—Indeed. We have that as one set of strategic issues that really has to be dealt with, and that very frequently involves peacekeeping, peace enforcement or police action like we have seen, for instance, recently in Iraq, in effect. Concurrently as we see this, we are seeing a major realignment on the Asian continent, because China is industrialising and India is industrialising. Both of these nations are spending very significant amounts of money on modern military hardware. Most of it is Russian but they also get bits of it from the French and from the Israelis and other EU suppliers. A very good example is the Su-30MKI fighter that the Indians are to license a further 200 of. One could argue that it is better than a lot of the line models of F15E, which is the Americans' current front-line fighter before the F22 comes on line. That is an aeroplane with a Russian designed airframe and a Russian designed engine that will be assembled in India. The computers going into it will be designed in India. A large proportion of the software will come from India. The cockpit displays, head-up displays, are made by Sextant Avionique in France. This is a piece of equipment which, arguably, is going to be a challenge for almost any asset that the RAAF deploys. I am, for instance, not convinced that the JSF will be a strategically credible asset for countering this type of capability.

We see Malaysia has just ordered 18. The Indonesians would like to buy around 50. China has licensed production arrangements with the other Russian plant manufacturing these fighters. Russian sources are claiming that the Chinese may ultimately field up to 500 of these aircraft. Let us put this into context. The United States has a fleet of roughly 600 F15E fighters. The Chinese are talking about fielding a fleet of between 350 and 500, so we are talking about a very significant ongoing, but relatively sedate, shift in the global balance of power, certainly on the Asian continent. India is planning to deploy 200 of these fighters. Various other players have also bought into it. Vietnam has bought them as well.

You are talking about a piece of equipment using buddy refuelling techniques, fighter to fighter, that could basically cross the sea-air gap. The Russians have just exported to China, for instance, the Kh-59 series stand-off missile, which for all practical purposes is an equivalent to the Rafael AGM-142. It might not be quite as refined in some respects but it basically does pretty much the same job. We are really dealing with a situation where, in terms of conventional military capabilities of the variety that Australia fields at the moment, which in many respects are the subject of a lot of ongoing tenders and a lot of ongoing forward planning, we will be strategically, in the region, balancing against capabilities that will be peer level.

We have for many decades held an enormous strategic advantage over everybody in the nearer and even the wider region because we have had state-of-the-art leading edge technology. We have had extremely proficient operators—very good skills at the coalface in terms of our pilots, our sailors, our troops on the ground. Now we are facing the reality, as I see it, that unless we are unusually clever about the types of assets that we pick for our future force structure—and that is not just in terms of choosing specific pieces of equipment but classes and categories of equipment to build up the right type of force structure—the odds are that we will very likely

become strategically irrelevant in the region. We run the risk of becoming a bigger New Zealand. That is probably an unkind thing to say, but I think one has to be realistic about it.

This is all happening on top of what we could call a very turbulent period in basic military technologies. When I say turbulent, I mean it. I am an engineer by trade. We are looking at the information revolution. That is manifested in many respects. We are talking about digitisation of military platforms; basically putting computers into every platform and having good computers; networking these computers, which means having the datalink capabilities—that is, in effect, the equivalent of the modem on your PC but allowing all of these platforms in the battle space to communicate. These are big and difficult things to do.

We saw all the agony that industry went through a decade ago, introducing the Internet and getting on the Internet bandwagon. We have all seen it. Now we are seeing analogous problems in the military domain, but magnified in their complexity because we are dealing with vastly more complicated and difficult systems, and also a lot of the technological requirements are more difficult. We are trying to produce a jam-proof digital radio link to get two computers to talk to each other. That is a task that is, I think, technologically much more difficult than designing a modem to put on your desk.

Interestingly enough, if you look at a lot of the growth in that area in the United States, many of these products have been produced by SMEs. The big primes have very frequently stayed out of this very turbulent, rapidly moving, highly technologically oriented market. They have tended to stick to the big projects, big platforms, big system integration, because that is what they do well. I had occasion some years ago to deal with some folks in the United States who were involved in some work in global positioning system enhancements. This involved trialling some new bomb delivery techniques.

**Senator JOHNSTON**—If you will excuse me, I have to go. I have a plane to catch. I am sorry to have to leave. It has been good.

**Mr Goon**—Thank you for your time, Senator.

**CHAIR**—We will not go on much longer, anyway.

**Dr Kopp**—What astounded me was how well the Americans were able to do this. They basically brought this SME in. It might have had a dozen people; half of the staff had PhDs. They burned through a problem that a prime would have taken several years to do, because it was highly focused; basically a start-up oriented approach to doing it.

From a big picture perspective, I see that we have two major problems to deal with. One is that Defence itself has to acquire the capability to think in terms of technological strategies as well as conventional geopolitical strategies, because in some respects the two mesh together. A situation where the latest Russian counter-AWACS missile, which will go 200 miles and knock your Wedgetail out of the sky, proliferates throughout South-East Asia is something that can happen extremely rapidly.

My view as a technological strategist and military analyst is that one approaches this the way the Americans have approached it traditionally. They say, 'All right, that capability does not exist

in the region but we know that it will exist in 15 to 20 years time.’ They set up red teams. They war-game this. They think in terms of ‘Where do we want to be in 10 years time, in 20 years time?’ not ‘Where do we want to be in three years time?’ My impression, looking at a lot of recent decisions in terms of equipment purchases, is that we have really been centred in the here and now, or ‘What are we going to need in three years time?’ perhaps. That is simply strategically not good enough.

**Mr Cole**—Continuing on from what Carlo has said, I can recall a discussion with an Indonesian armament officer who related to me how they had taken the American OV10 Broncos, they had taken Russian missiles, Indian firmware, and re-equipped their aircraft; and he talked about the missile. The fact that the AWACS aircraft is sitting up there, it is going to have fighters around it—F22s. If you send that missile out there with its proximity range, you put the whole lot on the ground as burning holes. We could wipe out our capability in a couple of those missile attacks.

**Mr Gabb**—It is this sort of posing and looking at potential problems which got, if you like, the invasion of Iraq. How much of this is valid and predictable and a real threat is basically a strategic analysis. I do not think it is acquisition as such. It is force definition.

**Mr Hammond**—It is force definition. That is right, yes. The other problem, of course, is 1.9 per cent of GDP compared to—

**Mr Gabb**—It is critically important stuff.

**Mr Cole**—Yes. But having done that analysis and having the people that have the core competencies to do the analysis, you then have to turn around and have the people that have the core competencies to back it up with the right acquisitions.

**Mr Hammond**—Absolutely.

**Dr Kopp**—This is one of my big concerns. There is this gap here, even if people acknowledge the fact that, ‘We will have a requirement or a need to do acts’. I have run into this issue in the aerial refuelling area. I have done a lot of analysis in this area. In fact, there are people in the United States who are professionals in that area and come to me for advice or second opinion type of things. I did a lot of work on that and this was never really put up as an unsolicited proposal but was raised as a strategic case. We need to go and look at how much aerial refuelling we need. The views I have heard from people in Canberra tend to be, ‘Oh, well, we’ll borrow aerial refuelling aircraft from the Americans,’ yet the Americans are looking at the prospect of having half their fleet grounded due to corrosion problems.

**Mr Gabb**—We have to make sure the projects involve people with the right competencies.

**Dr Kopp**—Yes, and this is what concerns me.

**Mr Gabb**—And a lot of them do not at the moment.

**Dr Kopp**—The impression I get is that these people do not have the right competencies. I can recall a discussion some years ago with a certain officer in capability development who objected

to something I wrote in an industry journal. I said, 'Well, you should be looking at getting this type of radar,' so he goes and lambasts me in a page-long email and complains about this. In the process of him arguing that I do not understand how these radars work, he made no less than three fundamental technical errors.

**Mr Gabb**—When I made my comment earlier about competencies and the DMO's ability to handle this—and we talked about administrative structures and organisation earlier—one of the reasons it cannot is that I do not think its organisation supports the level of change we are talking about. Nick will have a comment on this but I would like to spend a minute or so outlining it. I believe there needs to be a two-star organisation in the DMO which is overseeing the rest of the DMO with regard to process. By 'process' I mean training competencies and the auditing and so forth.

We had this 10, 15 years ago in some measure. The trouble is that by having them in one division or another—one of the operating divisions such as ESD, which is where it is at the moment—it means other divisions and also the VCDF's organisation treat that as a tribal threat and make their own decisions as to whether they follow it or not. You need the authority of a two star in another organisation. A whole lot of these other things we are talking about here, such as the unsolicited proposals, should be independent of the projects and the project authorities.

**Mr Goon**—It needs to be independent of but integrated with.

**Mr Gabb**—The other thing I need to say here is that, to get this right, it will probably cost some \$50 million over 10 years. I am saying something really big here. That means it is (a) unpopular in new two-star positions—very nasty; (b) expensive and long. Unless we accept that is going to happen, I do not think the change is going to be there. I have no conflict of interest in this area.

**CHAIR**—We are coming near the time for conclusion. I thought I would ask each one of you, as you introduced yourself, to sign off with a summary of what you want to tell us out of this discussion. The discussion has wandered a bit but very usefully and constructively. If there is something that has not come up but is of interest to you and you want to get across to us, take some time and explain that to us as well. I thought we would start with Paul and finish with Peter, because he sought the meeting and should have the last word.

**Mr Arthur**—In summary, from my perspective as an SME—and I have heard some of the comment from around the table—we do know how to market ourselves, we do know how to do our business. But it would be useful to us to see a stronger impetus on the government to deal with us more often and to deal with us in a financial way that says 'spend more money with us'. My view of that with the government is to say, 'Raise it from that \$100,000 number to a bigger number.' I know the AII program says spend 30 per cent of a program with Australian industry but that does not necessarily mean as an SME I get 30 per cent of it. It is generally a much smaller number. If the absolute number was increased and not the percentage, that would create business for us.

**CHAIR**—I forgot one point I should have made in summarising it. You are all aware that we are in the midst of negotiating a free trade agreement with the United States. These negotiations have been circling each other for a couple of months because the US side is not in the position of

having their proposals cleared. The President is getting a report from the International Trade Commission, which is an American agency, and when he has it they will get their written instructions and this thing will start to come together, if it does, in September.

One of the issues that the Americans appear very likely to want to press us on is procurement policy. At this stage the only question is, if any of you can answer it when you are making your contributions, whether AIDN has been consulted about the implications for Australian companies if a procurement provision is put in a bilateral trade treaty between Australia and the United States. The nature of the procurement provision, if it is the standard American one, is to provide that everyone is equal, basically, and no special treatment should be given to Australian companies vis-a-vis foreign companies—in this case, American companies.

We have just done a free trade agreement with Singapore, where this is probably not an issue. But, given the dominance of American contracting in this sector, it may be an issue and I would like to hear any comment about it, if you have any to make on your way through. Paul, if you have any additional comment, we can go back to you but otherwise we will hear from Darryl.

**Mr Arthur**—I am not aware that anything has flowed down from AIDN to me specifically but generally, where we have had to compete fairly with American companies, we have killed them on exchange rates.

**CHAIR**—The dollar is appreciating now.

**Mr Mincham**—I will not go over the SME side of things again. I have made my point. We were talking about the level of deskilling in the industry. One thing I find extremely alarming is at the ground level, the basic tradesmen. Ever since the recession, in the Defence Force and in local industry, with the cost cutting and everything else, the standard of workmanship of tradesmen today on the floor is down considerably. The standards in the industry are dropping. I really feel it is only a matter of time, with the current trends, before we start having major accidents.

**CHAIR**—Because of a lack of skilled labour?

**Mr Mincham**—The lack of skilled labour and the lack of training, a failure to train. I have seen a lot of the training establishments in Australia. There is one here in South Australia that is about to close. We are only a small industry. One particular thing here in South Australia is that we have a cooking school running an aviation college and directing the money. Over the last 10 years we have been working with the school, trying to get some funds in there. Here is an aviation school which has no training aids. They are using V-Dub engines as aircraft engines and they are about to close. You see the practices on the floor and the mentality is, 'She'll be right, mate.' When I did my training 18 years ago, that was never the mind-set. I am a bit concerned that unless we do something about it there are going to be some serious accidents.

**Mr Cole**—In the same area, having been one of the team leaders with the first members in the requirement uniform project, the first requirement for a uniform member these days is to be a soldier, to defend the ground that he is actually on. The second requirement is to be a technician. That immediately deskills the person to a certain extent. When you couple that with the focus that Air Force and other Defence groups have taken in the commercialisation process of taking

total packages of work and passing them to industry, you take a loss of capability. There have been some impacts in Afghanistan to a lesser extent but certainly in Iraq. The studies that will come out of that will be the loss of that corporate knowledge within the uniform force of how to manage and what the impacts are when your civilian organisation behind is also being deskilled. That affects us strategically; it affects the organisation.

I have had some pretty serious concerns over the years about the way CSP has been put together. There is probably a case for keeping a portion of the uniform people but actually working within the contractors, so that when we go overseas and we go active there is a knowledge set there that allows them to function as a cohesive element when they are operational. It puts our people in the operational area at risk, it puts Australia at risk. The other thing that concerned me, particularly off the MRU project, is the philosophy that it was drawn about. If we had to expand in the time of emergency, we would suck up all these young bodies into the armed forces. You would have the three armed forces competing for the same young body that the Army wants to put out there as an infanteer. Your people skills are not there and it gets down to that Defence philosophy. Of course, it flows back into these people who are trying to do business with Defence.

I talked with the guys today about giving them a photograph of a burnt cockroach. It means nothing; it is a dead insect. But if you retrieve the information that it was recovered out of a critical flight computer in the aircraft, and that an analysis of that flight computer was that there were burnt tracks between components that had caused a short circuit down the system, you have an answer as to why that aeroplane dug a hole in the paddock at Tenterfield. But unless the person who is doing that analysis has the information—and this comes back to the *Westralia* activity—how did the cockroach get in there?

Why was the cockroach in there? The next person up the scene may say, ‘There is no reason for that cockroach to have been in the system accidentally,’ so they send it off for analysis. There is salt on the cockroach and there is a salt trace in the burnt-out part in the flight computer. You end up with a systemic problem, perhaps in either the maintenance area or it is direct sabotage. That gets down to the core competency that we have talked about, the people making decisions on the acquisition. It also falls within the Defence Force.

**CHAIR**—Thank you, Wally. Carlo, we heard from you before but you may have some words to add.

**Dr Kopp**—I am probably throwing my weight behind Wally’s comments. I have had major concerns for many years about deskilling in the broader industries and seeing similar effects inside the Department of Defence, particularly as a consequence of poorly thought out outsourcing activities. I think that is a major problem. This runs into the issue of strategic relevance.

To summarise everything I have said, I believe that the nation’s strategic position requires that we do it better, in terms of coming up with solutions to force structure problems, coming up with technological and military and geostrategic strategies. How do we project our power or how do we prevent others from projecting power against us? We need to also do it better at the acquisition level in producing the systems. We need to be looking very carefully at how the Americans have been doing this in some of their innovative larger contracts like the JDAM

bomb. That is often quoted as an example. We need to look at how the Americans have integrated SMEs into their acquisition system, because they appear to have made this work very well. I do not think we should be embarrassed about looking at what they are doing and seeing what we can learn from them. If we do not get it right, our strategic position in the region will be significantly weakened over time, talking time scales of a decade or two. We need to be thinking about how to solve these problems now because there will not be time to solve them in 2015.

**Mr Schacht**—Much of my focus has been—and hearing not just today but elsewhere—this issue of SMEs and how people relate with the Defence organisation and the culture of a large organisation. It seems to me that the work of this committee, maybe the Kinnaird review and DMO, has to be a major focus of getting some change in the culture and outcome. Otherwise, in another three years, another Senate committee will be going through this again. Some other poor person will be sitting here complaining that they have been done over or lost the way or, ‘We have lost an opportunity.’ It is not so much an individual in DMO; it is the culture in DMO and the size and the structure, and how the culture operates, that I think has to be addressed. It is not an individual witch-hunt. It is about the structure that has come across here today—and that you have heard before in this committee—and that has to be taken on board.

If I may make one suggestion to your committee, Senator, it is that you have given yourself, under the orders as a reference committee as a standing committee of the Senate, the ability to hold hearings like this, post your report being published. I suggest this should be done infrequently—not every month or every couple of months—in this and other states with this range of SME experts and other people involved at the coalface, to give them an opportunity to comment, with all the privileges of the committee.

Small SMEs have the fear that if they make public criticism, informally there will be the boycott, the black ball, the pressure that they will be ignored next time round. Although everybody in Defence will swear black and blue there is no such thing, the fact that there is a perception is very damaging. There may be no such system, but a large number of people believe there is. We have to get rid of that because it means a lot of things are not being raised; people are not game to raise them because they think it might cost them the next opportunity for a contract. We have to get past that culture as well. As I say, I would plug for you to continue holding such hearings as this from time to time.

**CHAIR**—We decided in our report, rather than take the reference report and move on, that this was such an important area we would recommend that the committee come back to it periodically, so we can develop a snapshot now and we can look at it as it is developed and evolved and build up on the committee a continuing reservoir of expertise to deal with these problems. We can also overcome the issue that, ‘Look, all those problems you’re raising, Senator, are fixed because we’ve just introduced a new system.’ That is a very disarming argument because it may very well be true, but we have no way of being absolutely sure about that.

**Mr Schacht**—No way to measure it.

**CHAIR**—Yes. That is why this committee decided that it would make that recommendation—that is, this committee as it is presently constituted. A committee constituted in the future may have a different view but that is the view we have put forward.

**Mr Gabb**—Chris was saying maybe this does not happen, where people are blackballed or SMEs are blackballed with DMO. You know it does. Of course it happens. Also with SMEs, the fact that someone may say ‘You’ll never work for me again’ does not mean that someone even works for them. They may just try to sign you up for a contract, because we are talking about a lot of people and a lot of projects. The big problem in the DMO is (a) competence; (b) lack of independence and integration of the acquisition reform. I have forgotten (c). It does not matter: the gist of it is there. I still stand by what I wrote in my paper last year and, until it is recognised that it is a very big problem, a very serious problem and it has to be dealt with visibly, the DMO will continue what it is doing at the moment, which is basically giving a bit and hiding a bit.

**Mr Hammond**—It has been an interesting discussion. I appreciate being invited. In response to your question about the free trade agreement, the purchasing preference policy is economically pretty damp and will not survive. But you can justify the need to buy things in Australia on the basis of being able to support them through their service life. There is a solid defence policy argument in favour of that and, while the outcome might be economically damp, you do not have to plug it on those grounds. I would be relatively confident that we can maintain a policy where we have a preference for sourcing things in Australia because of the availability of support.

I want to make a couple of slightly dissenting comments on some things that have been said. The commercial support program seems to be a balance. Industry does it better; they retain the people longer; they have the opportunity to specialise and become bigger. There are clear advantages in having support done by industry where it is possible. I accept the point that there needs to be a balance. If you suck all of the expertise out of the uniformed forces they are not capable of operating their equipment, let alone maintaining it. In my experience, over the last 10 or 15 years there is more emotion about numbers in uniform than there is rational thinking about that balance. There are clearly some anomalies that need fixing but I think overall the CSP program is not a bad thing.

The second one is just a caution against over reliance on US solutions. The scale is completely different. They spend enormous amounts of money because they have it. We are not in that league and we cannot afford it, so we need to be cautious about just adopting American systems holus-bolus.

In conclusion, my view of the DMO is that they are making progress. They are heading in the right direction. There is still a lot to do but the basic steps are being taken. I am encouraged by the industry plans—I have not seen the most recent draft but I can comment on the previous one. I am encouraged by those. If they can be made to work, it will be a big plus for industry. My final point is that the one thing DMO does need is what I talked about before: some injection of a sense of urgency to make sure they recognise that time is money.

**CHAIR**—On procurement, I am concerned at this point of the discussion that the processes of consultation are thorough. I am less concerned, although I will come to that when the time is due, to evaluate what the advantages to Australia are or are not in having such a clause and then whether we should agree to it or whether we should reject it.

**Mr Hammond**—Sure. I am not aware of any consultation that has been held on that.

**CHAIR**—Essentially it does remove preference to Australian suppliers and opens a so-called level playing field.

**Mr Hammond**—Yes.

**Mr Gabb**—Are we talking to Canada on this? There has been a lot of negative feedback on NAFTA from Canada.

**CHAIR**—The preference provision is in NAFTA. I cannot speak for the government but, as a former trade minister who is familiar with this area, I know our department who are negotiating this would have looked at the NAFTA agreement thoroughly. There is a view that we are in a situation now, given our relationship with the US, that if we are ever going to get a good deal out of this, this is more likely to be the time in which we get it. The headline deals are in agriculture basically and the whole package needs to be evaluated for balance.

To put it bluntly, the politically dramatic areas are in agriculture but if the whole package does not balance to the advantage of all of Australian industry then there is an argument. That is why it is very important that the process be focused at this stage, because it is new. NAFTA created a lot of problems for the Canadians, not just in procurement but in some other areas, and we can learn from that. Our negotiating situation with the United States is that we are a small country, they are a big power, but we both have relatively open markets. So what is there in this?

However, this committee you are talking to now is running around four inquiries simultaneously. One of them is an inquiry into the Australia-US Free Trade Agreement. The way that inquiry is going is to try and give the department a jolt about making sure the processes of consultations are thorough, and looking then at the results of the consultations to be able to make a better conclusion about what Australia's national interest is from an informed background for the negotiations.

**Mr Goon**—On the procurement issue, Senator, I am not aware of any consultation with AIDN or any of the other defence industry bodies. In relation to the level playing field, I would like to put a slightly different dimension, coming from a different perspective. If this level playing field element of the free trade agreement includes a consideration of Australian small to medium enterprises under the small business rules in the federal acquisition regulations in the US, I am all in favour of it. That opens up a very large market for our SMEs under some fairly—I am sure the large companies say—draconian protection rules, but that would be outstanding.

**CHAIR**—I am not talking here about the defence market because I am not very familiar with it in the United States. I am not holding myself out to be an expert on the private sector market either, but I have had a fair bit of experience in the private sector side. What the rules are is one thing. How the rules are practised is the other thing. My observation about the US is that, while the rules might look fair, the practice is very much loyalty to the flag, frankly, and foreigners have great difficulty breaking through.

**Mr Goon**—However, with the free trade agreement at this particular point in time, Australia is well placed.

**CHAIR**—I am not debating the wider merits, Peter. The merits as far as your industry is concerned is what I am looking at at the moment.

**Mr Goon**—Sure, but the actual small business rules go across all industry sectors under the Federal Acquisition Register of the US.

**CHAIR**—Yes.

**Mr Goon**—I would like to thank you, Senator, and the committee for the time you have taken to spend with us. I would also very much like to thank my colleagues here. This is all coming out of our own hides, individually and collectively, but obviously we are here because we believe in it.

A synopsis of today's discussion must include a realisation that competencies skill sets are important aspects—dare I say perhaps even a root cause—of the ailments we see within our community. They are a consequence of the downsizing to right size and the resulting deskilling. And it is not just in Defence, it is also in the industry, because there is a flow-on effect. As Defence is deskilled, it slows up in its procurement and acquisition processes, as has been evidenced over the last 10 years; it is not necessarily a small number. You see the tightening of the belts in industry, and one of the first things to go is training.

It behoves us all to relook at ourselves from an upper level and to look at it from the perspective of a root cause, to determine what is the root cause of the ailments that we are confronted with and then to do something about them. I would suggest a lot of that is to do with ensuring we have people with the appropriate competency skills, experience, knowledge, expertise and training, in the positions which we are charging them with responsibility for. To fail to do that is unfair on the system and on the individual. Everybody in general tries to do the best they can in the positions they are given but, unless they are appropriately equipped and supported to do it, they really are behind the eight ball to start with.

We have seen evidence of that in our community on the Defence side, the military side and the industry side and that is something we collectively need to address. To do so is going to take resources and it is going to require the controlling minds, within whom I include the owners' representatives, as termed by Defence—in other words, our political representatives—to recognise that and to apply the necessary resources and directions to ensure that we come up with an appropriate resolution and solution.

Quickly tap-dancing through some of the points my colleagues have raised: I have touched on the training and Defence downsizing. Uniformed personnel and contractors is not a new idea. There have been several reports—one in 1979, another in 1990 and one other in 1994—which addressed that issue and strongly recommended that be the case as we move into this commercial support program and this downsizing. As yet it has not happened. It is certainly something that is worth not only a close look but actually implementing. It has been the subject of significant studies over the years which we the taxpayers have paid significant amounts of money for, but it has yet to be implemented.

As far as the committee system and the committees' continued engagement in consultation, we welcome it. We believe that is an area where advances can be made by firstly creating promoting

opportunities for critical discussion, not only at the owners' representative to industry level but, moreover, at the industry to Defence level. The more open, the more critical, the more honest, the more trustworthy the discussion, the better chance we have of solving this problem and moving forward.

As far as the black list is concerned, yes, it does exist. The important thing, as with any of the problems, is that we be prepared to admit we have a problem and then come up with a solution. On that note, Senator, I would like to thank you yet again for your time, and I would like to thank my colleagues.

**CHAIR**—Thank you all. If I have been yawning during all of this, it is not because I have been bored. We have had a series of late-night sittings this week and we finished at 3.30 this morning! We have been a subcommittee, David Johnston and I. We will report to the main committee when we go back and, if the committee is of a mind, it will make some additional comments to the report and will probably decide to release the *Hansard* of these proceedings so that they are on the public record.

**Mr Goon**—The committee may well do that, Senator!

**CHAIR**—The committee may well do that. Thank you very much.

**Subcommittee adjourned at 2.31 p.m.**