

14 April 2011

Ms Kathleen Dermody

Secretary
Senate Foreign Affairs, Defence and Trade References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

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Subject : Australian Business Defence Industry Unit Submission to the Inquiry into Defence Procurement

Thank you for your invitation to contribute to the inquiry into Defence Procurement.

The Australian Business Defence Industry Unit is based in Canberra serving member companies around Australia. The Australian Business Defence Industry Unit is a part of the NSW Business Chamber - an independent member-based company formed in 1885 which today has over 6,000 full member companies and 23,000 associate members. Nationally the Chamber is part of the Australian ChamberNet – connecting over 100,000 locations covering 1.5 million employees across Australia.

The Australian Business Defence Industry Unit's member companies come from all tiers of defence industry and all States and Territories in Australia. The Australian Business Defence Industry Unit serves the needs of members doing business with all areas of Defence including the Defence Materiel Organisation (DMO), Defence Support Group (DSG), Chief Information Officer Group (CIOG) and Defence Science and Technology Organisation (DSTO).

Australian Business Defence Industry Unit Corporate Members and key supporters include Agusta Westland, ANZ Bank, ATI, Austal, BAE Systems, Boeing Defence Australia, Broadcast Australia, Capital Airport Group, CEA Technologies, Cobham Aviation Services, CSC, Deloitte, Fujitsu, General Dynamics Land Systems, Honeywell, John Holland Group, Kellogg Brown & Root, PricewaterhouseCoopers, Qantas Defence Services, the Reed Group, SAAB Technologies, the Safran Group, SME Gateway, Spotless, Thales, Transfield Services and UGL Infrastructure.

The Australian Business Defence Industry Unit contributes regularly to defence industry policy discussions and reviews including the following (all available at www.abdefence.com.au) :

- The DMO review of the Defence Recognised Supplier Scheme and Unsolicited Promotional Products Offer Schemes in March 2011;
- The Review of ADF Equipment and Clothing Defects (The Whalan Review) in August 2010;
- DMO Services Support Panel Concept Paper in March 2009;
- Mortimer Recommendation 1.4 and Defence Capability Plan Review in December 2008;
- The Defence White Paper in October 2008; and
- The Mortimer Review on Procurement and Sustainment in June 2008.

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Facilitating and Promoting a sustainable defence industry in Australia

Early in 2011 the Australian Business Defence Industry Unit compiled a Defence Industry Policy Priorities Paper (attached) which was reviewed by our Corporate Member Group and provided to both the Federal Government and Coalition in March 2011. As a compilation of contemporary industry views we offer this paper as a submission to the inquiry into Defence procurement and remain available to elaborate further or provide additional comment as required.

Yours sincerely,

Ben White
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Australian Business Defence Industry Unit

Defence Industry Policy Priorities 2011

Setting Clear Investment Priorities

1. ***New Defence Projects Encourage Industry to Invest – The Federal Government Needs to Clarify Priority Industry Capabilities and Commit to Regular Tranches of New Defence Projects and Sustainment Work in priority areas.*** Australia's defence industry has grown over the past century from the need and desire to have self-reliance in key Australian defence capabilities. The *need for self-reliance* to support *key Defence capabilities* is a core part of the *Defence Industry Policy Statement 2010*. The *Priority Industry Capabilities (PICs)* and *Strategic Industry Capabilities (SICs)* in the Statement are *too broad* and Government funding for the new projects and sustainment work in these areas too uncertain to give industry the guidance or confidence required to invest. In addition, industry *needs to know how* the Federal Government will *promote investment* in PIC and SIC areas. A *public commitment* to *regular tranches* of new Defence projects and sustainment work for *PICs and SICs* would be a start to giving industry the *confidence to invest* in these *priority capabilities*.

Industry Capability for Future Capital Acquisition

2. ***Keeping and Growing Industry Capability for the Future - Federal Government Commitment to Regular Tranches of New Defence Projects in Major and Minor Capital Acquisition.*** The *Federal Government* should provide and *commit to regular tranches of new defence projects that provide a reasonable rate of return* over the next decade to *give industry* and its *stakeholders the confidence to invest* in maintaining the *skills and industrial capability* needed to support the *Government's strategic Defence plans*.
 - a. The *Federal Government's Defence White Paper 2009* sets out plans to replace or modernise *every major ADF platform* and system over the *next twenty years*. The *procurement cycles* for those platforms and systems to be replaced in this *decade* are already *set in place* and offer *few new opportunities to maintain and grow* defence industry's capabilities. To deliver new platforms and systems beyond the *next decade* industry will need to *build and grow skills* in capability development, design, engineering, project management, assembly and systems integration – *workforces* with these skills can only be *maintained and grown* through *regular tranches* of new defence projects between *2011-2019*.
 - b. *Without regular tranches of new defence projects or long-term sustainment contracts*, resources will *continue to leave* defence industry for other sectors. When industry capability is *required*, these resources will be *committed to other work and not available* for the anticipated growth in defence requirements in the coming years.

- c. The Federal Government should *reinvigorate* the *Minor Capital Projects* to provide *opportunities for SMEs* to apply and further develop their capabilities, *skills* and *project management competence*. These projects *upskill industry* while *delivering real capability* to Defence meaning better *Value for Money* for the Defence dollar. These *SMEs*, and *staff*, are then available for both *Major Capital Equipment projects* and *sustainment contracts* boosting industry's *capability to support future Defence requirements*.
- d. Federal Government should *give formal recognition* to the defence *professional services industry* and *engage the sector* both in communications and *regular work* to maintain the *critical skills base* that is being lost to other industries. Many *professional contractors* have *significant defence and capability experience* which provide continuing and critical skills amongst the turbulence of movements in permanent Defence staff.

Promoting Investment through Reporting and Reliable Information

- 3. ***Successful Federal Government Programs can promote Investment in Australia's Defence Industry – Independent Reporting and Reliable Information is the Key.*** Global supply chains and exports *support but do not sustain* Australian defence industry capabilities *nor promote significant investment* by industry in future Australian defence requirements. *Industry* and its *stakeholders* need *evidence* and *clarity* to *support investment*.
 - a. Federal Government should provide a *yearly, independent and public report* on the performance, including financial results, of the *Global Supply Chain, Defence Export Unit, RPDE, Capability Technology Demonstrator and Minor Capital Projects programs*.
 - i. *Real success* in these initiatives will stand as *evidence* of the Federal Government's *commitment* to defence industry and *promote industry investment*, particularly for SMEs.
 - ii. *Criteria* for the review of these programs should be *agreed with industry* through the *Defence Industry Innovation Board*.
 - b. Industry needs *reliable Defence information* to plan investment for the future. The impact of the Global Financial Crisis combined with the increasingly high percentage of foreign-owned and listed parent companies operating in Australia, means that *reliable information* and *greater certainty* is *critical* to gaining approval for investment from *management boards, shareholders and investors*. This helps companies to plan, invest, retain staff and skills. Federal Government should provide industry with *clear messages* to increase industry's *confidence in Defence* :
 1. More *certainty*, and *earlier*, around both *Major and Minor defence projects*;
 2. More *planning, certainty* and *longer term contracts* for *sustainment work*, and
 3. More *certainty* and *communication* with industry on *1st/2nd Pass, project and tender timeframes and dates*.

Developing Partnerships for Early Industry Involvement

4. ***Real Defence + Industry Partnerships Breed Confidence, Investment and Capability – Get Industry Involved Early.*** *Defence projects are complex and avoiding problems means getting things right at the start - 80 per cent of problems with projects occur in the first 20 percent of the projects life. Real partnerships between Defence and industry early in the development of capability concepts and then through the lifecycle of systems can only lead to better capability, better technology and lower life-cycle costs.*
- a. *The focus by Federal Government on Value for Money and market-based competition in key capability areas means industry gets involved too late to bring the best and most cost-effective solution to the table. Early industry involvement can lower Defence risk and can be done in ways that maintain Value for Money objectives and market-based competition. Defence should work together with industry to find ways to promote early engagement.*
 - b. *Federal Government investment in shared development programs with international partners needs to ensure Australian industry involvement in development activities, not only manufacturing. Involvement in development programs is essential to maintaining and growing Australian industry capability – capability often required for in-country sustainment.*
 - c. *Early industry engagement in this first 20 percent can help clarify project feasibility, emerging technologies and robust cost estimates and allow industry to align business investment with Defence's plans. Early industry engagement should occur before formal approaches to market and include a willingness by Defence to build ongoing formal and informal relationships with industry. The Capability Development Advisory Forum (CDAF) and the Environment Working Groups should be used to achieve this early industry engagement.*

Encouraging Defence + Industry Relationships to Build Shared Understandings

5. ***Defence + Industry relationships and the exchange of information contribute to shared understandings – Creating Opportunities to Share.*** *There are real opportunities to create shared understandings through the use of secondments and the Defence+Industry conference. Making secondments a regular part of the relationship and assisting Defence project and capability staff to attend the Defence+Industry conference would promote shared understandings and exchanges of information.*
- i. *Real partnerships can occur through Defence + Industry staff secondments. Defence secondments to industry in recent years were welcome but ad hoc. Secondments are a way of both improving Defence's understanding of commercial practices and industry's awareness of Defence processes. Defence should work with industry to develop an annual program of secondments.*

- ii. The *Defence + Industry Conference* is about exchanging *ideas* and building professional *networks* between *Defence* and *industry*– the Conference should *return to Canberra in 2013 to maximize Defence capability and project staff attendance* and a *low cost registration* category be introduced for Australian *SMEs*. *Unique innovations* are found in Australian *SMEs* – *lower costs* will *encourage participation*.