



3 November, 2011

Senate Foreign Affairs, Defence and Trade Committees
Department of the Senate
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Parliament House
Canberra ACT 2600

Email: fadt.sen@aph.gov.au

Dear Committee Members,

Re: Procurement Procedures for Defence Capital Projects – Amended Terms of Reference (DMO effectiveness)

The AMWU made a submission to the Inquiry before the terms of reference were amended.¹ On 5 July, the terms of reference were amended to include:

- e. assess the effectiveness of the Defence Materiel Organisation including:
 - i. its role and functions,
 - ii. its processes, management structure and staffing, in particular as compared to similar organisations in the United Kingdom, the United States of America, Canada and other comparable jurisdictions and large Australian commercial enterprises,
 - iii. its full costs, assessed against the timeliness and quality of its output and the service it provides to the Australian Defence Force, and
 - iv. the extent to which it value-adds to national defence and to the long-term viability of Australian defence industries.

The AMWU would like to make the point that, irrespective of whether the functions and roles currently performed by the DMO are to be performed directly by Defence, there are some underlying issues which need to be addressed which impact significantly on national defence and the long-term viability of Australian defence industries.

As a sovereign state Australia needs to ask itself whether it wants to be able to have the capability to produce a substantial, if not all, the necessary military materiel large and small for use on land, in air and on and in sea to defend its sovereignty. Or is Australia to be continually reliant on other nations to provide the equipment, resources and know how?

If contracts continually go overseas there is bound to be a negative impact on our ability and capacity to produce and to maintain the equipment our armed forces use and depend upon. Not enough foresight and consideration has gone into what the ramifications of Defence purchases of 'off the shelf' military technology will have on our long-term military capability and viability.

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¹ <https://senate.aph.gov.au/submissions/committees/viewdocument.aspx?id=2e3e1e11-c368-42d6-a448-fb03dd9f6bb1>
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Too much of the focus of the reports has gone into managerial and bureaucratic accountability and not enough has gone into the technological skills requirement of personnel who will be necessary to maintain the equipment and resources. Long-term planning requires more than a fixation with purchase price and commercial contract wrangling. The issue is wider than Defence alone, but service personnel at the sharp end will more acutely feel the ramifications than the civilian population. Although undeniably important, the focus has to move away from bureaucratic managerial systems.

The technology used by the military (although it is by no means confined to the armed services) is becoming evermore sophisticated. As it becomes so, the skills needed to maintain it are also advancing ever higher. Australia is in danger of losing the skills required to maintain and support the equipment which our armed forces use and are reliant upon. The rarer the skills become in the community the more highly sought after those who possess them will become (thereby increasing the costs), but there is a danger that they become so rare that they will not be effectively passed on such that not only will Australia be purchasing materiel from overseas we will purchasing maintenance contracts along with them, in effect the personnel, as we will not have the requisite skills in the Australian population to perform the tasks.

The Rizzo Report² identifies that outsourcing of maintenance has resulted in

a loss of professional skills within Navy and Defence Materiel Organisation (and possibly more broadly across Defence), an inability to internalise the knowledge of some critical components of our business, and in some cases greater cost. This has worked to the detriment of technical skills and competencies.

Whether it is the DMO, or Defence more generally, before new assets are purchased a comprehensive plan of asset management for the expected life of that asset should be undertaken that necessarily includes its maintenance and engineering requirements. Those requirements further include training and readily available sub-asset replacements (spare parts). If properly carried out, the expected life of an asset can be sustained and extended thereby producing greater efficiency, cost savings and at the same time providing on-demand availability and preparedness for when events or the needs arise.

Yours sincerely,

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NATIONAL PRÉSIDENT

² *Plan to Reform Support Ship Repair and Management Practices*, Annex B—Causal Factors Contributing to the Unavailability of the Navy's Two LPAs, 2011
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