

22 June 2011

Department of the Senate,
PO Box 6100,
Parliament House,
Canberra ACT 2600
(via Internet)



CC: The Hon Stephen Smith MP,
Minister for Defence (via email)

Dear Sir/Madam,

Subject: Senate Enquiry – Procurement Procedures for Defence Capital Projects

We have only recently been made aware of this enquiry, and whilst noting the closing date has already passed, we would seek to make a short submission.

Although not a Defence Supplier directly, we work behind the scenes with a lot of potential suppliers, and the Writer has been involved in a number of significant Defence tenders. We have also provided a previous submission to a Senate Enquiry on similar subjects.

We take the view that Defence Purchasing is fundamentally corrupt, in that under the guise of providing a formal structure with minimal risk to Defence, it facilitates involvement only by major companies which these days are almost exclusively overseas-controlled. In making these comments, I refer to contracts for defence related goods and services – not lawn-mowing and housekeeping services or the like that are traditionally used to bolster the appearance of a high Australian content in Defence purchases.

In reviewing the terms of Reference of the Enquiry, we would specially make the following comments:

- **Procurement Procedures Utilised:**

- Our previous Senate submission has covered the need to get End Users involved in selection of equipment, so that the DMO procurement process actually results in the selection of something Warfighters can use. We have seen little evidence of improvement in this area.
- Recent experience is that Defence has little understanding or interest in commercial considerations that must be taken into account by Tenderers. One specific example recently related to the JLTV.
 - *Simultaneously* DMO had 2 RFP's out which were effectively mutually exclusive:
 - LAND 121 PH4 01/09 Protected Mobility Vehicle – Light (PMV-L). This involved the development of a vehicle in Australia. Documentation of this RFQ even indicated that Defence had

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recently entered into an agreement to participate in the US JLTV program – a program that was a direct threat to the PMV-L

- RFQTS 4848, Overlander Phase 4 JLTV Comparative Study of Australian Design Rules (ADRs) with selected United States Vehicles Standards. This involved the importing of a PMV-L-like vehicle from the US
 - Sales to Defence is always a gamble – one can lose the contract, or the project can be cancelled after considerable funds and time have been expended by Industry (e.g.: Projects Waler and Mulgara) – but in this case, Industry was asked to gamble on two contracts, when they were mutually exclusive!
- **The Lesson** – Defence needs to understand that Industry does not have bottomless pockets, and after a few failed attempts resulting from issues outside Industry's control, companies will avoid Defence tendering, leaving the opportunities to larger companies (usually non-Australian ones) that can afford these losses.
 - The Government also needs to learn that Australian companies are not those that employ Australians – they are Australian-owned businesses. The likes of Raytheon, Boeing, and Lockheed Martin should not qualify as Australian companies in any form, and biasing Procurement towards them should be seen as reprehensible.
- **Enhancing Public Information**
 - Many smaller companies with the potential of supplying Defence use AusTender to oversee what tenders are released. At least with Defence tenders, this operation has a very poor reputation and performance. It is much more likely that we will hear of relevant tenders from our network of colleagues than from the official web service. Again, this biases the system towards larger organisations with dedicated defence marketing staff.
 - Austender also drops you off the list *without notice* if it perceives you haven't met its activity requirements. Who knows what tenders are missed because the software didn't send them to you despite being registered for them.
 - **The Lesson** – Fix Tenders Australia

In general, DMO and Defence personnel do not understand the commercial pressures on companies seeking to be Defence Suppliers. For example, during a briefing by the Colonel in charge of Project Overlander, it was explained that he would only accept equipment that was “in-service, well-proven, available off the shelf”. He did not understand that Industry translates that to mean “obsolete designs purchased overseas” which was the commercial reality.

Until DMO and Defence personnel understand that the best solutions do not necessarily come from overseas principals, Defence Procurement will not improve in this country.

The purchase of Nary vehicles for Special Forces is another example, which incidentally did not come to tender, and did not meet the Colonel's requirements because they were not in



service at the time. It seems it is okay to purchase off a drawing board if one does so from Lockheed Martin, but not from Australian suppliers.

Despite the fact that we have worked with over a dozen international military forces in regard to Special Forces vehicles, and lectured SAS and Commando personnel here on the subject, we have a better chance of working with overseas builders to produce these vehicles for Australia than we do of working with successful Australian tenderers. That situation is unacceptable for so many reasons.

Defence Procurement needs to look back to its old rules, embodying some encouragement for sourcing from Australia, enhancing Australian Industry, and providing the possibility of Defence exports.

It needs to take a pro-active role, and position itself as an attractive and feasible market for all potential suppliers.

Best Regards,

MOTIVEPOWER

per :

Lance Procter *

Director

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Attachments :Nil