

INQUIRY INTO A BIPARTISAN AUSTRALIAN DEFENCE AGREEMENT SUBMISSION BY RAYTHEON AUSTRALIA

**DEFENCE SUB-COMMITTEE OF THE JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

OCTOBER 2017

Document Identifier: Doc ID
Version: DOC Version
Date: 21 October 2014

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Insert Protective Marking CTM-GEN-P04

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1 INTRODUCTION

Taking the perspective of one of Australia's largest defence companies, this submission addresses issues around a potential bipartisan Australian defence agreement as the basis for, and funding of, Australian defence capability.

Australia's defence industry has a particular interest in the maintenance of business confidence to provide the necessary platform upon which to make sound, long term investment decisions. To this end, initiatives aimed at providing for greater certainty for capability funding by achieving bipartisanship are to be welcomed.

Such an outcome need not stifle public discussion and debate in the area of national security. Importantly, the inquiry's terms of reference makes clear that bipartisanship is being sort on 'Australian Defence capability' whereas issues of foreign relations and discussion of potential involvement in military operations do not attract express mention in the terms of reference.

The challenge for this inquiry is to identify those specific measures that will help generate such a grand bargain and to determine how such bipartisanship is to be formally articulated.

2 BACKGROUND

Raytheon Australia is one the nation's most capable defence companies with 1300 employees and locations in every mainland capital as well as numerous regional centres. The company is the sector's largest combat systems integrator employing 500 Australians in the design, integration and sustainment of the country's most complex naval combat systems on the Air Warfare Destroyer and Collins Class Submarine.

As combat system integrator for the Air Warfare Destroyer project where the company employs over 300 people, Raytheon Australia is committed to the future of naval shipbuilding in Australia. The company supports the Government's detailed series of projects under its Naval Shipbuilding Plan and welcomes the continuous nature of projects which allow for long term investment in the sector.

Raytheon Australia's direct commercial sales contracts also include significant roles in

- the integration of the Australian Defence Force's 5th generation test and training range at Woomera, SA;
- flight simulation training for the RAAF's Hornet and Superhornet fleets as well as off-aircraft maintenance of the Superhornet fleet;
- base operations at the Harold E Holt Naval Communications Station at Exmouth, WA;
- electronic warfare training services for the RAN; and
- providing the Integrated Communications Systems for the new replenishment ships.

Earlier this year, Raytheon Australia was also selected to participate in a single supplier limited request for tender for the Commonwealth's short range ground based air defence project. The company also has a particular interest in the future of the ADF's requirements for integrated air and missile defence.

Through Foreign Military Sales, Raytheon Company is a major supplier of precision weapons to the Australian Government.

Raytheon Australia recognises its obligation to grow indigenous industrial capability in Australia and has strong relationships with 1500 small to medium sized businesses. This includes a network of 500 combat system related suppliers.

As a major participant in the market for defence materiel Raytheon has a direct interest in public policy positions that will ensure greater certainty and predictability in the market. To this extent, responsible measures to encourage greater bipartisanship on capability funding would be welcomed.

3 THE BIPARTISAN AGREEMENT

3.1 A MUTUAL FUNDING COMMITMENT

It was the powerful former Secretary of the Department of Defence, the late Sir Arthur Tange, who said words to the effect that 'a strategy without dollars is not strategy.' However true this was of a Defence Department run by Tange over the course of the 1970's it is certainly true today in a portfolio which is even more highly dependent upon valuable and costly defence capability for the conduct of government policy.

This means that if a bipartisan defence agreement is to mean anything at all it must involve a shared commitment to a strong yet defined level of defence funding. Such a commitment could logically start with the funding outlined in the 2016 Defence White Paper.

The 2016 Defence White Paper and associated Integrated Investment Program outlined the nation's strategic challenges, the defence strategy to protect our security and the transformation in defence capabilities required to meet strategic defence objectives. Where the White Paper diverged from previous iterations was in presenting a new ten year funding model which aligned the plan's strategy, capability and resources.

In this regard, the 2016 White Paper was superior to previous White Papers.

It is only by shedding light on this funding model and publicly detailing year on year expenditures over the course of the decade that the Defence organisation can have sufficient confidence in funding to commit to its own long term planning. This was made clear in the White Paper. However, the same is true of defence industry. It is only by outlining long term, year on year funding for acquisition and sustainment that the private sector can have maximum confidence to invest in its own capabilities in the form of its people, infrastructure, tools and processes.

It is also important that funding for operations under the White Paper was not presented as part of these year on year figures. To have done otherwise would have cast doubt upon the reliability of the acquisition, sustainment and personnel related funding commitments as these areas would have to be offset in periods of high operational tempo if no additional funds were committed to the defence budget in such circumstances.

For the purposes of this inquiry, the virtue of the ten year funding model is that it provides a logical benchmark upon which political parties can align their own funding commitments through to the middle of the next decade. The fact that operational funding is not presented as part of this model is also convenient as it allows parties to reserve their political positions in relation to individual military engagements. This is entirely appropriate as it would not limit parties' ability to establish their own foreign policies.

Much has been made of the Government's 2013 election commitment to increase defence expenditure as a share of gross domestic product to two per cent in a decade and the White Paper announcement that this promise is to be delivered three years early. These actions have certainly renewed confidence in the defence industry after a period of budget deferrals and cuts and project cancellations. However, the more significant White Paper commitment came in the form of the undertaking not to adjust the ten year funding model on the basis of changes in Australia's GDP forecast. This had the effect of decoupling defence expenditure from GDP forecasts. In the circumstance where actual GDP has failed to keep pace with budget forecasts this has effectively made the two per cent of GDP spending target a floor and not a ceiling.

It is certainly foreseeable that defence spending may be closer to 2.5 per cent of GDP than it is to 2.0 per cent of GDP by the mid 2020's.

This is a desirable outcome for the provision of defence capability but would be due to a forecasting error rather than an action of firm government policymaking. What is required from both sides of politics is a more formal commitment to making two per cent a base level of funding which would not be reduced. This would ensure that Australia never again experiences the situation that occurred where almost \$20 billion in spending was taken out of the defence budget in the years between 2009 and 2012 with the impact that one in five defence industry workers were lost to the sector.

This cannot mean, however, that governments and the Defence organisation should be constrained from making decisions as to the particular timings of individual projects. Inevitably, there will be occasions when projects will need to be brought forward to address a particular threat facing the nation or its deployed forces. In such circumstances political consensus is desirable to support both the provision of the capability and the more difficult decision to adjust the timings of other projects.

To this extent it is important that the Integrated Investment Program is regarded by both sides of politics as a living document that can be evolved to address developing strategic threats facing Australia.

3.2 A COMMITMENT TO CAPABILITY

Together with a bipartisan commitment to an agreed minimum level of defence funding should be a similar political commitment to the capability plan those funds are intended to acquire for the Australian Defence Force.

One of the unfortunate consequences of the nature of political discourse is the almost exclusive focus on industrial considerations of individual projects rather than a proper examination of the capabilities those projects are intended to provide. The SEA1000 Future Submarine project is a very good example. Prior to the selection of an industry partner, public attention on the project was almost solely directed to the location of the construction activity rather than on the nature of the asset being selected or, indeed, what submarines do and why Australia needs a regionally superior submarine in the first place.

3.2.1 THE IMPACT OF POLITICAL ADVOCATES AND THE MEDIA

This situation is compounded when individual State Governments become involved in a political bidding war in an attempt to secure work for their respective State. The current LAND 400 competition is an obvious example where there is no rational conversation about the respective capabilities of the tenderers. Instead, there is simply a list of competing assertions about the number of jobs that can be created under particular bids. More often than not this is generated by politicians of all political stripes (both state and federal) as well as a parochial local media rather than by the defence companies themselves.

A very good example of how expectations can be unfairly raised by such hyperbole appeared in a Courier Mail editorial of 14 July 2017. In relation to the Rheinmetall bid the editor wrote the following:

"Likewise in Queensland, our mining investment boom has helped underwrite a burgeoning mining services sector spanning manufacturing, professional services and technology. The same economy-boosting shift can be achieved in the defence industry in Queensland if the state can secure the contract to build the army's next generation of combat reconnaissance vehicles via the \$5 billion Land 400 project."

To suggest that this phase of LAND 4000 could generate a boost for Queensland's economy as large as the mining sector is ridiculous in the extreme. Such exaggerated claims will inevitably raise false expectations for the potential impact of the project on the State's economy. This does a disservice not just to one but both tenderers under this phase of the project.

The effect of such extravagant claims may inevitably be disappointment on the part of local communities when their often false hopes are dashed by quite appropriate government decision making processes.

To avoid such outcomes the rent seeking behaviour of State Governments should be discouraged, and greater restraint displayed by individual politicians and media backing one bid over another.

3.2.2 ALLOW TENDERERS TO DISCUSS THEIR OFFERINGS

There also needs to be a greater focus provided on a discussion of capability.

One way to do this is to relax the ban that is imposed upon tenderers by the Defence Department from speaking publicly about the content of their tenders. There are obvious legitimate constraints in relation to the control of sensitive defence technologies, intellectual property issues and commercial matters that should be respected. Indeed, there are sound national interest reasons for doing so. For example, it is entirely appropriate that there be no disclosure of classified performance specifications of individual capabilities. To do otherwise could potentially compromise Australia's national security. However, beyond these types of issues, it is hard to find a suitable justification to limit a proper and open public discussion of issues a tenderer thinks appropriate to reveal about their bid.

This would serve to rebalance the public discussion in favour of capability.

In practice, tenderers occasionally breach their commitments not to divulge the contents of their bids but, invariably, no sanctions are imposed against them. In these cases, their competitors who play by the rules, simply have to grin and bear any disadvantage in the public arena that may occur as a consequence. Defence trade control laws already impose weighty sanctions in cases where breaches occur. These are more than sufficient to ensure that national security considerations are protected.

One reason why it is appropriate to encourage a capability focused conversation is to provide the public with a greater stake in the defence capabilities for which they are ultimately paying as taxpayers. Having a greater understanding of the need for individual capabilities and the benefits those capabilities provide would also provide for a greater community acceptance for the amount of taxpayers' funds that are being spent and tolerance for the time legitimately taken to acquire those capabilities.

In the case of Australia's submarine fleet it is certainly true to say that if Australians were more aware of the need for submarines and the highly capable nature of the Collins Class submarine in particular they would have been more tolerant of efforts on the part of successive governments to improve the capability and the submarine enterprise in general.

3.3 MEASURES TO ENCOURAGE BIPARTISANSHIP

3.3.1 MAINTAIN THE INTEGRITY OF THE INTEGRATED INVESTMENT PROGRAM

The best way to encourage a shared political position on defence capability is to ensure that transparency in the capability plan is maintained. One of the reasons why parliamentary committee deliberations get bogged down on these issues is that the level of understanding on the part of committee members of defence capability is often low. Maximum possible transparency

would lead to a more mature political discussion on capability and generate a more informed level of debate.

The release of the Integrated Investment Program along with the 2016 Defence White Paper was welcomed by industry. That the plan was backed by a clear commitment to specified levels of funding provided a new level of confidence for the sector. The document also provided a useful level of detail covering a decade long period to encourage business planning

As stated earlier, one of the tremendous features of the plan is that it is intended to be a living document. Indeed, the Program makes clear in its overview that it will be reviewed annually as part of the budget and that the Program will evolve in response to changes in Australia's strategic circumstances, including capability priorities and developments in technology.

The overview also states at page 11:

"To ensure that industry has access to current information, an online version will be periodically updated to reflect changes in the program. Defence proposes to further develop the content and the level of detail provided in the Integrated Investment Program."

The likelihood of bipartisanship in this area being achieved would be enhanced if these undertakings are delivered upon so as to provide a useful foundation for planning and discussion. It would also be valuable if evidence is provided that a ten year rolling wave of funding is being specified where an additional year of funding is added each year to always maintain a decade long funding commitment.

According to an article by Dr Mark Thomson of the Australian Strategic Policy Institute of 4 August 2017 on ASPI's "The Strategist" blog, the version of the written Program finally released on the website 16 months after the release of the White Paper presented no greater visibility of costs or schedules than the original document. However, in an addendum to the article, Defence advised that the current online version of the IIP is not the version that was promised in February 2016 and was still under development to be released when complete.

Releasing a regularly updated IIP would allow industry, parliamentarians and the public to understand how this living document is evolving in response to changing circumstances, priorities and technologies. At the political level this would certainly have the effect of providing more useful information to parliamentary committees and increase the available knowledge base for members and senators.

3.3.2 PROGRESS OF PROJECT CONSIDERATION BY GOVERNMENT

Another useful initiative would be the requirement to table in Parliament the progress of NSC consideration of individual projects. Each year the federal budget discloses those projects planned for first and second pass consideration yet there is no requirement to report to the Parliament on the success or otherwise of the Executive's timetable for consideration of those projects.

The reforms of the First Principles Review that have lifted the threshold for projects before they are attract NSC scrutiny have streamlined the process and the progress of project consideration has been lifted to a new standard. It is appropriate to now demand a more formal reporting mechanism of the process.

3.3.3 POLITICAL SCRUTINY OF DEFENCE INDUSTRY PERFORMANCE

Defence industry performance should not be exempt from scrutiny. In an environment where large sums of public money flow to industry to execute defence contracts it is entirely appropriate that there be some political oversight of company performance. The Department of Defence has an established practice of measuring company performance according to a scorecard process where success against benchmarks including cost, schedule and technical performance is assessed.

However, the impact of this measurement of past performance on source selection is doubtful and there is little evidence that the scorecards are even seen by anyone beyond the companies themselves and a limited group within the Defence Department.

At the very least the company scorecards should be made available to members of the Investment Committee within the Department whenever a major evaluation is being considered, along with the members of the National Security Committee when final selection decisions are taken. Further, there is a strong public interest that members of the Defence Sub Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade also be provided with the scorecards on a confidential basis to inform them on how the portfolio of defence projects are being executed by industry.

This would also serve to inform members of the Sub Committee of which members of industry are actually meeting their commitments to their Defence customers. This would help to demystify the performance of industry for political decision makers and lead to a more informed political discussion of the market. Given the commercial in confidence nature of the scorecards it would not be appropriate to make them more publicly available.

3.4 THE EXPRESSION OF BIPARTISANSHIP

The challenge for this inquiry is to identify how a bipartisan defence agreement may be expressed. If there was sufficient political will it is conceivable that such a grand bargain may involve a public commitment to an agreed set of principles. These may include a commitment to:

- The 2016 Defence White Paper's ten year funding model;
- Making the two per cent of GDP funding target a floor and not a ceiling;
- The investment plan identified in the White Paper including a willingness to publicly explain the purpose and benefits of capabilities contained in the plan;
- Increase the transparency of selection processes in the interests of a better public understanding; and to
- Exercise restraint in the political advocacy for individual bids on projects.

It is apparent, however, that there is no political groundswell that would encourage such an agreement, nor is there any discernible political will to strike such a bargain.

To suggest that such a bargain could or would be struck perhaps displays a level of naivety of the nature of political discussion. Having said that there is considerable merit in having all political parties at least consider the principles outlined above and to take whatever steps are appropriate to better inform the Parliament and the public on the way Australia's defence procurement process works and the nature of the capability being acquired for the Australian Defence Force.

4 CONCLUSION

This submission has sought to examine issues around the Committee's terms of reference for this inquiry.

Raytheon Australia is a major participant in the local market for defence materiel and the company has a direct interest in those public policy positions that will encourage greater confidence and certainty for the sector. The Committee is to be commended for its efforts to encourage greater bipartisanship in the area of capability acquisition and sustainment and Raytheon wishes the Committee well for its deliberations on these issues.