Defence White Paper 2015  
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DEFENCE TEAMING CENTRE SUBMISSION TO THE DEFENCE WHITE PAPER 2015

The Defence Teaming Centre Incorporated (DTC) is South Australia’s defence industry association representing a membership base of in excess of 200 companies which are Australian-based Prime contractors, Small and Medium Enterprises (SMEs) and Professional Service Providers (PSPs) that are directly or indirectly engaged (or seeking to be engaged) in the supply, support and development of defence capabilities.

Any consideration of national security policy must be cognisant of the impact of defence industry on mitigating sovereign risk and preserving national security. With that in mind, the DTC has canvassed its membership and the broader national defence industry base to identify what they believe are the key issues requiring consideration in the drafting of the 2015 Defence White Paper.

From our engagement with Australia’s defence industry, we have identified the following overarching principles that characterise our nation’s industry:

- The key focus of the Australia’s defence industry is to ensure that the Australian Defence Force (ADF) has the best possible capabilities it requires to fulfil its obligations to the nation.
- Australia’s defence industry wishes to be recognised and respected for the significant role it plays in the development and delivery of ADF military capability and the preservation of the nation’s sovereignty.
- Contrary to the comments of certain Government Ministers, the Australian defence industry is not seeking handouts from the government in the form of job creation or make-work Defence projects. Rather, it asks that it be given the opportunity to compete for Defence projects on a level playing field.
- Further, any large government spend on defence projects should recognise the whole-of-life cost benefits to the nation of investing Australian taxpayers’ dollars into Australian based defence industries.
Australia’s defence industry would prefer to collaborate and partner with the Government and Defence along with performance measures to demonstrate accountability rather than be the subject of media campaigns discrediting industry capability to support offshore acquisitions.

Reflecting the concerns of Australia’s defence industry, the DTC requests that the following issues be addressed in the 2015 White Paper:

- **Define Australia’s Defence Industry.** The breadth and scope of Australia’s defence industry is not well understood because it is ill-defined. Without formal definition the industry’s capabilities and capacities cannot be fully comprehended or appreciated. It also limits the capacity to determine and measure the impact of defence industry on decisions related to Defence capabilities. The DTC proposes the following definition for inclusion in all future Defence policies and doctrine:

  *Australia’s defence industry consists of Australian-based businesses that are actually or potentially involved in supplying military capability and/or are influenced by defence business policies or purchasing decisions.*

- **Recognise Defence Industry as a Fundamental Input to Capability.** Consistent with the proposed definition, Government should recognise that industry contributes significantly to and underpins all of Defence’s Fundamental Inputs to Capability (FIC), not just the Major Systems FIC which has been the traditional area of focus for defence industry policy. To this end, the DTC believes that defence industry should be considered to be the ninth Defence FIC. The outcome of this should be the inclusion and consideration of industry in the FIC analysis for all Defence capability decisions.

- **Engage in Long-Term Strategic Planning.** There has been a loss of industry confidence which has curtailed investment and growth due to the unfortunate peaks and troughs of Defence projects, the changing and cancelling of projects and a discontinuation of acquisition plans by successive governments.

  Defence projects are complex and skills intensive. They are expensive to ramp up and down. Uncertainty limits investment in capital technology which in turn limits productivity. A clear plan and bipartisan budget process will bring confidence, allowing industry to invest in improved capability and productivity given greater certainty.

  A viable and sustainable defence industry is predicated on a reliable and continuous flow of work resultant from a long-term, strategic defence acquisition plan that industry trusts and will invest against. Long-term commitment from Governments and investment by industry fosters innovation and develops efficiencies which will assist an indigenous defence industry to be competitive in the global marketplace.

  Good examples are the Danish Government’s defence agreement which sees all parties of Parliament agreeing to a binding, five year plan that is, in effect, a combination of their Defence White Paper, Capability Plan and Industry Policy
Statement\(^1\). This is a plan which the Danish defence industry can commit to and can take to the bank.

Canada has a highly effective National Shipbuilding Procurement Strategy (NSPS)\(^2\). The NSPS provides a 30 year commitment by the Canadian Government to build Government ships in Canada. This in turn provides 15,000 long-term jobs and generates $2 billion annually for the Canadian economy.

These countries developed their plans in the realisation that, by taking a long-term perspective, a government can better appreciate the value for money and return on investment of partnering with and committing to its national industrial base.

DTC members ask that Government consideration be given to developing long-term Defence acquisition and sustainment plans that are cognisant of the nation’s needs and the holistic whole-of-life benefit to the nation.

- **Focus on Engaging Industry with Performance Based Contracts Not Trying to Manage Projects.** Performance Based Contracting (PBC) requires long-term planning with regular productivity/efficiency improvement goals. The quid-pro-quo for industry is that long-term commitment encourages it to be more willing to invest and innovate to achieve these goals.

The Hawk Lead-In Fighter is a good example, where BAE Systems Australia invested in LEAN and reliability centred maintenance capabilities under the PBC.

Another good example of the success of a PBC is the transformation of the Collins Submarine Maintenance Program to a PBC after the Coles Review. The PBC process developed the value stream to provide clarity of roles and responsibilities. The reallocation of DMO and Navy tasks to industry, such as the supply chain, has had a dramatic improvement in material availability. The Collaborative Enterprise Team and governance framework established to manage platform capability optimises resources and provide a long term plan for industry. The alignment between Navy’s requirements to DMO which is subsequently mirrored in ASC’s contract has greatly enhanced platform availability. In summary, these changes have demonstrated a significant improvement in performance which has seen the Minister for Defence echoing the accolades of John Coles in describing the transformation as “remarkable” and “outstanding”.

Transitioning to PBCs will reduce the requirement for Defence to undertake duplicative project management practices allowing it to have more of a focus on managing the contracts. This will lead to a focus on governance and accountability resulting in a significant reduction of functions within Defence and consequent savings to the Defence budget.

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• **Ensure Technology Transfers and Access to Intellectual Property for Offshore Acquisitions.** When Government is compelled to go offshore to acquire Defence capabilities it must insist on the transfer of associated technologies and ownership, or at least full licence rights to use, Intellectual Property. This will ensure Australia’s defence industry is able to provide maximum in-country support through the whole-of-life maintenance, upgrades and overhauls.

• **Assess Value for Money from a National Perspective.** Industry agrees that Defence acquisition decisions should be made on the basis of Defence needs. However, in consideration of the “value for money” of defence spend, must be considered in the context of the holistic whole-of-life benefit to the nation.

This philosophy should recognise the longer-term social, economic and security benefits to the nation of investing Australian taxpayers’ dollars in Australian industry, as opposed to purchasing equipment overseas at a low initial cost while paying a premium for modifications and/or ongoing maintenance with no economic benefit to the nation.

This would see a greater focus on recognising the complete benefits to the nation of the acquisition and sustainment of Defence capabilities through a national indigenous defence industry capability and would ensure consideration is given to:

- maximising the return of Australian taxpayers’ dollars to the Australian economy,
- assuring the security of our nation,
- growing innovation and inspiring our future workforce,
- enhancing technology transfers,
- growing intellectual property, and
- sustaining a nation’s inventive and competitive industrial capability.

The Australian Government would do well to consider adopting the philosophy and findings of the recently published New Zealand Ministry of Defence paper on Optimising New Zealand Industry Involvement in the New Zealand Defence Sector.³

• **Address the Impact of Foreign Offsets on Australia.** The Government must address the issue of the impact of foreign offsets on Australian Defence acquisitions and the economy.

The 2010 Defence Industry Policy Statement stated that the Government recognised the impact foreign offsets have on Australia’s defence industry. It then declared that “offsets don’t work” based on a questionable argument around the F/A 18 acquisition project⁴.

In saying that ‘offsets don’t work’ the Australian Government stands alone in not valuing or preserving its national defence industry capability and its importance to Australia’s security. If offsets don’t work, why do most other countries in the world apply them?


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Foreign offsets are a significant barrier to Australian industry being able to compete in the global defence industry marketplace. The knock-on effect of offsets is that offshore manufacturers pass on the additional costs associated with servicing those requirements in their price structures. This means Australia pays a premium on its offshore acquisitions to accommodate other nation’s offset requirements.

The issue is compounded when Australian industry is discriminated against because Australia doesn’t have offsets. If an offshore manufacturer has a choice between sourcing products from Australia or a country which has offset obligations, the manufacturer will favour the country with offset obligations before it will source from Australia.

- **Government Support of Australia’s Defence Industry.** The first question a foreign company asks an Australian defence industry company when it is considering importing their products is: ‘Does your Defence Force use your products’? If the answer is no, the sale is generally lost.

A nation’s defence industry must have global credibility, to be considered for exports. It is difficult to generate that credibility when the Government does not support the industry.

Defence industry’s capacity to generate global credibility is also greatly reduced when the Federal Government very publically denigrates and defames its own defence industry. Recent examples of this are the Minister for Defence’s description of the Air Warfare Destroyer (AWD) project as a “disgraceful mess” and a “bit of a skunk”5. More recently the Prime Minister stated that an Australian built future submarine risked being “sub-standard”6.

The Government’s recent pronouncement that “industry exists to support defence, not defence supporting industry” suggesting a ‘master-servant’ or ‘hand-out’ relationship is equally unhelpful. Industry would prefer to partner with Government and Defence in a mature and collegiate manner rather than what is perceived as the Government’s current confrontational approach.

- **Always Conduct Open and Transparent Competitive Tendering.** The Government has embraced competition and the market as the most efficient and cost effective way of acquiring capability for the ADF. Defence should be compelled to engage in open and transparent competitive tendering practices that ensure consideration of the holistic whole-of-life benefit to the nation. In this case open means unrestricted, not revealing classified information.

It is accepted that there will be a limited number of projects that will need to be sole-sourced or subjected to limited tenure. On these occasions an independent review should be conducted to validate the business case for sole-sourcing or going to limited tenure.

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• **Conduct Independent Reviews of Tender Evaluations.** Industry frequently gets mixed and confusing messages in tender debriefs and feedback. A simple example of this was the recent Rossi Boots issue in which the company was advised that it missed out on the contract on the basis of quality, whereas the Assistant Minister for Defence stated in parliament that Rossi had missed out solely on the basis of price.

Independent reviews should be conducted of all Defence tender evaluations to ensure that they have been conducted consistent with the specified requirements, are compliant with appropriate regulations and consider the holistic whole-of-life cost benefit to the nation. The results of those independent reviews should be made available to all tenderers at the conclusion of the tender evaluation process. This will promote openness and opportunity for improvement leading to greater competition.

• **Establish One Industry Division Led by a Defence Industry Ombudsman.** Defence lacks contemporary defence industry knowledge and experience. As a consequence, its engagement with industry is inconsistent and often confrontational.

To address this, it is recommended that the various and disparate industry engagement/liaison mediums within Defence be consolidated into one central Industry Division. This will create a true “one-stop-shop” for all industry initiatives and issues. It would drive a consistent approach to industry across Defence and ensure whole-of-Defence support from industry. To be successful, the Division should predominantly include personnel with defence industry experience.

The new Industry Division should be led by a three star equivalent Defence Industry Ombudsman with significant defence industry experience. He and his Division should be answerable directly to the CDF and Secretary with an open line of communications to the Minister for Defence. This is consistent with the recommendations of the Mortimer Review in relation to the appointment of a Defence Industry Advocate which the current Minister for Defence publically supported7.

• **The AWD Alliance – what went wrong?**
Australia’s defence industry has been unfairly subjected to extensive criticism which has discredited the industry and is now relied on, unfairly and naively to justify offshore acquisitions. Australia’s defence industry would prefer to collaborate and partner with the Government and Defence. To do so effectively, the industry seeks disclosure of the report produced by Dr White and Professor Winter regarding what went wrong with the AWD Alliance. Dr White’s evidence to the Senate Economics References Committee8 identifies technology transfer between cultures as a “great challenge” and a lesson which was not learnt for the AWD program. Whether the main issue with the AWD procurement was that the procurement was made on an alliance basis, that is the alliance model itself, but that Navantia was not an alliance party, has not been openly tested.


8 Hansard pp 25-32 Senate Economics References Committee 13 October 2014

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The Defence White Paper would benefit from an impartial overview and summary of the assessment by Dr White and Professor Winter of the cost, schedule and performance of the AWD program and the recommendations within it regarding national security benefits and long-term benefits to the program from the Australian shipbuilding industry.

Dr White’s evidence to the Senate Economics References Committee outlines the importance of competitive project definition studies in the context of the “…significant technical, commercial and capability gap risks involved by prematurely and unilaterally committing to a preferred, overseas sole-source supplier”.

Dr White observes that it should be in the Government’s interest to ensure and demonstrate that the best value for money is achieved in the future submarine project. Dr White states it is possible to get a fixed price with corporate guarantees from reputable designers and builders to build all submarines in Australia acknowledging though that a price comparison can only be achieved once a rigorous, competitive, nation-to-nation process is undertaken.

Dr White does not present more detail as to how this might best be achieved other than making some relevant remarks:

- competitive project definition studies involving potential suppliers including or in parallel to the preferred solution and development of fall-back options, should be part of established procurement practice,
- political support for the life of the project is important,
- overseas designs must be subjected to a detailed engineering review of design data by a rigorous experienced Australian shipbuilder prior to commencing build to ensure suitability for manufacture and construction in Australian facilities.

The following advice has been offered by a leading expert on Alliances: A pure alliance procurement model is probably best suited to the early stages of complex defence procurement, such as submarines and air warfare destroyers. Industry and Government should be proud of embracing the alliance model and making it work for the early phases of ‘whole of life’ procurement. An alliance approach helps to knit defence industry capability with Defence.

An alliance (established through a selective competitive Project Definition Study process) can produce and develop a design and design requirements to a level of certainty suitable for an open competitive tender to prime contractors.

Procurement by early engagement of a prime contractor carries significant unmanageable risks for the prime contractor which means those risks are, in the end, borne by Government. The unmanageable risks are principally Intellectual Property (IP) licensing and design; in particular, with regard to sovereign risk and government to government issues arising from procurement policies/export controls.

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9 Ms Joanne Staugas, Partner, Johnson Winter and Slattery 22 October 2014

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Government risks being ‘locked in’ to a prime contractor with subsequent significant issues in managing both IP and sovereign risk issues and the whole of life support cycle for the procurement.

A lack of transparency at the design stage impedes the Government’s ability to build its knowledge base and thereby manage the nation’s defence capability.

If the Commonwealth relinquishes control over IP licensing arrangements to a prime contractor, too early, it risks compromising transparency and collaboration with regard to IP and design. Other risks, such as cost and scheduling result from the uncertainties present at the early stages of procurement. Understandably, Contractors tend to ‘shut down’ information flows once a contract is awarded to better manage cost and program and protect hard won profit margins.

In an alliance arrangement budgets/costings and schedules/programs are project management tools used to develop a more certain cost profile and schedule to a stage where the procurement can be let on a competitive basis. Once the alliance has scoped the procurement so it can specify more certain project requirements and time and cost parameters, it can competitively tender the procurement with specified contractual pricing and scheduling. The cost and schedule are then contractually attainable and legally enforceable.

Whilst seemingly painful on the way through, better outcomes can be realised at an early stage meaning better risk management as projects progress to through life support. The prime contractor model generally shifts the pain to the end of the project which can encourage massive financial settlements.

It is interesting to note that there have been no reported legal challenges to alliance arrangements. ‘No disputes’ clauses are legally open to challenge as they attempt to oust the jurisdiction of the courts and are therefore subject to the potential criticism that they are against the public interest. However, alliance contracts have not been challenged in the courts.

This may be due, in a large part, to participants supporting the alliance principles of information sharing and collaboration and investing in the outcomes.

- **Resolve the Confusion Around Priority and Strategic Industry Capabilities.** As a fundamental part of Australia’s Defence strategy, the Government should conduct a first principles review of Priority Industry Capabilities (PICs) and Strategic Industry Capabilities (SICs) to redefine them as true strategic assets.

- **Greater Support of the Capability and Technology Demonstrator (CTD) Program.** Most CTDs do not make it to a fielded product due to the lack of support from the Australian customer. Industry makes significant investments to develop a technology to a Technical Readiness Level (TRL) 5 level. A lack of support from Defence for locally developed products is a disincentive for local industry to invest in product development through to TRL 7/8. Support from Defence as the domestic customer provides a strong case for other countries to consider Australian products. Nulka is a
• **Continue to Support Defence Industry Skills Initiatives.** Government should continue to invest in skilling in the defence industry, as investment in the defence industry is a cost-effective way to improve performance and creates an industry culture of best-practice. Care must be given to ensure that workforce strategies are geared not just to the current workforce, but to the workforce that will deliver on the future capabilities that are outlined in the White Paper- the “workforce after next” who will be supporting defence capability many years into the future. This includes continued support of strategies such as the Advanced Technology Schools Program and other defence initiatives aimed at fostering Science, Technology, Engineering and Mathematics (STEM).

In crafting the industry aspects of the Defence White Paper 2015, the nation’s defence industry simply asks that its concerns and issues be heard, understood and addressed, with the good faith intended to benefit the nation as a whole. Doubtless there will be those that counter with: ‘there is nothing wrong, we’ve always done business with industry this way’. It is recognised that many of the issues outlined in this submission are not new. Most are the result of lessons identified. As referenced in this submission, other nations look to have learned and found approaches to address these issues and have benefitted as a result.

The Defence White Paper 2015 provides an opportunity to transform the engagement between Government and Defence with Australia’s defence industry. If the issues outlined above can be addressed in the development of the 2015 Defence White Paper and the subsequent policies and procedures that will evolve, the alignment between Defence and industry will mature significantly and Australia will be the better for it.

We thank you on behalf of the nation’s defence industry for taking the time to consider the issues and concerns highlighted in this submission. If you have any queries regarding the submission, please contact me directly on 08 8260 8157 or chris.burns@dtc.org.au.

Yours sincerely,

*signed*

**Chris Burns, CSC**  
Chief Executive Officer