Confidence and Sovereignty in Defence Industry
By Simon Walter*

I, Simon Walter consent to the publication of my submission to the 2015 White Paper by Defence.

Executive Summary
Australia sits at a key and final juncture where the future of Australian naval design construction and support will be determined. Indeed action we take now, or fail to take, will fundamentally set the future course for the broader manufacturing and advanced engineering in Australia. If we do not act now to create an Australian based and owned prime contractor we will be forever subject to the control of international prime contractors for a sovereign capability, AND we will forgo a massive opportunity to circulate economic benefits through our economy for the next 50 years.

This paper suggests that we have the key things that are required for an Australian based Prime. Most countries do not have these characteristics, ones that we can foster, and build upon for the future. At the same time however, we are missing critical elements that are also required. Namely the vision to create this domestic enterprise, the national confidence, and the leadership to take us there.

Australian business can do sophisticated finance and long term investment, we have a demanding local and strategically different customer, we have the technical building blocks, and critically, we have the rare and inimitable hard won engineering knowhow.

Our difficult experience in Collins development is not unusual in such projects, especially considering where we started and the mistakes we made. Version 1 of most projects are rarely successful. We should exploit the lessons learned on that program and evolve to a new level of industrial capacity.

Too many strategically important capabilities are now only available to us through international primes, so we are subject to the one way flow of Australian tax dollars to their shareholders from the start of acquisition to the end of life. Submarines and ship building do not have to go the same way if we determine that we will build a future for this country that includes industrial capability and value creation. Finally, the unique working culture of Australian engineers is a frequently under estimated advantage.

Now is the time to commit to a future for Australian submarine and ship building that has at its heart an Australian prime contractor.

The Requirement
We need a strong defence industry to support new platform acquisition, repair and overhaul through life. The investments are large and long term, so we should evaluate industry policy in terms of the broad economic impacts of those domestic activities, and their export opportunities have for our economy over the long term. Strong leadership is required to forge links between industry, government, and the ADF, such that it is possible to strike the correct balance that includes the best military capability AND a local ongoing vibrant defence industry.

Growth in the complexity of platforms, and capability demands of systems has seen Australian industry necessarily exit many areas of capability. We can’t get these back, and we now know that we will forever pay international primes for access to those capabilities, with minimal bargaining power.

There are many issues and potential solution in the margins, but one fundamental issues stands out. Australia suffers from a lack of Defence industry capability in the shape of a locally owned and managed prime Contractor.
The Prime Contractor

All capability solution creation, integration, and support is set in motion and performed by the Prime. As a result they capture a large part of the value, and have a major impact on the supply chain that supports them.

We should remember that the role of international primes in Australia is to extract Australian tax dollars and maximise the returns to their international owners. So we MUST remember that they - and their related parties- will tell us that we cannot achieve such big domestic goals. They will be very nice about it, and will use lots of convincing evidence, but “they would say that”, their interests are not those of “Australia Inc.”

We have the opportunity now to create an Australian Prime in the global world of Submarine and ship design and construction.

We have the following key elements:

- We have base domestic industrial capability upon which to build,
- We have a sophisticated end user and customer,
- We are about to make a massive investment in future new capability,
- We have unique requirements that can bring us to an evolved solution that will be competitive in the global market,
- We have high end financial and investment markets that need new options to diversify investments for the long term, and
- We have a world class engineering culture.

What we lack is:

- A coherent vision of where we could be 20-50 years from now in terms of indigenous capability in Submarine and related technology,
- A belief that it is possible, and the
- Leadership to articulate the possibility and drive forward to that goal.

We must build on ASC and keep it in Australian hands. It can be run by Australian management, we can choose partners for technologies we need to acquire, and we can build a position of strength.

If we do not act now with 50 year vision and commitment we will be left to continue the flow of money from this country, we will have no sovereignty over our own interests, and we will miss a final opportunity to keep the circulation of the massive money flows from the future submarine in Australia.

While we stay disorganised, and lack a long term plan, the international primes just wait for the opportunity to milk the system. Establishing an Australian prime will not be easy, but that doesn’t mean we shouldn’t do it, it is not a complex idea, it is easily explained, an understood by everyone.

The role of leadership is to set a path, make the commitment, and explain that we can achieve great things if we have the confidence, make the correct investment, and stay determined.

People will follow, indeed, people will be inspired. Engineers who trained in Australia will have a reason to stay or indeed come back, and future technical generations will have something to build towards. Our mining investment boom has tapered, and this country needs to create advanced manufacturers to drive economic productivity. Submarines can sit at the apex of that industrial ecosystem, and provide a sovereign long term capacity.
Confidence
Why do I think we can do this?

In Australia we frequently forget that a key attribute of success in engineering development is the determination to not give up when the going gets tough. We can do most things if we back ourselves. Take for example the challenges of the mining industry. We can finance the investment required to generate uncertain returns from mining operations. In some cases we need to dig for 5 years to reach the ore body, when we have no guarantee what final costs of mining will be, or indeed what the ore price will be in the future. We have the sophistication to build portfolios, to manage risk, to take the chances, and make major long term investments. These financiers take a view on long term needs, assess risk and commit to capture the value for their shareholders. While many may argue about the price of a resource 5 years from now, most can agree about the long term need for high end submarine capability. To date we have failed to make the requisite investments to secure Australian leadership of this capability.

Role of Leadership
We need to recognise the multi-generational connection required between defence and industry leadership. The ADF should not be forced to accept substandard equipment, but at the same time we need the maturity to not be sucked in by sophisticated sales promises and integrated campaigns from combined overseas military and industrials.

We need the confidence to stand up and believe we can achieve these long term benefits, and we should know that it may be expensive at the start, but we must continually remind all that in the long term we will see economic, strategic capability, and sovereignty benefits.

The generation that built the Sydney harbour bridge didn’t require that many lanes of traffic and rail when it opened, but they looked to the long term. The critical importance of that time horizon for decision making that has provided that critical infrastructure and the multi-generational contribution it has made in our economy.

It will be tough, it will be costly, that is the nature of this kind of work, but it is also why it uniquely locks in 50 year business cycles. No new programs internationally have been trouble free, look to F-35 Joint Strike Fighter, Eurofighter, Airbus 350, Boeing 787, Airbus-400M, all suffered cost, weight, schedule, and management challenge. This author was personally involved in these aerospace programs, to varying extents in their engineering design phases. It is the nature of development, and the optimistic project approval processes we end up with in budget constrained times. However, all programs recognised that they had to push forward. They don’t stop when it gets hard, they fire up, dig in and fight for a project outcome.

Australia’s Ability to Compete
I have seen Australian engineers working in these programs (for the betterment of international companies of course), and almost without exception our engineers “punched above their weight”. We need more collective self-belief and determination. We need a long term plan that all can commit to, and one which does not see us step away or start getting negative when the going gets tough. The engineering is often the hard part, and it is not just in the technical capability that we excel.

The working culture of the Australian engineer, is unique in my experience, and highly effective in large project delivery. I know that many Asian countries are searching for our creativity, and our adaptability, while the Americans and the Europeans struggle to understand each other and work
together. All this time expat Australians are today critical members of these teams. Many have left these shores, and have nothing to come back to, but they still call Australia home. These Australian engineers are “the tough that get going when the going gets tough”.

The engineering is the hard part, it is the kernel from where projects gain life. Why do the international car companies leave Australia, but leave their engineering departments here? Because they are world class, and hard to replicate. They know where their interests lie! The reason one takes the risk to launch and engineer a new project is to build an industry that generates long term revenues and large scale employment from the sales of its product. It is ironic that all the car sales revenues and employment from the Australian design work will accrue to their international ownerships. We will fail to exploit that value creation leverage that only design can provide.

Defence alone with its long term time lines, its strategic importance to sovereignty, and its application of technology, should be a key plank around which we built industry policy.

We don’t have to accept second rate for the ADF, indeed if we build the selected niches of capability in industry we will end up outcompeting international players due to our combination of an ability to innovate, build on lessons from the past, and harness our unique operational needs. This natural outcome can be achieved if we determine that it is what we want to do.

The Opportunity

If we do not step up now, we will be strategically weakened, our economy will lapse, exports will not emerge, and we will be left to “pay through the nose” to overseas primes as a non-sophisticated buyer with no leverage over capability or price.

We need to recognise our ability, not listen to those whose interests it is in to tell us we cannot achieve a domestic capability in Submarines, and lead the public and the media to a new positive view of industry in Australia.

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