

23 October 2014

AUSTRALIAN BUSINESS DEFENCE INDUSTRY

SUBMISSION TO DEFENCE FIRST PRINCIPLES REVIEW

PREAMBLE

This submission to the Defence First Principles Review is made by Australian Business Defence Industry (ABDI) in addition to the ABDI submission to the Defence White Paper (DWP) 2015. At its DWP 2015 submission ABDI advocated the need for a conceptual framework defence industry policy based on three “framing and guiding principles” (the external view) and three “industrial themes” (the internal view). The proposed framework is designed to provide a structure within which defence industry can grow over the longer term in a manner most aligned with the attainment of national strategic goals. The resultant local defence industry capabilities would therefore be most relevant to prevailing and emerging strategic circumstances.

The framing and guiding principles, and themes are:

Framing and Guiding Principles

- Strategic Alignment
- Indigenous Industry as a Capability
- Creation of the Current and Future Investment Environment

Industrial Themes

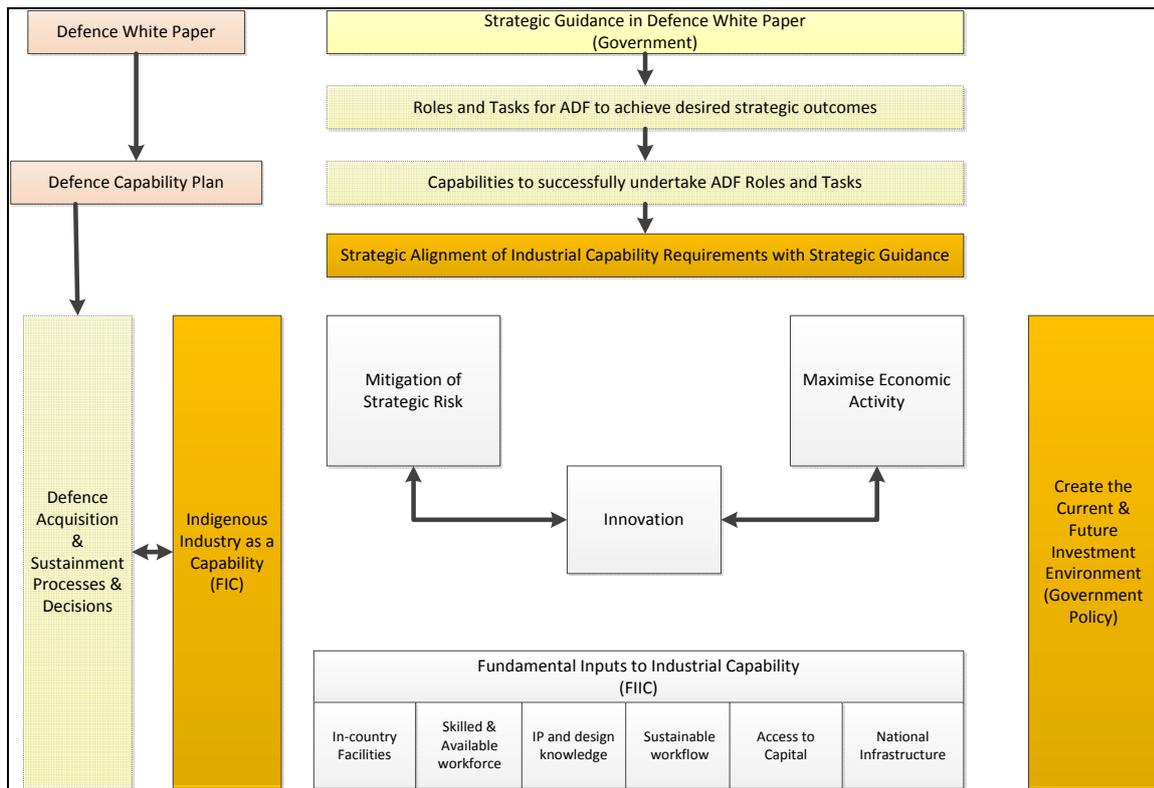
- Mitigation of Strategic Risks
- Maximise Domestic Economic Activity
- Innovation

In addition, in order to have relevance, the defence industry policy needs to be linked to real world activities through a number of Fundamental Inputs to Industrial Capability (FIIC).

These FIIC are:

- In-country facilities
- Skilled and Available Workforce
- Access to Intellectual Property and Design Information
- Sustainable workflow
- Access to Capital
- National Infrastructure

The conceptual framework is illustrated in the following diagram.



This submission continues the theme of strategic alignment between national strategy and defence industry policy and how this may manifest in the Department of Defence.

DEFENCE - INDUSTRY ENGAGEMENT

Defence –Industry engagement is a perennial topic, but little meaningful is done to the detriment of all parties. It could be strongly argued that the nature and utility of this engagement has receded in recent years as excessive concerns over probity have prevailed. Indeed, the one area where defence-industry engagement was useful, the public Defence Capability Plan (DCP), has been demeaned by Government and Departmental action/in-action to the point of ridicule.

Meaningful and early engagement is necessary for both parties. Engagement concerning the acquisition of capability typically occurs too late to be meaningful and consequently is reduced to industry seeking Defence information relating to pre-determined specifications and tender release plans. Engagement is required at the time that Needs are being considered. This very point was made in a 2011 article on European military - industry engagement by Claude-France Arnould, the Chief Executive of the European Defence Agency, when she wrote:

"There is a need for a better industry-government dialogue on a European level; only when industry fully understands what will be needed in the years ahead can it realistically assess what issues it will face. And government decision makers need to fully understand the industrial base consequences of defence choices."

The same critique could be made regarding Australian defence industry. Should meaningful Defence – Industry engagement take place at the Needs stage the benefits would be:

- For Industry – insight into early considerations by Defence, and hence be in a better position to make related investment decisions.
- For Defence – insight into technological and industrial trends and hence an early indicator on the feasibility and challenges of plans.

In order to be meaningful, Defence would need to share its early stage thinking on force structure and capability development in a non-partisan, non-solution environment. Whilst this latter point may be difficult to orchestrate and manage it is noteworthy that something similar has been achieved within the RPDE environment. Departmental concerns regarding the sensitivity and potential security considerations that are typically associated with the early stage thinking could be simply managed by restricting the engagement to suitably cleared personnel.

A further concern is the developing tendency of the Department of Defence (particularly the DMO) to engage primarily with the international Primes. This reduced scope for engagement may be appealing for administrative purposes but has the potential to limit the points of view being provided, reduce the ability of the Department to make decisions as an informed customer, and consequently reduce the efficacy of those decisions.

In the engagement envisaged above to consider the developing military Needs it would also be important that this is conducted as widely as possible and not be restricted to a small number of international Primes or other principal providers. Any such restriction would limit the utility of the information provided to Defence and potentially inhibit the ability of Defence to make the right decision.

ABDI recommends that:

1. The DCP be returned to being a believable and useful document – one that companies can “take to their bank manager”.
2. The probity constraints that currently exist be loosened to a setting that provides guidelines and protection for Defence officials whilst not inhibiting their ability to efficiently undertake their functions.

3. The trend towards selective engagement, principally with the Primes, be reversed and the widest possible engagement be sought in order to obtain the widest range of views and options.
4. The RPDE engagement model be considered for wider implementation across other areas of Defence as this is a model that actually seems to be working for mutual benefit.

DEFENCE - INDUSTRY RISK SHARING

Successive Governments and the Department of Defence have become progressively more risk averse, and have developed the view that all risk can be avoided by being transferred to industry. The current ASDEFCON templates are constructed with this in mind. This is a fallacy as Defence attempts to transfer risk will ultimately lead to higher contingency on the part of contractors, and hence higher prices to Defence.

A more pragmatic approach would see an element of risk sharing between Defence and its contractors.

A healthy and dynamic approach to innovation requires the acceptance of risk, and that projects may not proceed entirely to plan. Risk management, not risk transfer, is therefore critical. In a 2008 article in the Journal of Technology Management and Innovation the case is put that Risk Sharing Partnerships (RSP) “can reduce the duration of projects because it enables parallel work, diminishes rework, synchronizes deadlines and enhances the communication between suppliers and manufacturer”.¹

Similar benefits could be expected for Government through the prudent application of risk sharing.

As in the defence –industry engagement issues as discussed above, one size does not fit all. If a risk based view of defence industry capability were developed as advocated in the ABDI submission to DWP 2015, and as summarised in the preamble to this submission, the level of risk sharing could be based on where a particular industry sector sits of the “strategic risk curve”. This would therefore neatly tie together the concepts of strategic risk mitigation, strategic partnering and project risk appetite. It would also influence the way in which the Department of Defence engaged with the different sectors within industry.

¹ Figueiredo, P., Silveira, G. and Sbragia, R. (2008) Risk Sharing Partnerships with Suppliers: The Case of Embraer; Journal of Technology Management and Innovation; Volume 3, Issue 1; pp 27-37.

ABDI **recommends** that:

1. Defence adopt a more pragmatic approach to the handling of project risk, including the linking of risk appetite with the strategic importance of the particular defence industry capability under consideration.

REFORM OF DEFENCE INDUSTRY DIVISION

There is a pressing need to reform the Defence Industry Division that currently exists within the Defence Materiel Organisation (DMO). If, as suggested above there is a need to align industry policy with strategic policy, and for industry to be considered as a FIC, then is it a *non sequitur* for industry matters which are essentially strategic to be handled by an fundamentally transactional organisation.

Whilst arguments can be constructed for Defence Industry matters to be located within the Strategy Executive, or within Capability Development Group, ABDI believes that the realistic options are either completely external to the Department of Defence, or as a separate area. The latter of these options would allow Defence to implement a common approach to tendering, contracting and relationship management which would be a vast improvement on the somewhat disjointed situation that currently exists.

ABDI **recommends** that Defence Industry considerations be moved from the DMO and located either:

1. Within the Department of Industry; or
2. As a separate area within the Defence Department.