AUSTRALIAN INDUSTRY GROUP
DEFENCE COUNCIL

White Paper Briefing

Opportunities for Business

A Strategic Perspective

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AiG Defence Council

Before I get to the detail of the White Paper and Opportunities for Business, I'd like to pay a brief tribute to the Australian Industry Group and its Defence Council. For more than 25 years, it has been arguably the principal Australian industry voice on Defence matters, putting industry's views to Government, always thoughtfully, sometimes forcefully.

I've had the pleasure of being a member of the Defence Council's National Executive for almost 20 years, and I can tell you that it is uniquely a forum in which the CEO's of all Australia's major defence companies and specialist SMEs can debate industry's views on Defence policy at a strategic level and reach an informed consensus. It is also regularly used by Ministers and senior defence and DMO representatives to debate with industry as a group and test views in a secure Chatham House environment.

Without the AiG Defence Council, the Defence industry policy debate in Australia would be more fragmented and les effective. If you're not a member, join now, because we really are going through a key transitional period in terms of future opportunities.

White Papers Past and Present

Like all of us, I'm a prisoner of my own background, and as an industry strategist, I tend to view White Papers from a "Big Picture" industry perspective, and three White Papers stand out:

> **1976 – Defence of Australia**: This was arguably the first true defence policy statement to place Australia's self-reliant defence of the nation and its interests as the central theme. It post-dated Vietnam, and with no dominos falling in SE Asia, so we looked to our own backyard. However, industry policy was in a difficult transition – the simplistic past approach of licensed production of aircraft, ships and military vehicles in Australia was no longer feasible economically or technologically, and no coherently stated alternative had been developed.
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> **1987 – Nation Building**: Arguably the most strategic past White Paper of all, building on the self-reliance views espoused in the Dibb Report of 1986, and from an industry perspective putting in place a whole series of projects producing a re-invigorated local defence industry capable of "smart", targeted support for the ADF, enhancing the nation in terms of industry capability, technology, employment and economy. This is the period of Collins Submarine, Anzac Frigate, JORN, and many other initiatives.
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> **2009 – Grand Plan**: Probably the strategic tour-de-force of all the White Papers, with a twenty year horizon and a cogently argued assessment of our future environment leading through our strategic response to a defence policy, force structure and capability priorities. From an industry perspective, the same level of detail is not evident, but there is more to come.

I'll go into the industry aspects of the 2009 White Paper in a moment, but first would like to touch on the issues of industry planners of dealing with a series of Defence source documents which have different inherent timescales

Understanding the Defence Document Relationships

My apologies to the Defence industry professionals in the audience for this diversion, but 75% of the people attending today are not in the mainstream of defence industry and a quick summary of the key documents may be helpful to them.

White Paper – 20 year timescale: This is the longest term and most broadly based document, looking out a generation to predict our strategic environment and our response to it. It identifies capabilities in generic terms, with little detail of value or timescales, and talks of defence industry in terms of policy, not detailed practice. In future, it will be published every 5 years. This is the document we will discuss today.

Defence Capability Plan – 10 year timescale: Published every two years, the DCP provides a relatively detailed overview of every new major project (or new phases of existing projects) being considered within Defence to enhance ADF capability, but as yet unapproved. Produced by the Capability Development Executive with assistance from the Defence Materiel Organisations, it gives an informative overview of the type of capability, timescale, ROM value, phasing, and potential Australian industry involvement categories. Few other nations or industries get this depth of customer visibility on forthcoming needs. The 2009-2019 DCP is due out in August, and will answer many of industry's questions about the timing of new requirements included in the White Paper.

Defence Budget – 1 to 3 year timescale: Part of the overall commonwealth Budget process, this provides detailed expenditure expectations for the next financial year on current projects, projects expected to be approved in the forthcoming year, infrastructure, industry development, etc. It also provides general guidance out three years. This was published on 12 May. The Budget takes the probabilities of the DCP and turns them into near certainties (subject to approval).

Defence Industry Policy: This is an intermittent document, last published in 2007, and before that in 1998. It spells out in detail the Government's approach to Defence Industry. Some of the interface issues with DMO are covered in the Mortimer Report, but it is understood that Minister Fitzgibbon believes an update of the 2007 document is appropriate and is targeting a September release for the new DIP.

Looking at it another way, you get the following perspective on forward opportunities:

1 to 3 years: High visibility and high funding probability, from Budget and DCP.

3-10 years: Good visibility and moderate possibility, primarily from DCP

11-20 years: Indicative, based on White Paper.

The 2009 White Paper (and 83 Media Releases)

Another word of explanation – reading the 140 pages of the White Paper is not enough; accompanying it are 83 Media Releases, many of which contain useful amplifying material, and to fully understand the government's policy and implementation strategies, you need to read them all. In areas which I was reviewing for clients, such as Northern Australian Basing, Infrastructure, Logistics, SME Industry, and Unmanned Systems, almost invariably I found in Media Releases extra detail which helped quantify and timescale the general principles set out in the White Paper itself.

AiG's Views on the 2009 White Paper

In general, Australian industry welcomed the White Paper and the industry opportunities implicit in the $100 billion of expenditure, much of it on new equipment and its sustainment.

The Defence White Paper was described as "a new economic stimulus package" by Heather Ridout, Chief Executive Australian Industry Group.

"The Defence White Paper gives Australian defence companies the ability to plan for the future with more certainty which will be good for jobs and investment in skills, infrastructure and innovation," Heather Ridout said.

"The White Paper foreshadows expenditure of more than $100 billion over the next decade to improve the capacity of the Australian Defence Force (ADF) to meet an array of future security challenges.

"Australian-based defence companies have over many years developed world-class skills and technologies and this military upgrade offers substantial opportunities for them.

"For broader Australian industry the Defence blueprint is a major additional economic stimulus package. This long term spending commitment will make a big contribution across the Australian economy for businesses and employment in fields such as manufacturing, construction, engineering and ICT.

"Ai Group, and the Ai Group Defence Council which represents major defence contractors and defence SMEs in Australia, will be looking to the Federal Government to deliver on its earlier commitment for some 60 to 70 per cent of the new defence expenditure to occur within Australia.

"In this context, the Prime Minister's comments are most welcome. Australian based companies need to be given fair and open access to any new contracts," Heather Ridout said.

In addition, AiG Defence Council National Executive Chairman, Paul Johnson, said: "The White Paper is consistent with the direction in defence procurement called for by Australian industry and reflected in the Mortimer Review, including a much more commercial approach to capability acquisition and reforms to deliver improved procurement processes within Defence".

A Personal View of the White Paper

I agree with both Heather and Paul, but with qualifications. I certainly agree that this is a long sighted document which identifies many new capabilities and upgrades required for Defence and the ADF. These represent major opportunities if used innovatively by the Government to maximise benefits to Australia, broadly defined, as they were in 1987.

But at present, my caution is that while we see that "Defence will seek to maximise the spending in local defence industry", we also read "Defence should not pay a premium for local industry work unless the costs and risks of doing so are clearly defined and justifiable in terms of strategic benefits". This is not exactly an invitation to seek "nation building" opportunities or to treat the major defence expenditure commitment as "a new economic stimulus package". Recent history indicated the default is usually to conservatism when it comes to implementation of such policies.

Perhaps the forthcoming Defence Industry Policy Statement will strengthen the "seek to maximise" element of the industry equation.

An Overview of the White Paper from an Industry Perspective

Let me turn now to the White Paper and give you my view of how its strategic directions create opportunities for Australian Defence Industry.

Deferring and Defeating Attacks on Australia

The Government has decided that Defence should focus on developing a force that meets the primary obligation to deter and defeat attacks on Australia. This entails a fundamentally maritime strategy, for which Australia requires forces that can operate with decisive effect throughout the northern maritime and littoral approaches to Australia, and our military strategy will be principally by way of sea control and air superiority.

This leads to a force structure involving m Major surface combatants (destroyers and frigates), submarines and other naval capabilities, supported by air combat (for air superiority and maritime strike) and maritime surveillance and response assets.

As I will outline later, this leads to a requirement for a spectrum of new naval capabilities which provide the potential to keep our naval shipbuilding industry busy for at least twenty years. In that timescale, Australia will replace virtually all its current RAN assets.

Air Superiority

The directions of the RAAF have previously been well defined, and the White Paper confirms a requirement for air superiority, maritime strike, long-range strategic strike, offensive air support and close air support.

Most of these capabilities have already been identified, e.g. JSF, AEW&C, MRTT, and procurement is under way.

Land Forces

The concept of a Hardened, Networked and adaptive Army continues as the baseline, consisting of infantry, armour, artillery, combat engineers, and aviation which are able to operate as combined-arms teams, able to defeat incursions onto Australian territory and potentially undertake amphibious manoeuvre, and stabilisation and reconstruction operations in our immediate neighbourhood.

While the majority of the Army's armoured vehicles and air assets are already in service or in the procurement chain, there will be continuing opportunities to upgrade capabilities. There will also be significant opportunities in the networking of the Army (as well as the larger goal of networking the entire ADF) and in improving the equipment and support available to individual soldiers.

Information Superiority

Networking the ADF to achieve information superiority continues to increase in importance, and the Government's goal is "ISR capabilities, intelligence collection and assessment systems, space-based surveillance systems including intelligence collection satellites, cyber warfare, EW, strategic communications, and battlespace management and command support systems which constitute an information superiority capability. This is required to give our forces a winning edge in comprehensive situational awareness, rapid decision making, networked capabilities, and the precise application of force."

Industries operating in these fields have rich potential.

Two generic areas requiring remediation are addressed by the Government in the White Paper and provide opportunities for industry, including companies not necessarily part of the "traditional" Defence industry.

Remediating the Defence Enterprise Backbone

Approximately $6 billion will be spent over the next decade to address what the Government calls the "hollowness and degradation in the Defence enterprise backbone". The remediation will address deficiencies in critical areas such as storage and loading facilities at ports, technology upgrades for key Defence research facilities, vehicle maintenance facilities, airfields and training ranges, and fuel and weapons storage.

Remediating the Defence Information Environment

The Government has committed to the remediation of the Defence Information Environment and infrastructure. The Government will improve Defence's computer systems to deliver more integrated capabilities such as the automation of procurement, personnel and pay administration, vetting, recruitment, estate management and reporting will be progressively introduced.

Let me turn now to some of the specific opportunities for Australian Defence Industry.

Naval Shipbuilding

This is the major local industry beneficiary from the strengthening of our policy of defending Australia and its approaches. Let's run through some of the intended capabilities:

Air Warfare Destroyers: three already approved, and a fourth back in prospect, and a SA based project with ASC leading the way and some world class SA major subcontractors as well. But if you're not already active on the project, you're close to too late, so be quick. Don't just think of this as a ship construction program. Look at the electronics (the DCP says 60% of a modern warship is systems) and the software. That brings Lockheed Martin (Aegis) and Raytheon (System Integrator) into play.

Amphibious Ships: two on order, and most of the metalwork coming from overseas, so it's small quantity and soon. BAE Systems in Melbourne is the lead. There isn't the value of electronic systems in the vessel, but it has masses of handling equipment for landing craft, helicopters, military vehicles, and support infrastructure to embark large numbers of troops. The size of these ships (27,000 tonnes) means that there will be major upgrades of ship to shore infrastructure around Australia, including specifically Darwin and Townsville, so if you're in civil engineering or construction, here's an opportunity.

Heavy Landing Craft: This is a subset of the Amphibious Ship project which has just received First Pass Approval and is a less challenging technology mix, so new players with maritime skills might talk to Navantia which is the designated prime (?).

Future Submarines: There are going to be 12 new submarines, and it "will be a major design and construction program, spanning three decades". It will be SA based, and ASC will be the hottest of favourites, but has not been designated (yet). We will need to wait for the DCP to get timescales, but 2020 could be a first estimate of Initial Operational Capability, so not much in the order books in the near future.

Future Frigates: Navy will also acquire eight new Future Frigates, larger than Anzac, and intended to replace Anzac. Another major project, assuming local construction, but no timescale yet, and Anzac is nowhere near the end of its life, so another long term prospect, not an immediate money spinner.

Strategic Sealift Ship: Navy will get a new Strategic Sealift ship (10,000 to 15,000 tonnes) based on a proven design to strengthen the Navy's amphibious and transport capability. No timescale specified yet.

Logistic Support Ship: Navy will replace its older supply ship, HMAS *Success*, with a new replenishment and logistic support ship which will enter service at the end of the next decade.

Offshore Combatant Vessels: This is an intriguing project. Navy has started studies which may lead to the purchase of around 20 new 2,000 tonne multirole vessels to replace the Armidale Patrol Boars, minehunters, hydrographic and oceanographic ships. If this can be made to work it will be a great opportunity for local production. But it's long term – Armidale has really only just reached full service numbers, and there are some cost/benefit issues – why replace a 270 tonne Armidale with a 2,000 tonne ship (over half the size of Anzac)?

Don't let me put you off by talking about the long term nature of some of these projects. There are a lot of projects, and when the DCP is out, it will show how they might complement each other in timescale and form the basis for sustained local industry activity. Is the Naval Shipbuilding Sector Plan about to re-emerge?

Aerospace Projects

Again, a plethora of projects, most involving relatively small quantities which make local participation in the procurement phase a challenge unless your join a Global Supply Chain as on JSF (F.35)

RAAF

The decisions re Air Force are:

JSF: 100 F.35 JSF will be procured, with three squadrons totalling 72 aircraft initially, and the remainder after the F/A.18F Super Hornet is withdrawn from service. Global Supply Chain activity has been under way for several years.

Super Hornet: 24 F/A.18F Super Hornet, of which 12 will be fitted to be capable of the EA-18G Growler electronic attack role, delivery starting 2010. Little Australian involvement evident.

Multi-mission Maritime Aircraft: Eight P.8 Poseidon maritime patrol aircraft about 2015. Defence is involved in the early project phases, but not yet industry.

Multirole Unmanned Air Vehicle System: Up to seven large, high altitude, long endurance UAVs for maritime and overland surveillance, about 2020. The possibility still exists of Australian industry doing a common ground mission support system for both P.8 and the MUAS.

More Hercules: Two additional C.130J Hercules will be acquired and the older C.130H will be retired. (Air 8000 Phase 1)

Battlefield Airlifter: Up to ten light tactical Battlefield Airlifters for intra-theatre Army transport (C.27J size) to replace Caribou. Due for First Pass Approval this year.

Army Air

The new decisions re Army Aviation are:

Heavy Lift Helicopters: Acquisition of seven CH-47F heavy lift helicopters to replace the current six CH-47D. Near term purchase.

The Tiger ARH, Utility MRH-90 helicopter and Tactical UAV programs will continue.

Navy Air

The new projects are:

ASW Helicopter: A fleet of at least 24 new naval combat (ASW) helicopters, equipped with dipping sonars to detect submarines at greater ranges. Due for first pass approval this year, and an enthusiastic competition will follow, probably with Lockheed Martin and Eurocopter as the main rivals.

Utility Helicopters: Six new MRH-90 helicopters (already on order) that will replace the general utility service previously provided by the Sea King fleet. Australian Aerospace is already assembling these in Brisbane.

UAV : (unspecified) to operate from the new Frigates.

Land Systems

Much of the new equipment mentioned in the White Paper is already announced, and some is already being procured.

New Combat Vehicle System: A new Combat Vehicle System which will provide around 1100 vehicles with greatly improved firepower, protection and mobility. The System will replace armoured personnel carriers, mobility vehicles and other combat vehicles.

Land 121 Vehicles & Trailers: Around 7000 support vehicles to completely replace the various fleets of wheeled transport and logistic support vehicles and trucks. Much of this is already tendered, and some is being retendered.

Land 75 Battlefield Command Support system: Greatly improved communications and command and control systems for land forces. Some of this is already in the final decision phase in conjunction with Land 125.

Land 17 Enhanced firepower: through new artillery, both self-propelled and towed, as well as replacement mortars and a new direct fire antiarmour weapon;

Land 125: Continued investment in increasing the effectiveness and protection offered to individual soldiers in dismounted close combat.

In addition to these major projects, there will be a continuing flow of upgrades and update activities on existing military vehicles, as well as sustainment opportunities. The White Paper says little about these.

Let me turn away from DMO and Major Projects and look at some of the less obvious areas for Australian industry involvement which flow from White Paper strategies, starting with some major opportunities for those of you in ICT.

Networking the ADF

The Government has confirmed that Defence will build a networked ADF by progressively delivering networked maritime, land, air and Intelligence, Surveillance and Reconnaissance (ISR) domains.

In order to meet these goals, the Government has decided that Defence will put in place the Information Communication and Technology (ICT) infrastructure, information tools, command support, battlespace management systems as well as relevant joint training programs necessary to provide a reliable battlespace network across the entire Australian Defence Force, which will continue to evolve and mature in subsequent years.

Defence will release a 2009 Roadmap that will articulate the steps to be taken in transitioning the Australian Defence Force to the networked force. These steps will go beyond technical network initiatives to "embrace the cultural, procedural and training enhancements needed to transform the Australian Defence Force into a balanced, networked and deployable force".

Remediating the Defence Information Environment

More ICT - the Government is committed to the remediation of the Defence Information Environment and infrastructure. The Government will improve Defence's computer systems to deliver a more integrated payroll and personnel management capability and a more holistic end-to-end estate management approach. New capabilities such as the automation of procurement, personnel and pay administration, vetting, recruitment, estate management and reporting will be progressively introduced.

Remediating the Defence Enterprise Backbone

Finally, approximately $6 billion will be spent over the next decade to address hollowness and degradation in the Defence enterprise 'backbone'. This commitment will address under-funding of support areas and modernise Defence's systems to bring them up to contemporary commercial standards. This will include the remediation of the ageing Department's Information and Communication Technology (ICT) infrastructure. "The Defence backbone has suffered decades of neglect and underinvestment. The remediation will address deficiencies in critical areas such as storage and loading facilities at ports, technology upgrades for key Defence research facilities, vehicle maintenance facilities, airfields and training ranges, and fuel and weapons storage.

What a shopping list for local industry.

Cyber Security

At the black end of ICT, is the new area of Cyber Security – not even mentioned in the previous White Paper in 2000. "The Government has decided to invest in a major enhancement of Defence's cyber warfare capability. A comprehensive range of expanded and new capabilities will maximise Australia's strategic capacity and reach in this field. Many of these capabilities remain highly classified, but in outline they consist of a much-enhanced cyber situational awareness and incident response capability, and the establishment of a Cyber Security Operations Centre to coordinate responses to incidents in cyberspace".

Resource Optimisation

I know we have at least two SA companies with international reputations in the field of resource optimisation software, and they must be delighted by the decision to improve the management of ADF preparedness.

The Government has committed to improve Defence's preparedness management arrangements to ensure a better alignment between strategic guidance, preparedness goals and Australian Defence Force activity levels. One illustration given is reforms to optimise the resources available for frontline activities by allowing Defence to control fuel and consumable use within Defence

The preparedness management reforms will include the development of a comprehensive preparedness decision support capability, to allow Defence leaders to know the cost of their decisions and refinement of the preparedness management system, to ensure Defence resources are focused on the tasks needed by Government.

This sounds suspiciously similar to optimisation tasks undertaken by commercial companies with major logistics activities.

Defence Logistics Consolidation

For those in the logistics business, the Government has announced that it will make a significant investment to replace outdated warehousing facilities, and consolidate Defence's 24 wholesale warehouse and distribution sites to seven. The future Defence storage and distribution network will be streamlined to closely align with Australia's transport network with the seven major sites being located at Darwin, Townsville, Amberley, Bandiana, Edinburgh, Perth and Moorebank, and supported by seven specialist logistics units.

Again, this sounds like something that is parallel to best practice in commercial industry.

What is going to happen from here?

In the short term there will be intense activity to catch up on project approvals delayed by the White Paper preparation. A senior Defence person said to me that, now the White Paper is out, "the floodgates will open" in terms of new project approvals. The 2009-10 Budget listed 28 projects likely to go to the National Security Committee of Cabinet for approval in financial year 2009-10. Almost half will be for final approval (Second Pass) and the rest for approval to issue RFTs(First Pass).

The issue of the 2009-2019 Defence Capability Plan will give us all a better indication of priorities and timings across all the project being considered for the next decade.

If there is a new Defence Industry Policy later this year, it will provide updated guidelines for Australian industry participation in acquisition, infrastructure and sustainment projects.

Quite a mix for us all to take from opportunity to reality.

Thank you.