

# AUSTRALIAN INDUSTRY GROUP DARWIN BRIEFING

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21 September 2010

# Changing Times

- ▣ We have a whole series of changes confronting Defence Industry:
  - New Ministers
  - New Defence Industry Policy
  - New DMO Commercial Structure
  - New PICs and SICs
  - Changed approach to Public DCP
  - New Support Mechanisms
- ▣ Continuing change is inevitable.
- ▣ How do we manage it?
- ▣ How do we benefit from it?

# New Ministers

- ▣ Clean sweep (except Snowden returning)
- ▣ **Defence Minister** – Stephen Smith (WA), ex Foreign Affairs, no direct defence experience.
- ▣ **Defence Materiel** – Jason Clare (NSW) ex Employment Secretary, former Party official and staffer, no defence roles.
- ▣ **Defence Parliamentary Secretary** - David Feeney (Vic), another party official, Queen-maker, was on Defence & Foreign Affairs Committee
- ▣ **Defence Science, Personnel, Veterans' Affairs, Indigenous Health** – Warren Snowden, NT member with varied portfolio including last minute addition

# Impact of New Ministers

- ❑ Inevitable hiatus during learning period.
- ❑ Industry will need to develop relationships – Clare and Feeney very much “new boys”.
- ❑ Frankly, hard to imagine a more engaged and capable Minister than Combet.
- ❑ Department already suggesting delay in next DCP update.
- ❑ Also suggesting delay in implementation of PICs to mid 2011.
- ❑ Combined with changes in DMO Commercial/Industry area, suggests high potential for inertia.

# New DMO Commercial Group

- ❑ Mortimer recommended General Manager Commercial position be created to implement a more business-like focus throughout DMO.
- ❑ Position ultimately awarded inhouse to Harry Dunstall, DMO Special Counsel
- ❑ Basic drivers behind formation of the Commercial Group:
  - to drive a better understanding of cost and industrial realities into deliberations over the capability life cycle;
  - to increase effectiveness and efficiencies in dealing with the DMO; and
  - to bolster the spread of commercial practices within the Organisation as a whole

# DMO Commercial Group Structure

- New structure now announced.
- Mark Reynolds heads Commercial & Industry Program, the delivery of export and industry programs designed to enhance the long term viability of industry requirements.
- Former Defence Export Unit chief, Terry Whelan, now heads Export Programs & Industry Engagement
- Rob Bourke will head a specialist Economic & Commercial Analysis Unit. To give the DMO much improved data to drive PICs & SICs policy
- The aggregated data would help building the robustness of industry considerations underpinning new military capability option sets put to Ministers for consideration.

# Revised Defence Capability Plan

- ▣ Reviewed by Mark Thomson and Leigh Purnell from ASPI
- ▣ One of the most forward looking guidance documents worldwide
- ▣ Combet said DCP will be updated every 6 months
- ▣ DMO expect slippage of next update due to new Ministers
- ▣ Will go back to 10 year horizon
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- ▣ Revised format to increase data on industry involvement including PICs
- ▣ Website link to DSG and other acquisition activities not in DCP

# New Defence Industry Policy Statement

- ▣ “Policy for a smarter and more agile defence industry base”
- ▣ Issued by Greg Combet in June 2010
- ▣ Little activity since due to broader political events
- ▣ Produced by Defence Strategy Division, not by DMO
- ▣ Four primary themes:
  - Setting clear investment priorities
  - Establishing a stronger Defence-Industry relationship
  - Seeking opportunities for growth
  - Building skills, innovation and productivity
- ▣ Introduces SICs to complement PICs
- ▣ Significant emphasis on support mechanisms for defence industry

# Priority Industry Capabilities

- ▣ Twelve PICs established in 2008 by Defence;
  - Underwater acoustic technologies and systems
  - Anti-tampering capabilities
  - Combat uniform and personal equipment
  - Electronic Warfare
  - High end systems and system-of-systems integration
  - High frequency and phased array radars
  - Infantry weapons and remote weapons stations
  - In-service support of Collins submarine combat system
  - Selected ballistic munitions and explosives
  - Ship dry-docking facilities and common user facilities
  - Signature management
  - Through life and real time support of mission critical & safety critical software
- ▣ Limited funds \$44.8M to 2019
- ▣ Competitive bidding and discount off future funding
- ▣ Slippage likely in implementation

# Strategic Industry Capabilities

- ▣ Introduced in 2010 Defence Industry Policy Statement
  - Composite and exotic materials
  - Elements of national infrastructure
    - Supply and storage of aviation fuel (and national fuel supplies generally)
    - Provision of terrestrial and satellite communications systems
    - Logistic infrastructure in and around Darwin and Townsville
  - Geospatial information and systems
  - Guided weapons
  - Naval shipbuilding
  - Protection of networks, computers and communications
  - Repair and maintenance of specialist AEW&C systems
  - Repair, maintenance and upgrading of armoured vehicles
  - Repair, maintenance and upgrading of rotary and fixed wing aircraft
  - Secure test facilities and test ranges
  - Systems assurance capabilities
  - System life cycle management

# SMEs in Defence Industry Policy

- Page 28: SME's account for 50% of 29,000 employees in Defence industry sector
- Page 36: Over 3,000 SMEs supply to Defence
- Page 28 : Of DMO expenditure in Australia, 70% goes to 8 primes with combined sales of \$3.8B
- Page 28 : 30% of this is spent by primes with Australian and overseas SMEs.
- Page 18: Statement provides policy basis for Primes to engage SMEs in supply chains and assist in increasing their competitiveness
- Page 29: Primes need to nurture and support SMEs as vital source of innovation and niche capabilities
- Page 19: Globalisation is both a challenge and opportunity for SMEs
- Page 31: Overseas supply arrangements by Defence introduces complexities for SMEs, hence emphasis on global supply chain participation.
- Page 36: Many of the Industry Development Initiatives are particularly for SMEs.
- Page 47: Defence is looking to Industry and SMEs for innovative SRP reform ideas.

# Industry Development Initiatives

Defence Industry Innovation Board will help co-ordinate industry programs:

- |   |                 |
|---|-----------------|
| ▣ Skilling Australian Defence Industry  | \$89 M to 2015  |
| ▣ Global Supply Chains                  | \$60 M to 2019  |
| ▣ Concept Technology Demonstrators      | \$51 M to 2013  |
| ▣ Priority Industry Capabilities        | \$45 M to 2019  |
| ▣ Defence Export Unit                   | \$34M to 2019   |
| ▣ NACC Industry Support Program         | \$8.5 M to 2014 |
| ▣ Australian Industry Capability Plans  |                 |
| ▣ Capability Development Advisory Forum |                 |
| ▣ Defence + Industry ePortal            |                 |
| ▣ DMO Business Advisory Offices         |                 |
| ▣ RPDE Program                          |                 |

Total \$445 M over 10 years

# How does Industry interface with Defence?

- ▣ Every company or individual has the right to go direct on any matter.
- ▣ Business ultimately only comes via contracts and subcontracts.
- ▣ Inevitably, most of the business goes initially to Primes.
- ▣ Most SME Major Project business from DMO will come via Primes.
- ▣ DMO places significant emphasis on SMEs working via Primes.
- ▣ Most major DSG contract business will also come via Primes.
- ▣ Other SME business, particularly Minors , smaller DSG and SPO/JLU placements, will come direct.
- ▣ On policy matters, the key industry relationships are at the level of Industry Associations:
  - Australian Industry Group on general policy and implementation
  - Australian Industry Defence Network on specific SME policies
- ▣ State and Territory Governments also have significant liaison roles.