Defence White Paper 2009

Defending Australia in the Asia Pacific Century: 2030

Australian Industry Group Briefing, Newcastle, 4 June 2009

Peter Nicholson AO
Head of Government Relations

Introduction

- Defence policy document
  - Scan the strategic environment
  - Formulate the policy response to predicted strategic circumstances
  - Develop the military strategy to implement the policy
  - Outline the force structure and capabilities to execute the strategy
  - Determine how to pay for it all!
- White Papers prepared on ~7 year cycle (1976, 1983, 1987, 1994, 2000, 2009)
- Time frame
  - present to 2030
  - 21 years
  - 7+ governments!
- Complements National Security Statement of 4 Dec 08
- Defence Capability Plan (DCP) release at D&I Conference 29 Jun 09 will translate policy into projects
- Full text at http://www.defence.gov.au/whitepaper/

BAE SYSTEMS

Force Structure Initiatives - Army

- People
  - Increased strength to 30,000 soldiers (possibly 31,500)
  - 8 x bn, 3 x bde, 10 x battle group, 26 x combat team
  - Greater use of reserves
- Battlefield mobility
  - 7 x CH-47F *Chinook* medium lift helicopters
  - 46 x MRH-90 utility helicopters
  - 1,100 protected vehicles
  - Future armoured vehicles
- Force protection
  - Continue Hardened and Networked Army (HNA)
  - Ground-based air defence

BAE SYSTEMS

Force Structure Initiatives - Navy

- Surface Warfare
  - 8 x frigates to replace ANZAC for ASW
  - 4th AWD not ruled out
  - 20 x corvette-type Offshore Combat Vessels (OCV) to replace *Armidale* class patrol boats and other minor war vessels
  - 6 x LCH
  - Sealift and underway replenishment ships
- Underwater warfare
  - 12 x next generation submarines
  - Land attack cruise missiles
- Naval aviation
  - 24 x naval combat helicopters to replace *Seahawk*
  - 7 x MRH-90 helicopters shared with Army to replace *Sea King*

Force Structure Initiatives – Air Force

- New Air Combat Capability
  - 100 JSF aircraft
  - 12 of 24 F/A-18F *Super Hornet* aircraft wired for conversion to EA-18G *Growler* variant for airborne EW support
- Air lift
  - 10 x tactical air lift aircraft to replace *Caribou* fleet
  - 2 additional C-130J *Hercules* aircraft
- Maritime Surveillance and Response
  - 8 x P-8A *Poseidon* manned aircraft
  - 7 x unmanned aerial vehicles

Force Structure Initiatives - Joint

- Defence ICT infrastructure upgrade
  - Fixed and mobile communications networks
  - Information management
  - Computing infrastructure
- Space based surveillance
  - Radar satellite
  - Australian but part of a constellation?
- Jindalee Operational Radar Network (JORN) upgrade
- Joint EW Centre
- Cyber Security Operations Centre

Defence Budget

- 3% ‘average’ real growth until 2018
- 2.2% real growth 2018 – 2030
- Indexation 2.5% *vice* non-farm GDP deflator
- Budget outcome
  - Increased growth in 2009/10 to $25.7 billion
  - Decrease in real terms 2010/11 to 2012/13
  - Real growth required in the out years
- Strategic Reform Program
- Extension of the efficiency dividend of 1 per cent of the administrative activities for the life of the White Paper
- See http://www.defence.gov.au/budget/09-10/pbs/2009-2010_Defence_PBS_03_department.pdf for the gruesome detail

Strategic Reform Program

- Savings of $20 billion over ten years from sustainment and support budgets or $2 billion per annum
- Savings to be re-invested in acquisition projects
- Magnitude of funding reduction very significant
  - Payroll, finance and HR management ($1.4 billion)
  - Non-equipment purchasing ($4.4 billion)
  - Consolidated and standardised IT ($1.9 billion)
  - Inventory management ($700 million)
  - Smart maintenance of military equipment ($4.4 billion)
  - Workforce reform ($1.9 billion)
  - Equipment procurement savings and ‘other’ ($5.9 billion)
- Reduced requirement in early years ($100 million in 2010-11, $200 million in 2011-12, and $1 .7 billion in 2012-13)
- Downside is $3 billion per annum for the out years

Defence Industry

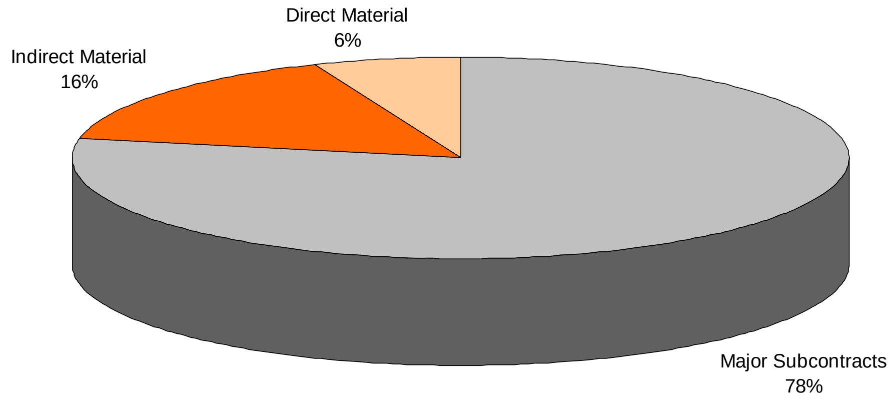
- Policy to increase local industry capacity
- Priority Industry Capabilities (PIC)
  - Confer a significant strategic advantage
  - Market intervention decided by National Security Committee of Cabinet (NSCC)
  - Not publicly disclosed
- Industry areas applicable
  - System and system-of-system integration including EW, ICT, cyber
  - Naval shipbuilding
  - Development and working of composite and exotic materials
  - Production of some munitions
  - Through life support of safety and mission critical software
  - Combat clothing
  - Repair and maintenance of armoured vehicles
  - Repair, maintenance and upgrade of aircraft

Business Implications and Opportunities

- Strategic Reform Program - $20 billion savings over ten years
  - Changes to business practices will be necessary for workforce productivity initiatives
  - Reduced savings requirements in early years allows time for efficiencies
  - Any shortfall in White Paper funding will be made up from Defence
    - very strong incentive for success
- New Systems
  - Land: new vehicles; artillery; soldier protection systems; networking.
  - Maritime: shipbuilding (submarines, frigates, corvettes, strategic sealift, replenishment and landing craft); combat systems; naval EW suite
  - Aerospace: JSF sustainment; tactical airlift aircraft, maritime surveillance.
  - Joint: JORN; Joint EW Centre; ICT upgrades; cyber warfare; space systems.

BAE SYSTEMS Supply Chain

- Currently 5600 suppliers on Approved Supplier List.
- Bought out spend c$700m (AUSD) per annum.
- Categories of Spend
  - **Major Subcontracts** – specification equipment for programmes.
  - **Direct Material** – examples: fasteners, electronic components, cable and wire etc.
  - **Indirect Material** – examples: travel, accommodation, facilities etc.



Industry Response

- Strategic Reform Program
  - Close engagement with Defence
  - Systems Program Offices (SPO)
- Preliminary investigation of opportunities and threats
  - Federal Budget
  - Detailed analysis of DCP 2009-13
  - MOTS/COTS preference
- Demand management
  - Influence project timings
  - Workforce and unemployment

Main Differences in Strategic Guidance

- Deterring and defeating attacks on Australia at centre of defence policy
  - Broadening of strategic strike capability
  - Deterrent maritime strategy
- Focus on the Asia Pacific
  - Hedging on relative decline of US strategic weight
- Information superiority prominent
  - Cyber warfare
  - Australian satellite
  - Infrastructure

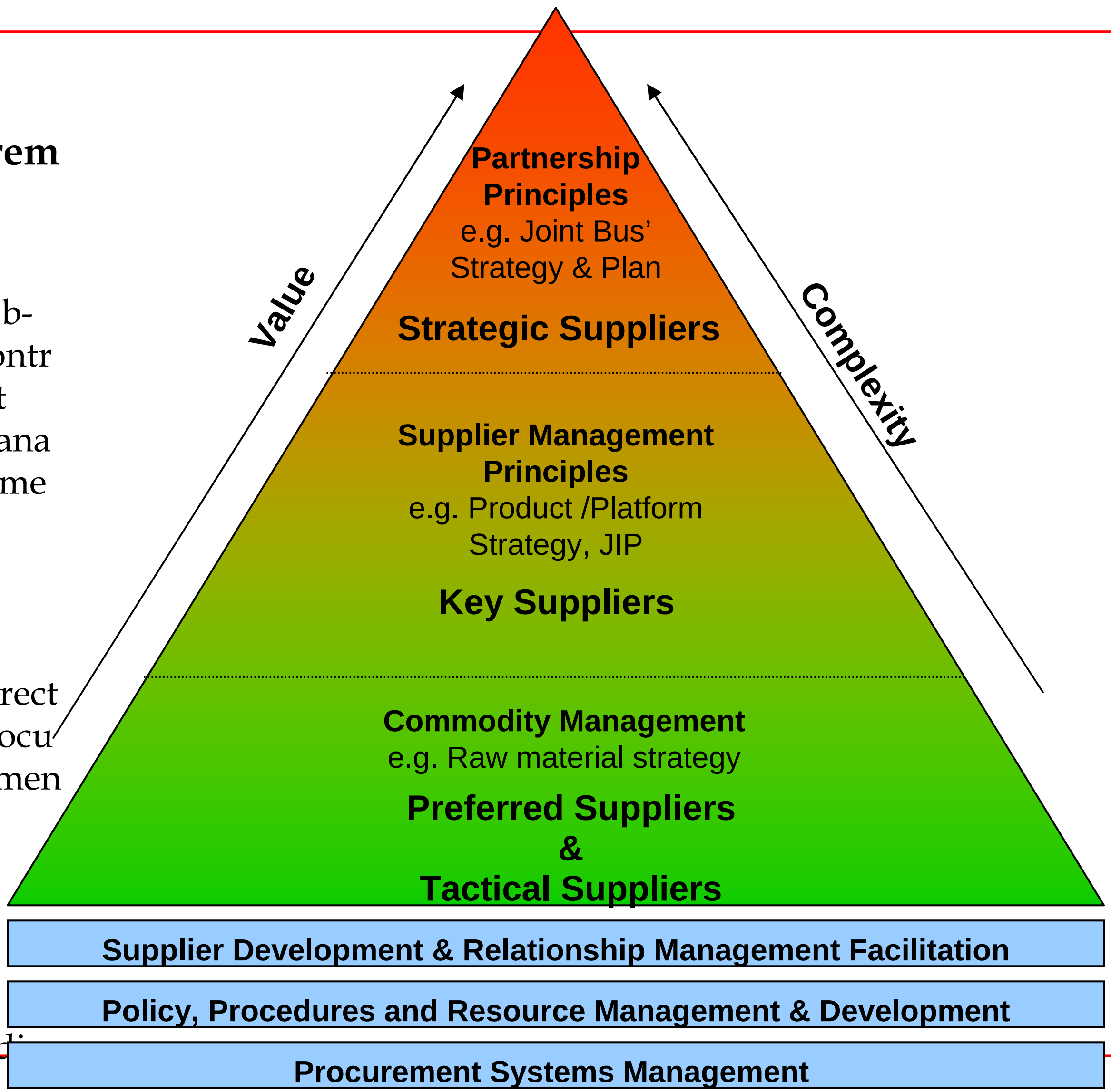
Pervasive Themes in the White Paper

- Force capability and employment
  - Self reliance and ability to act independently
  - Lead coalition operations to secure stability in the immediate region
  - Provide tailored contributions to coalition forces further afield
- People
  - Demographic vulnerability
  - Integrated workforce
  - Recruitment and retention
- Unmanned vehicles
  - All environments
- Strategic Reform Program
  - Key to funding of the White Paper

Questions?

Supplier Strategies

- BU Procurement
  - Sub-Contract Management
  - Direct Procurement
  - Indirect Procurement



- Procurement Emphasis
  - Effectiveness Focus - Leverage supplier expertise
  - Supplier strategy
  - Contract performance
  - Relationship expertise
  - High opportunity for cost reduction & risk management
- Procurement Emphasis
  - Efficiency Focus - Price & continuation of