

28 February 2012

Senator A. Eggleston
Chair
Senate Foreign Affairs, Defence and Trade References Committee

Dear Senator Eggleston,

AUSTRALIAN BUSINESS DEFENCE INDUSTRY UNIT RESPONSE TO THE PRELIMINARY REPORT INTO PROCUREMENT PROCEDURES FOR DEFENCE CAPITAL PROJECTS

The Australian Business Defence Industry Unit (ABDIU) represents a wide range of Australian-based companies undertaking defence work in Australia. These companies are distributed across the country and extend from the major Prime Contractors to very small businesses comprising only a few personnel. On behalf of this diverse membership base the ABDIU made a submission to the Senate Foreign Affairs, Defence and Trade References Committee inquiry into the procurement procedures for Defence capital projects. At Senate letter dated 19 December 2011 the ABDIU was requested to review the Preliminary Report and to make additional critical comments.

In general the Preliminary Report reflects the position held within Australian defence industry that the constant review cycle with the Department of Defence, and the fluidity that this creates, may simply be disguising more “deeper, fundamental problems”. These deeper issues are currently manifesting in the uncertainty with regard to project schedule, the concomitant impact of this schedule uncertainty on business planning and resource commitment, and the resultant challenges with respect to business sustainability in the defence sector. Defence industry would therefore be supportive of a break in the cycle of constant reviews in order that the efficacy of previous reviews can be properly determined and that the real issues facing Defence procurement might therefore be exposed and addressed.

The ABDIU supports the contention in the Preliminary Report that early informal engagement of industry with Defence during the Needs definition stage would provide a useful contribution to the capability procurement process. The benefits of engagement during the Requirements definition phase have been a key factor in the reinvigoration of the Environmental Working Group process. The benefits that would accrue to both Defence and industry during the Needs phase would be:

1. Early exposure of conceptual needs thinking to industry, and hence an indication of possible investment and resource considerations. The existing Environmental Working Group process could be used to convey this overview information.
2. Feedback to Defence on the technological and schedule feasibility of developing concepts and requirements.

The ABDIU notes that there will be probity and “competitive-positioning” issues associated with this mooted early engagement. One of these issues will be the way in which the Department of Defence handles and protects any company-specific Intellectual Property (IP). Without adequate IP protection proposed early engagement will be treated with suspicion by industry and the overall value to Defence will be significantly reduced. The following options are presented for consideration regarding industry engagement during the Needs phase:

1. Defence engage a “technology partner” for all or part of the Needs definition phase of the capability life cycle to manage and advise on the technological feasibility of conceptual needs. This “technology partner” would need to operate exclusively “above the line” and have a deep understanding of the technical issues associated with the capability under consideration. Whilst this “technology partner” could be seen as fulfilling part of the role currently undertaken by the Defence Science and Technology Organisation (DSTO), the engagement of a reputable company may be seen as less threatening to industry for the exposure of new and emerging technologies.
2. Defence engage directly with technology providers on a “one-on-one” basis to obtain feedback on conceptual thinking. As noted above, IP protection will be critically important in this process.
3. Defence utilise the Rapid Development Prototyping and Evaluation (RPDE) program to obtain industry input. Whilst the ABDIU is supportive of the contribution that RPDE makes to the capability development process, the sharing of commercially-sensitive information in an open forum will always be problematic and this option may not return the sought-after results.

Associated with the overall issue of industry engagement with Defence is the ongoing question of the level of information provided to industry through the Defence Capability Plan (DCP). DCP information is particularly important to industry for planning purposes, and particularly so given that decisions taken by Defence, as a single client, impact significantly on industry. To this end, industry would like to see a tightening of the schedule band information and the inclusion of more specific information associated with the planned release of approaches to the market. Whilst the potential for slippage in Defence projects is recognised, the provision of more definitive data early in the process would be beneficial and would provide a realistic basis for company planning.

The issue of industry sustainability also continues to be of concern to industry, particularly in view of the increasingly vocal arguments for the utilisation of Military Off-The-Shelf (MOTS) and Commercial-Off-The-Shelf (COTS) equipment as a Government risk reduction strategy. The ABDIU believes that whilst MOTS/COTS has a place in capability procurement, the widespread use of MOTS/COTS will be at odds with the 2009 White Paper para 8.55 that states “Australia therefore seeks to develop and maintain a capability advantage that can provide a bulwark against strategic uncertainty, makes up for our weaknesses, and reduces the risk of attrition of Australia’s limited forces”. It will be difficult to achieve this sought-after capability advantage if potential adversaries are acquiring the same off-the-shelf capabilities.

The ABDIU also believes that significant additional work is required by Defence to properly define Priority Industry and Strategic Industry Capabilities (the PICs and SICs), and then to monitor, assess

and, if required, nurture and support them. ABDIU also considers that linkages should exist between the consideration of MOTS/COTS and the PICs/SICs. In essence this linkage needs to formally recognise that the acquisition of capability through MOTS/COTS in the PIC/SIC areas increases the risk to the sustainment of industry capability in strategically important areas. The risk that defence industry capability will not be available when required will therefore be increased through MOTS/COTS as a standard procurement mechanism.

Lastly, the ABDIU recommends that Industry Division to be moved from the Defence Materiel Organisation (DMO) to Strategy Executive to properly reflect the status of defence industry as a strategic national asset.

Should you wish to discuss any of the issues presented in this response please contact me at Graeme.dunk@australianbusiness.com.au or on (02) 6230 1137.

Yours sincerely

Graeme Dunk
Manager