

AUSTRALIA'S DEFENCE INDUSTRY: A VALUE FOR MONEY PROPOSITION

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I WELCOME THIS OPPORTUNITY, AS THE RECENTLY APPOINTED CHAIRMAN OF THE AUSTRALIAN INDUSTRY GROUP DEFENCE COUNCIL, TO SPEAK TO YOU ABOUT INDUSTRY ASPECTS OF VALUE-FOR-MONEY IN DEFENCE ACQUISITION AND SUSTAINMENT PROGRAMS

MY APPROACH TODAY IS TO FIRST IDENTIFY SOME OF THE KEY ISSUES WHICH THE AI GROUP DEFENCE COUNCIL BELIEVES NEED TO BE ADDRESSED IF WE ARE TO REACH OUR SHARED GOAL OF HIGHLY RESPONSIVE INDUSTRY SUPPORT OF OUR ARMED FORCES.

THESE KEY ISSUES ARE A SUMMARY OF OUR MEMBER'S MOST RECENT INPUTS AND SHOULDN'T COME AS A SURPRISE TO MOST IN THIS AUDIENCE

IN THE REMAINDER OF MY SPEECH, I WILL REVIEW IN SOME DETAIL THE CONTEXTUAL ISSUES WHICH RELATE TO OUR COLLECTIVE ABILITY TO ACHIEVE THESE OUTCOMES. I ALSO PROPOSE SOME ADDITIONAL THOUGHTS WHICH I CONSIDER IMPORTANT TO OUR INDUSTRY'S FUTURE. HERE I HAVE USED COMPARISONS WITH THE UK AND U.S. INDUSTRY POLICY ENVIRONMENTS TO TRY TO IDENTIFY AREAS OF RELEVANCE FOR OUR OWN SITUATION

CAN I SAY AT THE OUTSET IT IS EXTREMELY GRATIFYING GIVEN THE HIGH STATE OF ACTIVITY OF THE AUSTRALIAN DEFENCE FORCE IN SO MANY THEATRES OF OPERATION, THAT AUSTRALIA'S DEFENCE INDUSTRY HAS BEEN PLAYING A CRITICAL ROLE IN PROVIDING SUCCESSFULLY, A VARIETY OF CAPABILITY ENHANCEMENTS, AND SUSTAINMENT FOR OUR VARIOUS DEPLOYMENTS AND COMMITMENTS.....AND OFTEN DOING THIS TO VERY DEMANDING SCHEDULES THAT'S THE NATURE OF ADF DEPLOYMENTS THESE DAYS AND AUSTRALIAN INDUSTRY HAS ADAPTED TO THIS HIGH LEVEL TEMPO WITH DISTINCTION. .

IF ANYTHING, AUSTRALIAN INDUSTRY, INCLUDING ITS SME BASE, WILL BE DOING MORE, NOT LESS, OVER THE COMING YEARS IN SUPPORT OF THE ADF'S FRONT-LINE COMMITMENTS. THIS SHOULD STAND AS ONE IMPORTANT DEMONSTRATION OF THE IMPORTANCE OF ENSURING THAT WE HAVE A VIBRANT AND CAPABLE DEFENCE INDUSTRY IN AUSTRALIA.

OVER THE LAST SIX MONTHS THE NATIONAL EXECUTIVE OF THE AI GROUP'S DEFENCE COUNCIL, WORKING WITH ASPI'S MARK THOMPSON AS COORDINATOR, HAS IDENTIFIED A NUMBER OF FACTORS WHICH WE BELIEVE ARE CRITICAL TO THE FUTURE WELL-BEING OF AUSTRALIA'S DEFENCE INDUSTRY. THIS WORK WAS INDEED TIMELY, GIVEN THE

DEFENCE MINISTER'S SUBSEQUENT ESTABLISHMENT OF A REVIEW TEAM TO EXAMINE MANY ASPECTS OF DEFENCE INDUSTRY ACTIVITY.

THEREFORE TO UNDERPIN THE BODY OF MY SPEECH LET ME SET OUT BRIEFLY SOME OF THESE KEY ISSUES.

FIRSTLY, THERE ARE LIKELY TO BE PARTICULAR INDUSTRY CAPABILITIES THAT THE GOVERNMENT REGARDS AS NEEDING TO BE MAINTAINED IN AUSTRALIA TO MEET DEFENCE'S REQUIREMENTS. CLEARER GUIDANCE FROM GOVERNMENT AS TO WHICH OF THESE CAPABILITIES WILL BE MAINTAINED WOULD GREATLY ASSIST STRATEGIC DECISION MAKING BY INDUSTRY INCLUDING INVESTMENT DECISIONS..... MAINTAINING THESE CAPABILITIES NEEDS TO BE DONE ON A COST-EFFECTIVE BASIS BUT AUSTRALIA'S DEFENCE POLICY SHOULD BE STRUCTURED TO MAXIMISE OPORTUNITIES FOR AUSTRALIAN COMPANIES TO SUSTAIN THE BUSINESS BASE WITHIN WHICH THESE CAPABILITIES WILL RESIDE.....IMPLICIT IN THIS, IS A NEED FOR GOVERNMENT TO LAY DOWN A CLEAR LONG-TERM INDUSTRY STRATEGY. THEREFORE WE APPLAUD MINISTER NELSON'S RECENTLY ANNOUNCED REVIEW WHICH, THROUGH AN EXTENSIVE CONSULTATIVE APPROACH BETWEEN DEFENCE AND INDUSTRY, PROVIDES, IN OUR VIEW, A VEHICLE TO ACHIEVE THIS OBJECTIVE.

WE BELIEVE THAT FOR A FUTURE STRATEGY TO BE EFFECTIVE IT MUST BE STRONGLY SUPPORTED AT BOTH POLITICAL AND OFFICIAL LEVELS, AND BECOME AN INTEGRAL PART OF THE DEFENCE PROCUREMENT FRAMEWORK. FOR THIS TO HAPPEN, STRATEGIC INDUSTRY POLICY OUGHT NOT TO BE TOO PRESCRIPTIVE AND NARROWLY DEFINED, WHICH PRESENTS PROBLEMS FROM A WHOLE-OF-GOVERNMENT PERSPECTIVE. ON THE OTHER HAND THE POLICY MUST BE DETAILED ENOUGH AS TO BE USEFUL TO INDUSTRY.

POINT 2

AUSTRALIAN PARTICIPATION IN PLATFORM BUILD PROGRAMS, ITS INVOLVEMENT IN SYSTEMS ARCHITECTURES, SYSTEMS ENGINEERING AND SYSTEMS INTEGRATION WITH ITS IMPLICIT SOFTWARE DEVELOPMENT REQUIREMENTS, GENERATES CRUCIAL DOMAIN KNOWLEDGE. THIS KNOWLEDGE IS VITAL FOR AUSTRALIAN INDUSTRY TO PROVIDE MODIFICATION, UPGRADE AND SUSTAINMENT CAPABILITIES NECESSARY FOR TODAY'S INCREASINGLY COMPLEX WEAPONS SYSTEMS.

IT IS RECOGNISED THAT WE WON'T BE ABLE TO DO THIS ON ALL PROGRAMS, BUT MAXIMISING AUSTRALIAN INDUSTRY INVOLVEMENT IN ALL PHASES OF PROGRAMS NEEDS TO CONTINUE TO BE A PRINCIPAL GOAL.

THIRD

AUSTRALIA'S DEFENCE INDUSTRY HOLDS THE VIEW THAT WE STILL NEED TO BETTER DEFINE RISK SHARING, BETWEEN GOVT AND INDUSTRY AND ENSURE A CULTURE OF WORKING TOGETHER TO ACHIEVE SUCCESS..... ONE WHICH PROVIDES INCENTIVE FOR ONGOING QUALITY AND CAPABILITY IMPROVEMENT. THE MORE SUCCESSFUL THIS RELATIONSHIP, THE BETTER THE ABILITY OF AUSTRALIA'S DEFENCE INDUSTRY TO BE ABLE TO SUSTAIN HEIGHTENED ADF ACTIVITY.

ALL OF US RECOGNISE THE NEED TO AVOID COSTLY PROJECT OVER-RUNS, BY IMPROVING THE UNDERSTANDING OF THE INHERENT RISK FACTORS IN MAJOR PROJECTS, PARTICULARLY WHERE THIS INVOLVES ONGOING DEVELOPMENTAL ACTIVITY.

DMO'S RECENT DIRECTION THAT RISK SHOULD BE APPORTIONED ACCORDING TO THE PRINCIPLE THAT IT SHOULD BE BORNE BY THE MOST APPROPRIATE PARTY – IS THE RIGHT APPROACH.

CONSISTENCY IN APPLICATION OF THIS POLICY SHOULD CONTINUE TO BE A KEY OBJECTIVE OF THE DEPARTMENT.

FOURTH

THE DOD AND OTHER GOVT DEPARTMENTS NEED TO WORK TOGETHER BETTER TO ASSIST AUSTRALIAN INDUSTRY EXPORT ITS PRODUCTS AND

TO GAIN OPPORTUNITIES IN THE GLOBAL SUPPLY CHAINS OF MULTINATIONAL COMPANIES. THE DEFENCE SECTOR IS AN IMPORTANT COMPONENT OF AUSTRALIA'S INDUSTRIAL BASE AND CONSEQUENTLY NEEDS TO HAVE A CLOSE WORKING RELATIONSHIP WITH ALL RELEVANT AREAS OF GOVERNMENT. THIS FORM OF BROADER GOVT ENGAGEMENT HAS PROVED SUCCESSFUL IN ASSISTING AUSTRALIAN FIRMS SEEKING TO WIN JSF WORK THROUGH THE TEAM AUSTRALIA INITIATIVE. IT IS A GOOD MODEL. THE RECENT APPOINTMENT OF MAJ GEN MOLAN IS ANOTHER GOOD INITIATIVE.....AND THE PROVISION OF ADDITIONAL "A" GRADE RESOURCES FOR HIS EFFORTS WOULD BE STRONGLY SUPPORTED BY THE AI GROUP.

FIFTH

THE DEFENCE COUNCIL HAS BEEN CONSULTING CLOSELY WITH DEFENCE IN EXPLORING ACQUISITION METHODS - WHETHER THEY BE SOLE SOURCING OR FORMS OF COMPETITIVE TENDERING – WHICH ALLOW CONTRACTING FLEXIBILITY APPROPRIATE TO THE NATURE OF SPECIFIC PROJECTS. WE STRONGLY BELIEVE IT IS IMPORTANT TO DIFFERENTIATE BETWEEN COMPETITION PER SE AND SITUATIONS WHERE THERE IS EXCESSIVE OR CONTRIVED COMPETITION, NEITHER OF WHICH ADDS VALUE TO THE PROCUREMENT PROCESS, AND CAN BE UNNECESSARILY EXPENSIVE AND RESOURCE-INTENSIVE.

SIXTH

ALL OF US AGREE THAT THERE IS A PRESSING REQUIREMENT TO ADDRESS THE ONGOING SERIOUS SKILLS SHORTAGES ACROSS A RANGE OF PROFESSIONS AND TRADES,SHORTAGES WHICH ARE HAVING AN IMPACT ON PROCUREMENT AND SUPPORT COSTS FOR MANY COMPANIES. DEFENCE HAS MADE A START THROUGH ITS SADI INITIATIVE, AND AI GROUP IS WORKING WITH THE DMO TO FURTHER IMPROVE THE ACCESSIBILITY OF THIS PROGRAM.

THESE SKILLING POLICIES WILL NEED TO BE FAR SIGHTED ENOUGH TO TAKE ACCOUNT OF POTENTIAL CHANGES IN THE SHAPE OF THE DEFENCE INDUSTRY. THAT IS, SKILLING WILL NEED TO BE APPROPRIATE TO THE WORK TO BE DONE BY INDUSTRY.

AND SEVENTH

IMPROVING OPPORTUNITIES FOR INCREASED INVOLVEMENT OF SMES IN DEFENCE CONTRACTING IS IN EVERYONE'S INTERESTS. PRIMES FULLY UNDERSTAND THE IMPORTANT ROLE PLAYED BY SMES IN ALL ASPECTS OF PROJECT WORK. THAT IS WHY THE AUSTRALIAN INDUSTRY GROUP DEFENCE COUNCIL HAS DEVOTED SO MUCH ATTENTION TO FOSTERING AUSTRALIA'S SME BASE, ONE OF THE MOST SKILLED AND VIBRANT OF ANY SECTOR OF AUSTRALIAN INDUSTRY,ONE WHICH HAS SUBSTANTIAL POCKETS OF WORLD CLASS

CAPABILITY AS EVIDENCED BY SUCCESS IN WINNING WORK FOR THE JOINT STRIKE FIGHTER PROJECT AGAINST WORLD-WIDE COMPETITION. FOR SOME, THIS INVOLVEMENT IN THE GLOBAL SUPPLY CHAINS OF THE OVERSEAS PRIMES WILL CHANGE THEIR BUSINESSES SUBSTANTIALLY AND WITH CONSEQUENT LONG TERM BENEFITS TO THEMSELVES, AND TO THE LOCAL INDUSTRY BASE.

THE MORE WE CAN REPLICATE THESE EXPORT SUCCESSES THE BETTER THE PROSPECT OF SUSTAINING THIS BASE.

HAVING OUTLINED SOME KEY FACTORS FOR POLICY DEVELOPMENT I WOULD LIKE TO LOOK AT THESE IN THE CONTEXT OF TODAY'S GLOBAL DEFENCE SETTINGS.

THE FIRST OBSERVATION TO MAKE IS THAT CHANGES TO PROCUREMENT POLICIES AND PRACTICES, TOGETHER WITH CHANGES TO CURRENT AND PROJECTED ADF REQUIREMENTS AND SOME ESSENTIAL DIFFERENCES IN THE LOCAL AND GLOBAL DEFENCE INDUSTRY, SUGGEST THAT THE AUSTRALIAN DEFENCE INDUSTRY IN 15 TO 20 YEARS WILL BE VERY DIFFERENT TO THAT WHICH EXISTS TODAY. WILL IT BE BETTER OR WORSE, MORE....OR LESS...CAPABLE, DEPENDS ON INDUSTRY'S RESPONSE TO THESE EXTERNAL FACTORS..

POTENTIALLY THE GREATEST INFLUENCE WILL BE THE DEGREE TO WHICH GOVERNMENT EMBRACES THE PROPOSITION THAT A SUSTAINABLE DEFENCE INDUSTRY IS AN ESSENTIAL ELEMENT OF NATIONAL DEFENCE STRATEGY..... THAT IT IS DIFFERENT TO OTHER INDUSTRY SECTORS BECAUSE ITS EXISTENCE IS INTERTWINED WITH FUNDAMENTAL ISSUES OF NATIONAL SECURITY....., AND THEREFORE THAT IT WARRANTS A DEGREE OF SPECIALISED CONSIDERATION.

IN ADDRESSING THIS, THE FIRST QUESTION WE NEED TO ASK IS HOW MUCH VALUE CAN, AND SHOULD BE PLACED ON THE MAINTENANCE OF AN AUSTRALIAN DEFENCE INDUSTRIAL BASE.

AS WE ALL KNOW, VALUE-FOR-MONEY APPROACHES INVOLVE JUDGEMENTS MADE IN RELATION TO MATTERS WHICH RANGE BETWEEN HIGHLY OBJECTIVE AND HIGHLY SUBJECTIVE.

FOR EXAMPLE, IT SHOULD BE RELATIVELY EASY FOR THE CURRENT REVIEW TEAM TO EVALUATE FACTORS SUCH AS THE NUMBER OF LOCAL COMPANIES, EMPLOYEES AND DOLLARS TO THE ECONOMY INVOLVED IN THE CONSTRUCTION AND THROUGH LIFE SUPPORT OF SOME CURRENT PLATFORMS AND SYSTEMS SUCH AS ANZAC SHIPS, MINEHUNTERS, JORN OR COLLINS. ALL OF THESE PROGRAMS

PRODUCED CAPABILITIES AND CAPACITIES IN AUSTRALIA WHICH ARE SUBSTANTIAL, WORLD CLASS AND MEASURABLE. IT IS MUCH HARDER TO PLACE VALUE ON THE MORE SUBJECTIVE FACTORS SUCH AS THE VALUE OF PRESERVING COMPETITION, OR THE VALUE OF ACCEPTING THAT IN SOME CASES A CAPABILITY MIGHT NEED TO BE PRESERVED FOR SOME UNANTICIPATED, BUT POSSIBLY VITAL STRATEGIC NEED IN THE FUTURE. THIS IS NOT SOMETHING ECONOMIC AGENCIES IN GOVERNMENTS READILY EMBRACE.

(SO LET ME EXPAND A LITTLE MORE:

IF IT CAN BE ACCEPTED THAT THE OBJECTIVE OF ANY NATION'S DEFENCE INDUSTRY IS TO ENHANCE THE INDEPENDENT MILITARY CAPABILITY OF THAT NATION'S ARMED FORCES.....AT THE CORE OF THAT NOTION IS THAT LOCAL INDUSTRY PLAYS A FUNDAMENTAL PART IN ESTABLISHING A LEVEL OF PREPAREDNESS FOR THE NATION.

PREPAREDNESS UNDERPINS OUR DEFENCE FORCE STRUCTURE. IT INVOLVES TRYING TO UNDERSTAND WHAT EVENTS MAY ARISE IN THE NEAR, MID TERM AND DISTANT FUTURE, AND EQUIPPING THE NATION TO DEAL WITH THEM. THERE CAN BE SIGNIFICANT CONSEQUENCES FOR GETTING THIS WRONG

AS THE UK HAS EXPERIENCED IN ITS RECENT PAST, WHEN AN INDIGENOUS DEFENCE CAPABILITY IS LOST, IT IS VIRTUALLY LOST FOR

GOOD WITHOUT RECOVERY THROUGH MASSIVE RE-INVESTMENT. AUSTRALIA NEARLY VISITED THIS OUTCOME ON COLLINS, BEFORE GOVERNMENT INTERVENED, TO PREVENT THE LOSS OF THE CORE SKILLS REQUIRED FOR MAINTENANCE SUPPORT, MODIFICATION AND UPGRADE....BEING LOST TO OTHER INDUSTRIES..... OR BEING LOST ALTOGETHER.

ON THE OTHER HAND, ADEQUATE PREPAREDNESS FOR A RANGE OF UNPREDICTABLE MILITARY SCENARIOS IMPLIES A FAIR CHANCE OF BEING WRONG AND POTENTIALLY HAVING EXCESS CAPABILITIES. WHICH, IN TURN, COULD MEAN THE NEED FOR SUBSTANTIAL NON-PRODUCTIVE INVESTMENT AT A TIME WHEN THE COMPETITION FOR THE TAXPAYER'S DOLLAR HAS NEVER BEEN GREATER. THIS IS A CHALLENGING SITUATION FOR ANY GOVERNMENT, BUT ONE WHICH MUST BE CONSIDERED RIGOROUSLY.

WITHIN THIS DEBATE, AUSTRALIA'S DEFENCE INDUSTRY IS NOT SUGGESTING THAT THIS SHOULD BE A REASON FOR A RETURN TO SOME SORT OF OFFSETS POLICY. LOCAL MAKE-WORK PROGRAMS OF QUESTIONABLE BENEFIT TO CORE PREPAREDNESS.... ARE SIMPLY NOT AN OPTION.

I THINK WE ALL AGREE THAT IN ADDRESSING THE VALUE PROPOSITION CONUNDRUM, WE WILL HAVE TO DO SOME THINGS DIFFERENTLY. THAT MEANS WE IN INDUSTRY, AS WELL AS THE GOVERNMENT. AS AN EXAMPLE, SOME COUNTRIES ARE HEADING DOWN A PATH OF BETTER AGGREGATION OF DEMAND AND OF SUPPLY... WHILE BEING MINDFUL OF INDUSTRY-BASE ISSUES. WHILE AUSTRALIA HAS DABBLED WITH THESE NOTIONS, MAINLY FROM AN AUSTRALIAN PERSPECTIVE, MANY VIEW THE REAL ADVANTAGES OF AGGREGATED DEMAND AND SUPPLY BEING REALISED WHEN IMPLEMENTED GLOBALLY. JSF IS THE MOST OBVIOUS CURRENT EXAMPLE. LCS MAY BE A NEAR TERM FUTURE PROSPECT ALSO. AND THIS DRIVE TOWARDS AGGREGATION, TO A LARGE EXTENT IS BECAUSE OF THE RECOGNITION AMONGST LIKE-MINDED COUNTRIES THAT THE DEMAND FOR IMPROVED MILITARY CAPABILITIES IS STEADY AND GROWING. BUT WHILE DEMAND FOR CAPABILITY INCREASES, THE FINANCIAL RESOURCES AVAILABLE TO OBTAIN THESE CAPABILITIES,.... THOUGH THEY CONTINUE TO BE ALLOCATED CLOSE TO HISTORICALLY HIGH LEVELS..... ARE STILL HIGHLY CONSTRAINED. THIS IS TRUE EVEN FOR THE U.S.,

SO, CONVERGENCE OF THE DEMAND AND SUPPLY REQUIREMENTS FOR COUNTRIES' SERIOUS ABOUT SECURITY, IS ONE ASPECT OF THE TREND TOWARDS TRYING TO DO THINGS IN DIFFERENT WAYS,.....THIS OUGHT TO BE A MODEL FOR DELIVERING BETTER CAPABILITY WITH BETTER

INTEROPERABILITY AND A SOURCE OF CONSIDERABLE SAVINGS FOR THE COUNTRIES INVOLVED. AND SHOULD BE A BASIS FOR INCREASED STABILITY FOR THE PARTICIPANT COMPANIES. IT SHOULD BE..... BUT I'LL ELABORATE A BIT MORE ON THE RISKS TO THIS TREND LATER.

RETURNING TO THE GOVERNMENT'S REVIEW OF THE KEY ELEMENTS OF THE DEFENCE INDUSTRY VALUE PROPOSITION, THE REVIEW TEAM WILL NO DOUBT WANT TO EXAMINE THE RELEVANCE OF SIMILAR REVIEWS CARRIED OUT BY OTHERS. BOTH THE UK AND THE U.S. HAVE RECENTLY EXAMINED THESE ISSUES IN GREAT DETAIL.

WHILE THE U.S. PROVIDES A SOMEWHAT UNIQUE MODEL BECAUSE OF ITS SIZE, COMPLEXITY AND LEADING ROLE IN INTERNATIONAL DEFENCE AND SECURITY, THE UK'S EXPERIENCE HAS RELEVANCE BECAUSE IT IS THE MOST RECENT AND THEREFORE, PRESUMABLY TAKES INTO ACCOUNT MOST OF THE CURRENT CONTEXTUAL FACTORS.

AMONG MANY PROPOSITIONS IN THE UK POLICY, THE FIRST IS THE RECOGNITION THAT TO MEET ITS OWN PREPAREDNESS NEEDS, AND TO PROTECT ITS SOVERIEGN INTERESTS, THE UK QUOTE "MUST HAVE A DYNAMIC, SUSTAINABLE AND GLOBALLY COMPETITIVE DEFENCE INDUSTRY" UNQUOTE,

BUT - AND THIS IS AN IMPORTANT CAVEAT - THE POLICY PLACES INCREASING EMPHASIS ON THE ABILITY TO SUPPORT AND UPGRADE PLATFORMS AND SYSTEMS THROUGH-LIFE. BY IMPLICATION, THE

POLICY SEEMS TO ACCEPT THAT, IN TIME, THE CAPACITY TO DESIGN AND DEVELOP SOME SYSTEMS AND SOME NEW WEAPONS PLATFORMS WILL BE LOST. THE POLICY PROMOTES

QUOTE

“THE RESHAPING OF DEFENCE INDUSTRY, TO IMPROVE PRODUCTIVITY AND TO ADJUST TO LOWER LEVELS OF PRODUCTION ACTIVITY, ONCE CURRENT MAJOR EQUIPMENT PROJECTS HAVE BEEN COMPLETED.....WHILE AT THE SAME TIME RETAINING THE SPECIALIST SKILLS AND SYSTEM ENGINEERING CAPABILITIES REQUIRED TO MANAGE MILITARY CAPABILITY ON A THROUGH-LIFE BASIS”

UNQUOTE

NOW WHETHER THESE SPECIALIST SKILLS FOR UPGRADE CAN BE RETAINED IN THE ABSENCE OF AB-INITIO DESIGN AND DEVELOPMENT WORK IS NOT CANVASSED IN THE REPORT....BUT WE SHOULDN'T UNDERESTIMATE THIS HOLLOWING OUT IN CAPABILITY AS AN ISSUE, PARTICULARLY IF ACCESS TO DATA AND TECHNOLOGY IS CONSTRAINED.

THIS IS THE ISSUE WHICH IS AT THE CORE OF THE SECOND PRINCIPLE I PUT FORWARD AT THE BEGINNING ON THE NEED TO MAXIMIZE AUSTRALIAN DEFENCE INDUSTRY'S INVOLVEMENT IN ALL PHASES OF PROGRAMS. .

CENTRAL TO THE UK STRATEGY IS THE PROMOTION OF GREATER TRANSPARENCY OF FUTURE DEFENCE REQUIREMENTS AND THE ACTUAL SETTING OUT OF THOSE INDUSTRIAL CAPABILITIES SEEN AS ESSENTIAL TO ENSURING THAT THE UK

QUOTE

“CAN CONTINUE TO OPERATE OUR EQUIPMENT IN THE WAY WE CHOOSE”

UNQUOTE

ON THE ISSUE OF COMPETITION, THE POLICY NOTES THAT INDUSTRY RATIONALISATION CONTINUES, AND SUSTAINING COMPETITION TO MEET THE UK'S DOMESTIC REQUIREMENTS IS BECOMING INCREASINGLY DIFFICULT. FOR INSTANCE, I WOULD POINT OUT THAT ONE COMPANY DOMINATES THE LAND, SEA AND AIR DOMAINS IN THE UK. THE DOCUMENT NOTES THAT IN SEVERAL SECTORS, FOLLOWING THE ENTRY TO SERVICE OF SOME MAJOR PROJECTS OVER THE NEXT 5 TO 8 YEARS THERE WILL BE SUBSTANTIAL OVERCAPACITY IN PRODUCTION CAPABILITY. THE POLICY CONCLUDES THAT....QUOTE

”IN THIS MARKETPLACE, COMPETITION IS USEFUL IN ESTABLISHING VALUE FOR MONEY BUT IS NOT ALWAYS APPROPRIATE”. UNQUOTE

I MIGHT ADD THAT, IN THIS SECTION OF THE UK REPORT THERE IS ALSO THE RECOGNITION THAT EARNED PROFIT MARGINS AVAILABLE TO

INDUSTRY, BASED ON GOOD PERFORMANCE (MY EMPHASIS), NEED IMPROVEMENT IN ORDER TO ATTRACT GLOBAL INVESTMENT CAPITAL.

AND, TO TAKE UP A FINAL MATTER THE POLICY POINTS TOWARDS THE NEED FOR A NEW FORM OF RELATIONSHIP BETWEEN THE RESHAPED INDUSTRY AND ITS CUSTOMER. QUOTE

“RELATIONSHIPS BETWEEN THE DEPARTMENT AND INDUSTRY WHICH ARE PURELY TRANSACTIONAL AND CONDUCTED AT ARMS-LENGTH WILL STRUGGLE TO MEET THESE CHALLENGES. INCREASINGLY THEY DEMAND THE USE OF A DIFFERENT STYLE OF RELATIONSHIP”

UNQUOTE.

IT IS NOT MENTIONED, BUT IT IS MY PRESUMPTION, THAT THE TERMS AND CONDITIONS OF THE CONTRACTS WHICH WILL UNDERPIN THIS ENVIRONMENT IN THE UK WILL BE A STRONG MIX OF INCENTIVE AND PENALTY. I RAISE IT BECAUSE AGAIN IT ISN'T A TRIVIAL MATTER FOR FUTURE INVESTMENT IN THE RESHAPING OF INDUSTRY.....AND IN THIS CONTEXT WE ARE ALL LOOKING FORWARD TO WHAT GILLIAN MARK'S HAS TO TELL US IN HER PRESENTATION TO THIS CONFERENCE LATER

I HAVE TRIED TO CAPTURE A FEW KEY ELEMENTS OF THE UK'S DEFENCE INDUSTRY POLICY TO PROMOTE A TEST OF RELEVANCE OF THAT POLICY TO AUSTRALIA'S SITUATION. HOWEVER, I ACKNOWLEDGE I HAVEN'T BEEN ABLE TO FIND IN THE DOCUMENT THE ANSWERS TO

TWO IMPORTANT ADDITIONAL QUESTIONS WHICH HAVE RELEVANCE TO US. THE FIRST IS THE DEGREE OF IMPORTANCE ATTACHED TO THE RETENTION OF A PARTICULAR INDIGINEOUS CAPABILITY OR THE METHODOLOGY FOR CALCULATING IT.

THE SECOND QUESTION IS ONE THAT ADDRESSES NOTIONS OF SUSTAINING A PARTICULAR CAPABILITY THROUGH THE CONTINUED PLACEMENT OF WORK WITH A NUMBER OF PREFERRED ORGANISATIONS. IN OTHER WORDS, THE AWARDING OF MANAGED CONTRACTS.

FOR NATIONS THAT ARE SERIOUS ABOUT DEFENCE AND SECURITY, RETAINING A CAPABILITY EDGE OVER POTENTIAL ADVERSARIES IS UNDOUBTEDLY A PRIMARY OBJECTIVE. BUT THE ABILITY OF THE CAPABILITY DEVELOPMENT PEOPLE IN THESE COUNTRIES TO SELECT, OFF THE SHELF,....AND FROM WHEREVER THE SOURCE,..... THE BEST SOLUTIONS FOR THOSE ENGAGED AT THE SHARP-END OF THE RESPECTIVE DEFENCE FORCES..... WOULD CLEARLY SUBVERT ANY INDUSTRY SUSTAINMENT POLICY OF AN INTERVENTIONIST NATURE.

SO THE QUESTION IS.... SHOULD THESE SUBVERSIONS BE EXCEPTIONS TO SOME BASIC RULE? IF SO, AT WHAT POINT DO THE EXCEPTIONS BECOME THE RULE....PARTICULARLY WHEN THE EXCEPTIONS ARE OF SUFFICIENT MAGNITUDE AS TO BE INDUSTRY-SHAPING. I THINK THE

ANSWERS TO BOTH THESE QUESTIONS ARE DIFFICULT AND COULD EXPLAIN WHY WELL-MEANING POLICIES OF THE PAST, IN MANY COUNTRIES, HAVE OFTEN RUN INTO PRACTICAL IMPLEMENTATION DIFFICULTIES. THE AUSTRALIAN INDUSTRY GROUP DEFENCE COUNCIL BELIEVES HOWEVER THAT THIS SHOULDN'T BE A REASON NOT TO WORK HARDER TO DEVELOP POLICY MECHANISMS TO TAKE THESE ISSUES INTO ACCOUNT.

I READILY ACKNOWLEDGE THAT MANY OF THE POLICY INITIATIVES CONTAINED IN THE UK'S STRATEGIC POLICY DOCUMENT HAVE BEEN REVIEWED IN THE PAST IN AUSTRALIA AND ATTEMPTS HAVE BEEN MADE TO IMPLEMENT A NUMBER OF THEM.....WITH VARYING DEGREES OF SUCCESS.....AND THERE HAVE BEEN SOME SUCCESSES.

THERE WAS THE 2000 WHITE PAPER, WHICH LED TO THE DEVELOPMENT OF THE DCP..... AND WITHIN THE DCP, THERE IS GUIDANCE TO INDUSTRY ON THE "DEFENCE NEEDS OF AUSTRALIAN INDUSTRY" FOR EACH PROJECT,....AND THERE HAS ALSO BEEN THE DEVELOPMENT OF THE SECTOR PLANS WHICH TOOK MANY PERSON-YEARS OF EFFORT FROM THE DEPARTMENT AND FROM INDUSTRY....

THESE WERE ALL WORTHY ATTEMPTS AT CODIFYING A FUTURE INDIGENOUS INDUSTRY CAPABILITY BASE. IN TURN, THESE EFFORTS TO

IMPLEMENT A DEFENCE INDUSTRY POLICY PROVIDED A FAIR DEGREE OF GUIDANCE TO INDUSTRY.

A NUMBER OF COMPANIES MADE INVESTMENTS IN AUSTRALIA'S DEFENCE INDUSTRY BASED ON THE STRENGTH OF THIS GUIDANCE.

THEN CAME THE KINNAIRD REVIEW. I THINK MOST OF US BELIEVE THE OUTCOMES FROM THIS REVIEW HAVE BEEN VERY POSITIVE IN REGARDS TO PROVIDING BETTER CLARITY AND STRUCTURE TO THE ACQUISITION PROCESS. HOWEVER AS WE KNOW, THE KINNAIRD REPORT IS SOMEWHAT SILENT ON INDUSTRY POLICY MATTERS. NOT ONE OF THE TEN RECOMMENDATIONS ADDRESSES THE ISSUE..... ALTHOUGH COMMENTARY IN THE REPORT IS MILDLY CRITICAL OF THE INDUSTRY POLICY DIRECTION RESULTING FROM THE 2000 WHITE PAPER AND PARTICULARLY THE PRACTICALITY OF THE SECTOR PLANS. AT THIS POINT MANY IN INDUSTRY WERE WONDERING IF THIS MEANT A RETURN TO OPEN-MARKET-DRIVEN OUTCOMES AS BEING THE PREVAILING INDUSTRY-POLICY....AND THIS IMPRESSION WAS AMPLIFIED BY ASPECTS OF DMO'S IMPLEMENTATION OF THE DCP AND SOME OF ITS RECENT PUBLIC COMMENTS.

ALSO, REFERRING BACK TO MY COMMENTS ON THE PRIMARY ROLE OF CAPABILITY DEVELOPMENT, THE SUBSTANTIAL NUMBER OF RECENT OFF-THE SHELF PURCHASES OF STRATEGIC EQUIPMENTS, MANY ON A

GOVT TO GOVT BASIS, HAS LED TO CONCERNS THAT AUSTRALIAN INDUSTRY CAN ONLY PLAY MINOR ROLES IN THESE PROGRAMS. INDUSTRY'S CONCERN IS WHETHER THIS APPROACH TO PROCUREMENT IS TO BECOME THE NORMWITH ITS CONSEQUENT IMPACT ON INDUSTRY INVESTMENT DECISIONS.

AI GROUP WOULD SUGGEST THAT THE RESOLUTION OF THESE SEEMINGLY DISPARATE SETS OF DEFACTO POLICY GUIDANCE NEEDS TO BE A KEY PRIORITY FOR THE MINISTER'S REVIEW TEAM.

HAVING LOOKED AT THE THINKING IN THE UK..... AND THE CURRENT STATE OF GUIDANCE TO INDUSTRY IN AUSTRALIA, IT IS WORTH LOOKING AT SOME OF THE DEVELOPING FEATURES OF DEFENCE INDUSTRY IN THE **U.S.**

FIRST OF ALL I DON'T THINK I NEED COVER THE U.S. GOVT'S POLICY OF DEVELOPMENT AND SUPPORT OF A HEALTHY AND SUSTAINABLE DEFENCE INDUSTRY. THIS HAS ALWAYS BEEN AT THE CORE OF U.S. DEFENCE STRATEGY.....WHICH PRACTICES POSITIVE DISCRIMINATION FOR LOCAL INDUSTRY..

BUT IT IS NOT A POLICY OF DEFENCE INDUSTRY-AT-ANY-COST. YES THERE ARE HEAVY, AND SOME SAY DISGUISED, SUBSIDIES IN SOME

CRITICAL AREAS, BUT RECENT ACQUISITION PROGRAMS POINT TO THE U.S. GOVERNMENT ACTIVELY SEEKING MORE CAPABILITY FROM INDUSTRY FOR LESS COST.

ONE OF THE CONSEQUENCES OF THIS HAS BEEN CONSIDERABLE RATIONALISATION OF THE NUMBER OF DEFENCE INDUSTRY PLAYERS IN AREAS SUCH AS MAJOR PLATFORMS. HOWEVER CURRENT OPINION IS THAT FURTHER RATIONALISATION IS UNLIKELY IN THESE AREAS UNLESS THERE IS A SIGNIFICANT DECLINE IN THE U.S. DEFENCE BUDGET.....WHICH IS NOT THE CURRENT PROJECTION. BUDGETS WILL REMAIN VERY TIGHT BUT ARE NOT DECLINING. BUT THE RATIONALISATION TO DATE HAS PRODUCED PLAYERS WHO ENJOY NEAR MONOPOLIES IN CERTAIN KEY PARTS OF THE MARKET, JUST AS IN THE UK.

SOME CONSOLIDATION IS STILL OCCURING IN THE ELECTRONIC SYSTEMS, INFORMATION TECHNOLOGY AND SERVICE INDUSTRIES. A CASE IN POINT IS THE RECENT CONSOLIDATION OF THE BOEING AND LM GOVERNMENT-SATELLITE LAUNCH BUSINESSES WHERE THE U.S. GOVERNMENT HAS JUST AGREED THAT THERE IS NOT ENOUGH DEMAND TO SUPPORT TWO TIER ONE PLAYERS.

SO, POINT ONE FROM A LOOK AT THE U.S SITUATION, COMPETITION IN THE GLOBAL DEFENCE MARKET AT THE PRIME CONTRACTOR LEVEL IS DECREASING.....AND THIS HAS CONSEQUENCES FOR THE AUSTRALIAN MARKET. HOWEVER, COOPERATION AND PARTNERING IS INCREASING BOTH WITHIN THE U.S. MARKET, AND BETWEEN COMPANIES FROM DIFFERENT COUNTRIES. THIS COOPERATION IS BEING DRIVEN TO SOME EXTENT BY THE AGGREGATION OF DEMAND AND SUPPLY.... TO WHICH I REFERRED EARLIER. IT IS ALSO DRIVEN BY THE RECOGNITION THAT PARTNERING AND COLLABORATION, IS ESSENTIAL TO BOTH GAINING ACCESS TO THE BEST TECHNOLOGY, AND DOING THIS IN THE MOST COST EFFECTIVE MANNER

THE GLOBAL NATURE OF THESE DEVELOPMENTS ALSO PROVIDES POTENTIAL FOR A MORE SUSTAINABLE INDUSTRY BASE.

IT IS WORTH NOTING THAT 12 OF THE U.S.'S LARGEST WEAPONS SYSTEMS ARE INTERNATIONAL COLLABORATIONS INVOLVING 73 FOREIGN SUPPLIERS, PRIMARILY BECAUSE THESE SOLUTIONS REPRESENT VALUE FOR MONEY FOR THE U.S. DOD.

AS AN ADJUNCT TO THIS, THE GLOBAL SUPPLY CHAINS SET UP FOR THESE MAJOR INTERNATIONAL PROGRAMS WILL HAVE A TREMENDOUS IMPACT ON THE FUTURE PROSPECTS OF THE COMPANIES CONCERNED AND FOR THE DEFENCE INDUSTRY SUPPORT BASES OF THE

COUNTRIES IN WHICH THOSE COMPANIES RESIDE. THE COROLLARY OF THIS IS THAT FOR COMPANIES IN THE COUNTRIES CONCERNED, BEING PART OF THESE GLOBAL SUPPLY CHAINS IS LIKELY TO BE AN IMPORTANT INGREDIENT FOR SURVIVAL.

SO, POINT 2 FROM LOOKING AT THE U.S. MARKET TODAY, ANY DISCUSSION OF THE FUTURE SHAPE OF DEFENCE INDUSTRY IN AUSTRALIA NEEDS TO HAVE A STRONG GLOBAL PERSPECTIVE.....BECAUSE THESE ISSUES OF INTERNATIONAL COLLABORATION WILL AFFECT US HERE AND WE SHOULD PLAN FOR THE IMPACTS..

I MENTIONED ACCESS TO TECHNOLOGY AS A KEY MOTIVATION FOR COUNTRIES AND COMPANIES SEEKING TO COLLABORATE MORE AND LOOKING TO DO THINGS DIFFERENTLY. WHILE I HAVE CHARACTERISED THIS AS A VERY POSITIVE DEVELOPMENT, AND IT IS.....I SHOULD HIGHLIGHT WHAT I BELIEVE IS A GROWING CHALLENGE FOR COUNTRIES SUCH AS OURS....A CHALLENGE WHICH AGAIN WILL HAVE A SIGNIFICANT IMPACT ON THE SHAPE OF OUR FUTURE INDUSTRY.

THE U.S. HAS A DEFENCE R&D BUDGET OF OVER US\$80 BILLION A YEAR. THE CLOSEST COUNTRY TO THIS IS THE UK WITH 4 BILLION A YEAR INVESTMENT. ALL OF THE OTHER EUROPEAN COUNTRIES TOGETHER

INVEST LESS THAN \$10 BILLION A YEAR. DESPITE THIS LEVEL OF SPEND BY THE U.S. RIGHT NOW IT IS FAIR TO SAY THAT THE U.S. DOES NOT HAVE A MONOPOLY ON THE BEST TECHNOLOGY AND BEST VALUE SOLUTIONS.....AND AS NOTED, THIS HAS BEEN A DRIVING FACTOR FOR SOME RECENT INTERNATIONAL COLLABORATIONS.. ALSO, IN AUSTRALIA IT HAS BEEN SHOWN TO BE BENEFICIAL THAT WE HAVE BEEN ABLE TO KEEP OUR SOURCING OPTIONS AS OPEN AS POSSIBLE AND THERE ARE A NUMBER OF PROGRAMS WHICH DEMONSTRATE THIS TO BE THE CASE ..

BUT IT IS REASONABLE TO ASSUME THAT IN 10 TO 15 YEARS TIME, AT THESE CONTINUED RATES OF INVESTMENT, THE U.S. WILL ENJOY SIGNIFICANT TECHNOLOGICAL LEADS IN MANY KEY CAPABILITY AREAS. THUS, COUNTRIES WHICH SEEK TO MAINTAIN A CAPABILITY EDGE IN THEIR FORCE STRUCTURE PLANNING MAY WELL BE RESTRICTED IN THE SOURCE OF SUPPLY. THIS HAS IMPORTANT IMPLICATIONS FOR AUSTRALIA'S OVERALL ACQUISITION POLICIES.

THIS LINE OF THINKING THEN LEADS TO A REFLECTION ON THE CURRENT ENVIRONMENT FOR ACCESS TO U.S. TECHNOLOGY AND THE U.S. PROCESSES, PRACTICES AND SAFEGUARDS ON TECHNOLOGY DISSEMINATION.

THERE IS SOME EVIDENCE, AND MUCH ANECDOTAL COMMENT, THAT WHILE THERE IS SEEMINGLY A GREAT WILLINGNESS AT SENIOR LEVELS IN THE U.S. TO PROVIDE TECHNOLOGY ACCESS TO ITS KEY ALLIES, THE U.S. PROCESSES OFTEN STYMIE THE END RESULT, WITH IMPORTANT IMPLICATIONS FOR THE ADF AND , IMPORTANTLY, FOR AUSTRALIAN INDUSTRY AND FUTURE SUPPORT OBJECTIVES. AGAIN, THIS IS NOT TO SAY THAT THE U.S. DOES NOT BELIEVE THAT THE BEST SECURITY OUTCOMES CAN BE GAINED THROUGH COOPERATIVE RELATIONSHIPS. IT CLEARLY DOES.....WITNESS THE CURRENT STRENGTH OF THE AUSTRALIA/US ALLIANCE AT THE MOST SENIOR LEVELS.

BUT THIS LEADS TO A THIRD OBSERVATION TO BE MADE REGARDING THE CURRENT U.S DIRECTION.....THERE IS THE PROSPECT OF THE U.S. BEING IN AN EVEN MORE MONOPOLISTIC POSITION, AND TAKING A MORE PROTECTIVE STANCE REGARDING ACCESS TO CRITICAL DEFENCE TECHNOLOGY, THAN IS THE SITUATION TODAY. WE WILL THEREFORE NEED TO PLACE INCREASED EMPHASIS ON UNDERSTANDING HOW THE U.S OF THE FUTURE WILL REACT ON THESE MATTERS, AND SHAPE OUR POLICIES ACCORDINGLY.

IMPORTANTLY, IN PARALLEL WITH OUR CONTINUED HIGH LEVEL OF INVOLVEMENT WITH THE US, AUSTRALIA NEEDS TO ENSURE THAT OUR CAPABILITY DEVELOPMENT OPTIONS, FROM ALL COUNTRIES, REMAIN AS OPEN AS POSSIBLE.

ANOTHER ASPECT OF THE U.S. DEFENCE INDUSTRY ENVIRONMENT IS WORTH NOTING. THIS IS THE CONVERGENCE OF THE DEFENCE AND HOMELAND SECURITY SECTORS AND THE CENTRAL ROLE OF INFORMATION TECHNOLOGY TO THESE DEVELOPMENTS.

IN THE U.S., AND REFLECTED TO AN EXTENT HERE, THERE IS A CONVERGENCE IN THE DEMANDS THAT ARE PLACED ON POLICY PLANNERS AS TO WHAT IS NATIONAL SECURITY COMPARED TO INTERNAL SECURITY....WHAT IS LAW ENFORCEMENT VERSUS WHAT IS MILITARY ACTIVITY. THE CONVERGENCE WE ARE SEEING IN RESPONDING TO THESE DEMANDS LIES WITH NET-ENABLED TECHNOLOGY. EVERYONE IS BEGINNING TO REALISE THAT THERE IS GREAT VALUE TO BE HADAND THAT IS VALUE IN THE UTILISATION OF RESOURCES SENSE..... IN HIGHLY-LEVERAGED RESPONSES BASED ON TIMELY, ACCURATE INFORMATION THAT ENABLES HIGH QUALITY SITUATIONAL AWARENESS. THIS NEW ABILITY TO GAIN HIGH QUALITY INFORMATION, KNOW EXACTLY WHAT THE RESPONSE OPTIONS ARE AND HOW MANY DEGREES OF FREEDOM THERE ARE IN PREPARING THOSE RESPONSES, IS A BENEFICIAL OUTCOME THAT GOES BEYOND COMBAT CAPABILITY. IT CAN BE APPLIED TO LOGISTICS, SUSTAINMENT AND FOLLOW-ON SUPPORT AND IN HUMANITARIAN AND DISASTER

RECOVERY OPERATIONS. IN THE U.S. THE VARIOUS AGENCIES HAVE RECOGNISED THIS....THEY ARE DRIVING MORE AND MORE TOWARDS 'JOINTNESS' AND THE IMPLICIT COST EFFECTIVE RESOURCE UTILISATION.

IN TURN, THIS IS RESHAPING THE BUSINESSES OF MANY OF THE MAJOR INDUSTRY PLAYERS WHO HAVE PREVIOUSLY SERVED THE INDIVIDUAL STOVEPIPES OF THE CUSTOMER ORGANISATIONS. SOME LARGE DEFENCE PRIMES NOW HAVE BUSINESS PORTFOLIOS THAT ARE FAR MORE ORIENTED TOWARDS BEING GLOBAL SECURITY COMPANIES RATHER THAN PURELY DEFENCE COMPANIES.

CORE DEFENCE CAPABILITIES ARE BEING SEEN TO BE HIGHLY APPLICABLE TO A VARIETY OF OTHER SECURITY APPLICATIONS SUCH AS BORDER SECURITY, PORT SECURITY, CRITICAL INFRASTRUCTURE PROTECTION AND TRANSPORT NODE PROTECTION.

THIS BRINGS ME TO THE POINT THAT A CATALYST FOR THIS RESHAPING OF INDUSTRY IS THE RECOGNITION THAT INFORMATION TECHNOLOGY AND ITS ATTENDANT SKILLS BOTH IN THE COMMERCIAL, AND SECURITY DOMAINS ARE CENTRAL TO THE FUTURE HEALTH OF THE DEFENCE INDUSTRY. THUS WE ARE SEEING HIGH LEVELS OF MERGERS AND ACQUISITION ACTIVITY IN THE CURRENTLY FRAGMENTED IT INDUSTRY IN THE U.S..

THE FINAL POINT TO BE MADE HERE FROM A QUICK REVIEW OF SOME CURRENT U.S TRENDS.....AND BY THE WAY, THESE TRENDS ARE REFLECTED TO SOME EXTENT IN EUROPE AS WELL, IS THAT IF WE WERE TO LINK THIS TREND TOWARDS INDUSTRY-SECTOR-CONVERGENCE, WITH THE MOVE TOWARDS GREATER PARTICIPATION OF LOCAL COMPANIES IN GLOBAL SUPPLY CHAINS.....THESE OFFER INCREASINGLY BRIGHT SIGNS FOR THE DIVERSIFICATION PROSPECTS OF LOCAL INDUSTRY.

LET ME NOW PULL TOGETHER ALL THESE VARIOUS THREADS AND ATTEMPT TO DRAW SOME CONCLUSIONS. THE FIRST POINT I HAVE MADE IS THAT MANY OF THE PAST REVIEWS IN THIS COUNTRY, INCLUDING THE STILL-CURRENT WHITE PAPER OF 2000...AND THE RECENT REVIEWS BY TWO OF OUR IMPORTANT ALLIES HAVE CONCLUDED THAT A VIABLE, HEALTHY LOCALLY BASED DEFENCE INDUSTRY IS AN INTRINSIC PART OF NATIONAL STRATEGY. PREPAREDNESS IN ITS BROADEST SENSE UNDERPINS DEFENCE STRATEGY AND INDUSTRY SUPPORT IS A CORE INGREDIENT IN A COUNTRY'S PREPAREDNESS. AND PROPER PREPAREDNESS REQUIRES AN ACCEPTANCE THAT MANY OF THE ASSETS.....AND THE INDUSTRY BASE THAT GOES WITH THAT....ARE THERE FOR CONTINGENCY REASONS....THAT IS TO SAY WHILE SOME ELEMENTS OF THE BASE

MIGHT NOT NECESSARILY BE CALLED UPON, THEY ARE NONETHELESS ESSENTIAL.

THE RESOURCE COMMITMENT THAT GOES WITH SUCH A PHILOSOPHY IS SUBSTANTIAL.....JUST AS HAS BEEN CONCLUDED BY THE UK AND THE U.S.....AND THIS FACT DEMANDS THAT GOVT AND INDUSTRY TOGETHER HAVE TO DO SOME THINGS IN DIFFERENT WAYS TO HELP GAIN BETTER VALUE OUTCOMES. I HAVE NOTED THAT AGGREGATION IN DEMAND AND SUPPLY EVIDENCED IN PROGRAMS SUCH AS JSF AS ONE SUCH APPROACH.

I HAVE ALSO REFLECTED ON THE DYNAMICS IN THE DEBATE IN AUSTRALIA BETWEEN THE NEED FOR SOME FORM OF GOVT INTERVENTION FOR DEFENCE INDUSTRY, WHICH THE AI GROUP DEFENCE COUNCIL SUPPORTS,..... VERSUS A SIMPLISTIC COMPETITIVE/MARKET-DRIVEN PROCUREMENT APPROACH. THIS BEING SO.....THESE DYNAMICS ARE SERIOUSLY CONFUSING TO INDUSTRY AND ARE LIKELY TO BE CONTRIBUTING TO SOME SHORT-TERM-THINKING ON THE PART OF THE PRIMES.

BUT DESPITE THIS, AND AS IS BEING SUGGESTED IN THE UK,AFTER THE NEXT GROUP OF MAJOR PLATFORM PROGRAMS ARE IMPLEMENTED, IT IS REASONABLE TO PREDICT THAT SUBSTANTIAL

SECTORS OF AUSTRALIAN DEFENCE INDUSTRY WILL RESTRUCTURE SO THAT CORE SKILLS WILL BE IN MAINTENANCE, SUPPORT, MODIFICATIONS AND UPGRADES. THIS WILL BECOME THE ESSENTIAL VALUE-ADD OF LARGE PARTS OF LOCAL INDUSTRY. OUR SKILLING POLICIES NEED TO REFLECT THIS.

AND IN THIS ENVIRONMENT GAINING ACCESS TO TECHNOLOGY TO ENABLE CONTINUED PARTICIPATION OF LOCAL INDUSTRY IN THE MORE COMPLEX WORK ...WILL BE A MAJOR CHALLENGE FOR US ALL, BUT NEVERTHELESS VITAL.

THE CLOSE INTERACTION BETWEEN DEFENCE PLANNERS AND INDUSTRY IS A COMMON THREAD FOR SUCCESS ON PROGRAMS. IN AUSTRALIA THIS ASPECT NEEDS TO BE STRENGTHENED AND THE UK'S INITIATIVES IN THIS AREA OFFER LESSONS TO US.

THE CONTRACTING ENVIRONMENT WILL BE AN IMPORTANT ELEMENT OF THE RELATIONSHIP CHALLENGE AND IMPACTS THE PROSPECTS OF LOCAL INVESTMENT BY THE PRIMES.

WITHOUT STRONG COMMITMENTS BY THE LIMITED NUMBER OF PRIMES, WHO PROVIDE ACCESS TO TECHNOLOGY, THIS KEY INGREDIENT FOR OUR ABILITY TO IMPLEMENT, AND UPGRADE LOCALLY,..... WILL BE HIGHLY CONSTRAINED.

I HAVE MADE OBSERVATIONS ON THE GRADUAL DECLINE IN THE COMPETITIVE OPTIONS FOR DEFENCE PLANNERS IN THE FUTURE. THE UK AND U.S. ARE MOVING TOWARDS SINGLE SOURCES OF SUPPLY ON SOME MAJOR PLATFORMS BUT WITH A MEASURE OF COMPETITION AT THE SUB-SYSTEM LEVEL. HOWEVER, THE INCREASING INTERDEPENDENCIES OF ON-BOARD AND OFF-BOARD SYSTEMS ON SOME OF THESE PLATFORMS, DUE TO NET-ENABLED ENVIRONMENTAL REQUIREMENTS, COULD FURTHER CONSTRAIN EFFECTIVE COMPETITION AT THE SUBSYSTEM LEVEL.

NEVERTHELESS, THE PRESENCE LOCALLY OF AN INDUSTRY SUPPORT BASE WHICH CAN ADAPT THE NET-ENABLED FEATURES OF FUTURE SYSTEMS FOR LOCAL CIRCUMSTANCES...IS ESSENTIAL. THE ALTERNATIVES OF ACQUIRING THESE RELEVANT SUPPORT SKILLS OFFSHORE WOULD BE BOTH EXPENSIVE, AND WOULD ALSO DIMINISH THE INDEPENDENT OPERATIONAL EFFECTIVENESS OF THE ADF.

AND, IT WOULD PROVE A MAJOR INHIBITOR IN THE DEVELOPMENT AND SUSTAINMENT OF A WORLD-CLASS AUSTRALIAN WORKFORCE SKILL BASE..

I HAVE ALSO TAKEN A LOOK AT SOME ELEMENTS OF THE U.S. MARKET. I HAVE COMMENTED ON THE RECENT TRENDS IN THE U.S. TOWARDS

INTERNATIONAL COLLABORATION AND THE BENEFITS OF AGGREGATION OF DEMAND AND SUPPLY FOR LIKE-MINDED COUNTRIES, BUT THE QUESTION, WHICH IS YET TO BE ANSWERED OF THE U.S. IS WHETHER THE CURRENT SET OF COLLABORATIVE INITIATIVES WILL BE ENDURING, DRIVEN BY THE CURRENT PRACTICAL AND SENSIBLE REALISATION, THAT NEW CAPABILITY IS ENORMOUSLY EXPENSIVE,.....AND GROWING MORE SO.....AND THAT CLOSE PARTNERS WITH DEEP POCKETS AND CLEVER WAYS OF DOING THINGS ARE NECESSARY?

OR WILL THE U.S.'S PROSPECTS OF AN ADVANCED POSITION IN MANY DEFENCE TECHNOLOGY SECTORS, RESULTING FROM ITS HUGE AND CONTINUING INVESTMENT IN R&D,AND POLITICAL FACTORS SUCH AS THE CURRENT EUROPEAN QUEST FOR TECHNOLOGY EQUALITY WHERE U.S. COMPANIES CAN'T COMPETE,.....OR THE FEAR OF THE POTENTIAL FOR TECHNOLOGY PROLIFERATION TO COUNTRIES OUTSIDE OF THE ALLIANCE.....WILL THESE FACTORS CAUSE THE U.S. TO MAKE ACCESS TO ITS TECHNOLOGY EVEN MORE DIFFICULT....EVEN FOR ITS CLOSEST FRIENDS. NEEDLESS TO SAY, THIS WOULD HAVE SIGNIFICANT IMPLICATIONS FOR THE ADF AND FOR THE NATURE OF THE SUPPORT BASE IN AUSTRALIAN INDUSTRY. IN THIS CASE, THE STRONGEST OF POLITICAL TIES AND ROBUST LOCAL INDUSTRY

'REACHBACK' CAPABILITIES WILL NEED TO BE THE MINIMUM ESSENTIAL FEATURES OF OUR ENVIRONMENT.

ON A BRIGHTER NOTE, THE U.S'S CURRENT EXPERIENCES IN THE CONVERGENCE OF DEFENCE AND HOMELAND SECURITY DEMAND AND SUPPLY, IF REPLICATED IN AUSTRALIA, POINT TO BETTER PROSPECTS FOR AUSTRALIAN DEFENCE INDUSTRY. THIS SHOULD LEAD TO THESE BUSINESSES SPREADING THEIR BUSINESS BASE WIDER THAN IS CURRENTLY THE CASE, AND THIS PROBABLY WILL BE DONE WITH CUSTOMERS LOOKING TO AGGREGATE DEMAND AND SUPPLY ON A NATIONAL LEVEL.

FOR EXAMPLE THERE ARE SOME INTERESTING COMMON NEEDS EMERGING FROM COMMAND AND CONTROL, LOGISTICS AND FACILITIES PROTECTION ACROSS MANY AUSTRALIAN SECURITY AGENCIES.....WHICH ECHO THIS THEME. THE CONCLUSION HERE IS THAT AN INDUSTRY BASE WHICH HAS A GOOD MEASURE OF DIVERSITY WILL OFFER A BETTER VALUE PROPOSITION TO DEFENCE THAN ONE THAT DOESN'T. THE U.S. EXPERIENCE ALSO DEMONSTRATES THAT A STRONG, THRIVING, I.T.-INDUSTRY-BASE IS ESSENTIAL TO THIS FUTURE. AND I NOTE THAT WE SHOULD EXPECT FURTHER CONSOLIDATION AND RATIONALISATION IN THIS DOMAIN WHICH WILL HAVE IMPLICATIONS HERE IN AUSTRALIA.

IN SUMMARY,.

WE IN THE DEFENCE INDUSTRY IN AUSTRALIA ARE AT A CROSSROADS. THERE ARE MANY CHALLENGES ON THE HORIZON WHICH WILL IMPACT OUR ABILITY TO PROVIDE THE VALUE PROPOSITION WE ALL SUPPORT. THIS JUSTIFIES THE GOVERNMENT ENGAGING WITH INDUSTRY TO DEVELOP A COMPREHENSIVE AND INTEGRATED INDUSTRY STRATEGY WHICH WILL PROVIDE A BROAD INDUSTRY POLICY FRAMEWORK FOR DEFENCE PROCUREMENT.

MY SPEECH OUTLINES SOME BASIC PROPOSITIONS WHICH THE AI GROUP DEFENCE COUNCIL BELIEVES ARE ESSENTIAL ELEMENTS OF THE UPCOMING REVIEW. I'VE ALSO PROVIDED SOME DISCUSSION POINTS CHARACTERISING OUR CHALLENGES IN A GLOBAL CONTEXT.

WE LOOK FORWARD TO THE MINISTER'S REVIEW PROVIDING CLEARER INSIGHT AND GUIDANCE ON THESE MATTERS

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