



ARBN 115 614 803 ABN 37 252 416 031
Registration: Y2843019

AUSTRALIAN INDUSTRY & DEFENCE NETWORK INC

PO Box 334
Ashburton
Victoria, 3147
Australia

Tel: +61 (3) 9885 0907
Fax: +61 (3) 9889 0006
email: admin@aidn.org.au
web: <http://www.aidn.org.au>

29 September 2008

Defence White Paper Team
Defence Establishment Fairbairn
F4-G-015
26-28 Fairbairn Avenue
Canberra ACT 2600

A SUBMISSION FROM THE AUSTRALIAN INDUSTRY & DEFENCE NETWORK (AIDN) AS INPUT TO THE GOVERNMENT'S 2008 DEFENCE WHITE PAPER

Introduction

AIDN welcomes the community consultative process in the development of the Defence White Paper and remains focused in supporting and developing a viable, capable and healthy Defence Industry to support the Australian Defence Force.

Recommendations

AIDN makes the following recommendations to the Defence White Paper consultation process:

- the White Paper should include a strong statement on the importance of Australian industry to defence capability and sustainment, supported by a benchmarked action program;
- the Australian industry aspects of the provision and support of key ADF capabilities should be an important consideration in the force development planning process;
- the White Paper should identify clearly the national industry capabilities required in support of defence self-reliance and should outline the process by which critical capabilities shall be supported, including through a robust and comprehensive set of priority local industry capabilities and SME ownership/access to intellectual property;
- the White Paper should endorse Australian Industry Capability (AIC) Plans as the primary mechanism for the support of Australian industry engagement in defence projects, with AIC coverage being extended to cover all major projects and being reinforced through effective sanctions for non-compliance, particularly after the Contract is awarded;
- the White Paper should require the revision of procurement policy to include vastly simplified risk-sharing contract conditions and limited liabilities;

- the Capability Technology Demonstrator program could be extended further at the front end of project development with more funding and flexibility to allow for higher risk initial projects for SMEs, with a benchmarked and expedited program entry mechanism for both the CTD and Unsolicited Innovative Proposal Programs, particularly in relation to strategic local capability areas;
- improve the support for SMEs to grow International Supply Chain opportunities via the Global Opportunities Program in conjunction with the Defence Export Unit;
- existing Defence initiatives like SADI be supported and expanded, such as through joint AIDN/SADI skilling initiatives; and
- strongly support the civilian recognition of ADF skills and provide support for both the ADF and Industry to develop cross skilling platforms to allow a better integration of Defence and defence-related industry.

Background

The Australian Industry & Defence Network (AIDN) is the peak organisation for the representation of the Defence Small and Medium Enterprise (SME) perspective in the development and application of Defence Industry Policy. AIDN aims to maximise Defence-related business for SMEs. Nationally, AIDN has over 800 members, with a total workforce of over 20,000.

Every Australian State and Territory is represented by an AIDN Chapter. The AIDN submission has been approved by the AIDN National Executive that includes representatives from all State and Territory Chapters. This submission indicates our strong and collective interest in ensuring that the White Paper addresses the key issue of “Defence and Industry”. The representation of the Defence SME perspective in the White Paper development process is particularly important given the continuing substantial rationalisation of Australian defence industry.

Importance of Australian Defence Industry to Defence Capability

Every major statement of Defence policy since 1976 has emphasised that a healthy and dynamic Australian Defence Industry is an integral component of national security. To give effect to such statements, there needs to be clear links between the strategies set out in the White Paper and the statement and implementation of Defence Industry policy.

Recent Defence decisions such as the AWD and LHD Acquisition strategies have been uniformly criticised by Australia’s Defence Industry for the lack of Australian Industry Involvement. **AIDN believes the White Paper should include a strong statement on the importance of Australian industry to defence capability and sustainment, supported by a benchmarked action program** to achieve an effective relationship between Defence and Australian industry.

Sustainability

Defence Industry is a long-term business with significant up-front investment requirements. It takes many years to develop an appropriate base of skills, technology and infrastructure. As such, **the Australian industry aspects of the provision and support of key ADF capabilities should be an important consideration in the force development planning process.**

Australian Defence Industry SMEs are committed to Australia's self reliance in the support of its Defence capability and are willing to commit over the long term to measurable outcomes in terms of cost effective improvements in ADF sustainability.

AIDN believes **the White Paper should identify clearly the national industry capabilities required in support of defence self-reliance and should outline the process by which these capabilities shall be supported. This process should include the identification of a robust and comprehensive set of Priority Local Industry Capabilities (PLICs) in support of each required national capability.** For example, a national industry capability such as the ability to manufacture, maintain and modify or update submarines could require PLICs in hull manufacture and maintenance, propulsion systems maintenance, the development and modification of combat systems and the production and maintenance of sonar systems and so on.

PLICs should also be designated as National Strategic Security Priorities thereby releasing Australia from the constraints imposed by international trade agreements such as the AUSFTA.

The White Paper should also recognise that a viable, competitive, export-oriented Australian defence industry, with ownership/access to intellectual property, is a critical element of defence self-reliance. The White Paper should recognise the importance of innovation in the development of the current and future capability of Australia's defence industry and the relevance of the Cutler Review of the National Innovation System.

Australian Industry Capability Plans

AIDN considers that the White Paper should endorse Australian Industry Capability (AIC) Plans as the primary mechanism for the support of Australian industry engagement in defence projects, with AIC coverage being extended to cover all major projects and being reinforced through effective sanctions for non-compliance, particularly after a contract is awarded.

The current **AIC guidelines** are 'advisory', they lack "teeth" and therefore are likely to be ineffective. These guidelines **need to be reinforced through effective sanctions for non-compliance.** In addition, the \$50m project threshold requirement for AIC Plans is too high and should be reduced to closer to \$20 million.

AIDN strongly recommends the development of an effective strategy for enforcing the "Procurement Rules" for AIC particularly after the Contract is awarded. AIDN considers that the Procurement Rules should be adopted as a source selection criterion or considered as part of an assessment of prior performance in the evaluation process. This would also entail greater scrutiny of the efforts of Tier One companies in supporting SMEs, for example as part of their AIC commitments. In addition, AIDN supports the establishment of a mandatory hierarchical contract deeds mechanism to protect the interests of Australian SMEs in dealing with prime contractors. The complexity and level of requirements reflected in such deeds would match the scale of the contract involved. Such arrangements should be extended beyond major projects to include Defence Minor Capital projects. Improved visibility of the Defence Minors program would also be of great assistance to Defence SMEs.

Procurement Policy

Current procurement policy represents a significant barrier to entry for SMEs, and imposes risks out of proportion to the involvement of such companies. AIDN considers that **the White Paper should require the revision of procurement policy to include vastly simplified risk-sharing contract conditions and limited liabilities** rather than the current “risk management” and unlimited liability conditions which are in fact risk-averse and unrealistic and tend to push risk and liability down to the lowest levels of sub-contracting.

Innovation

AIDN strongly supports the continued operation and extension of the Capability Technology Demonstrator (CTD) Program as a principal method for the support of innovation in Defence industry. **Indeed the CTD program could be extended further at the front end of project development with more funding and flexibility to allow for higher risk initial projects for SMEs with a benchmarked and expedited program entry mechanism for both the CTD and Unsolicited Innovative Proposal (UIP) Programs.** If targeted toward PLICs this approach will considerably assist in generating the required R&D and capability in Australia to sustain and grow essential capability.

Global Supply Chains

The concept of using the leverage of major acquisition projects to integrate Australian industry into multinational supply chains is fully supported. Currently this is done as Strategic Industry Development Activity (SIDA) activities attached to major projects. AIDN members participate in such programs. However, Defence should actively monitor such initiatives to ensure that they are delivering real outcomes that would have not otherwise been realised. The DMO must exert maximum leverage from its purchasing power and contracting processes to ensure Australian firms, particularly SMEs, get an honest opportunity to earn a place in the global supply chains of overseas prime contractors.

AIDN also **supports the further improvement of support for SMEs to grow International Supply Chain opportunities via the Global Opportunities Program in conjunction with the Defence Export Unit.**

Skills Development

AIDN understands that many SMEs are diversifying into the mining and other commercial and export areas due to the lack of Defence work continuity, higher tendering costs, longer decision cycles and imposing liability and intellectual property requirements. While such capabilities may be capable of redirection to defence needs given adequate warning, the sustainment of defence capability relevant skills will remain vitally important.

AIDN recommends that existing Defence initiatives like SADI be supported and expanded. AIDN and SADI skilling partnerships should be facilitated in every State and Territory to maximise the improvements in this area. AIDN believes that the best way to address the skills and capability support challenge lies in using the Australian Industry capability (AIC) program to bolster Australian industry participation in major programs.

AIDN members also interact with considerable numbers of serving and ex ADF personnel. A repeated issue amongst these people is the lack of civilian certification for skills gained in the ADF. AIDN recommends that the Defence White Paper **strongly support the civilian recognition of ADF skills and provide support for both the ADF and Industry to develop cross skilling platforms to allow a better integration of Defence and defence-related industry.**

AIDN's members provide significant employer support for Defence Reserves. Employers would more readily accept Reservists as employees and/or take Defence staff into their workforce for cross pollination activities if ADF skills are readily identified and correlated to a Civilian Competency Certification.

Industry Engagement

Changes, delays and unpredictability in Defence's demand for support from industry puts established and specifically developed defence industry capabilities at risk. This uncertainty also lessens the likelihood of companies continuing to invest in Australian Defence Industry capabilities, research and development or innovations to the overall detriment of Australia's future ability to sustain its Defence capability.

AIDN considers that the White Paper should commit Defence to ongoing communication and interaction with industry, including early advice of decisions that change the shape of Defence's future expenditure program.

The Capability Development Executive and the DMO should engage with Australian SME Industry players to gain an understanding of whether they have the capability required or the ability to contribute to overseas capability being developed for Major Projects.

AIDN welcomes initiatives such as the recently released Defence ePortal in providing an efficient conduit between Defence and Industry capability and the growing availability of SADI funding to SMEs. The proof of value will be whether Defence does in fact engage with enterprises listed on the ePortal or whether Defence merely relies on Primes accessing the ePortal database for Australian SME capabilities on an ad-hoc basis.

Defence, particularly DMO, also could make better use of AIDN to provide a deeper understanding of the industry and support capabilities of SMEs.

Partnering between DMO and Australian Industry avoids costly duplication and promotes the development of indigenous capability. **The White Paper should promote a policy of partnering and risk sharing between the Department of Defence, particularly DMO, and Industry wherever practicable and beneficial to both parties.**

Reconstruction in Disrupted States Initiative

Following the late 2007 Defence workshop covering 'Reconstruction in Disrupted States' AIDN with the State and Territory Governments and ICN Offices has facilitated an Australian industry initiative to identify enterprises with:

- Identified and required capabilities (products or services),
- actual experience, and
- a willingness to commit to the contractual assistance of ADF Engineers for disrupted community reconstruction works in all arena facets.

To date some 40 companies from across Australia have registered for this Industry Capability Database. There were 23 industry capabilities called for and each has one or more industry nominees to support the ADF in-country reconstruction work. AIDN supports the growth of such schemes to foster Defence and Industry cooperation.

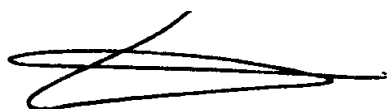
The Mortimer Review

AIDN acknowledges that the Mortimer Review is not part of the Defence White Paper Process. It is understood that the Government will move quickly in implementing the outcomes of this review. Given that the Mortimer Review will examine much of the effectiveness of Defence Procurement, AIDN believes it is a significant underpinning “Contributing Review” and looks forward to continued consultation and contribution in implementing the recommendations from the Review.

Conclusion

AIDN understands that the high level strategic objectives of the White Paper extend well beyond Industry considerations. However, for the reasons discussed, we believe the White Paper presents a valuable opportunity to recognise the importance of Industry to the nation’s defence and to deliver practical strategic guidance that also benefits the Defence-Industry relationship.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Mike Turner', with a stylized, sweeping flourish extending to the right.

Mike Turner
AIDN – National President