

February 2013

AUSTRALIAN BUSINESS DEFENCE INDUSTRY UNIT SUBMISSION TO DEFENCE WHITE PAPER

Reference is made to two previous submissions by the Australian Business Defence Industry Unit (ABDIU) to Defence – ABDIU letter dated 18 September 2012 on the subject of Innovation and ABDIU letter 13 October 2012 on the subject of Defence Industry. This submission further develops aspects of those submissions.

This submission is centred on Defence industry and addresses two important factors, namely:

1. Industry as a Capability, and
2. Support for Innovation.

Industry as a Capability

A robust, healthy defence industry base is a vital component of military capability. The current Fundamental Inputs to Capability (FICs) do not explicitly recognise industry as a capability; albeit the support category touches on this. The ABDIU believes that the ability of the local industrial base to repair, maintain, develop and upgrade is fundamental to the continued operational employment of a military capability and therefore warrants explicit recognition.

Consideration of industry as a Capability will have a number of benefits, namely:

1. The ability of Australian industry to deliver and sustain a planned capability will be considered in the early stages of project planning..
2. The impact of proposed acquisition strategies on Australian industry can be considered up front.
3. Industry as a Capability will allow a more complete consideration of the health of industry sectors including those associated with Priority Industry Capabilities (PICs) and Strategic Industry Capabilities (SICs).
4. Consideration of industry as a capability in planning stages, coupled with PIC health assessments would allow PIC-relevant information to be formally included in the acquisition strategy and tender evaluation process as follows:
 - a. For a healthy PIC – capabilities to be assessed against a MOTS/COTS baseline as per the current arrangements;

- b. For a marginal PIC – additional consideration to be given to award of contract to local company; and
 - c. For an unhealthy PIC – tender to be restricted to local companies only (if more than one option is available) or awarded to a local company by direct negotiation.
5. The impact of industry capability can be more closely linked to the delivery of operational effects. This should have benefits in the determination of whether a capability qualifies as a PIC.

Consideration of industry as a capability will require PIC/SIC definition and the associated health check regime to be owned by CCDG although intervention strategies would be managed through the DMO.

As with operational capabilities, Defence industry capability cannot be turned on and off at a whim and the results of today's decisions will manifest themselves for many years to come. Once lost, a required industrial capability takes time to build and this inevitably impacts on overall defence capability. Irrespective of the source of major defence acquisition, a capability and capacity within the local industry base is a requirement for the development and maintenance of the skills necessary for the sustainment of these systems.

Innovation

Innovation is important for a wide range of entities and for a correspondingly wide range of reasons. For companies innovation will affect survival, growth and return on shareholder investment. For nations innovation is a driver of growth and economic activity. By extension therefore innovation is of fundamental importance to an organisation such as the Defence Force for improvements in systems, processes and operational outcomes. As stated by Michael Porter and Scott Stern in a paper on national innovative capacity:

“innovation intensity depends on an interaction between private sector strategies and public sector policies and institutions. Competitiveness advances when the public and private sectors together promote a favorable environment for innovation.”¹

A close engagement of Defence with industry is therefore required if the famed Australian reputation for innovation is to continue in the defence sector. This imperative requires recognition in the White Paper of:

¹ Porter, M. & Stern, S; *National Innovative Capacity*; accessed online at http://www.isc.hbs.edu/Innov_9211.pdf on 20 September 2012

1. the importance of innovation for defence capability,
2. the need for early engagement with respect to developing Defence requirements to encourage and facilitate industry investment decisions,
3. the impact that publication of clear Defence intent with regard to capability and procurement intentions has on industry investment decisions and,
4. a holistic and seamless series of policies designed to encourage, foster and develop innovative technologies.

The ABDIU recognises that Defence currently has a series of programs aimed at innovation including the Capability Technology Demonstrator (CTD) program, the Rapid Prototyping, Development and Evaluation (RPDE) program and the Priority Industry Capability Innovation Program (PICIP). The missing portion is the support required to take a development from Technical Readiness Level (TRL) 5/6 through to being ready to be fielded at TRL 8. The lack of this development piece impacts on the ability of local companies to get their innovations to TRL 8, on the take-up of Australian technologies by Defence, and ultimately on the ability of local companies to attract, develop and retain requisite skills and to generate high value-added exports.

In an effort to facilitate this development and to achieve better outcomes for indigenous innovative technologies the ABDIU made a submission to Chief Capability Development Group (CCDG) specifically targeted at getting developments from TRL 5/6 to TRL 8. The proposal also encouraged broader Defence – Industry engagement through the use of the Environmental Working Group process.

A summary of the proposed structure from the original ABDIU submission to Defence is included below:

1. Proposals submitted to Capability Development Group (CDG) using a single page PowerPoint Quad Chart template for ease of evaluation prior to the first meeting of the relevant Environmental Working Group (EWG) in any calendar year.
2. If required an initial filtering of proposals would be undertaken within CDG to ensure that the EWGs are not over-burdened with proposals. Given that proposals would need to be at TRL 5/6 for consideration and funded on a “dollar-for-dollar” basis this is not considered likely.
3. At the first meeting in the calendar year of the relevant EWG, companies would individually be given 10 minutes to present their proposal to a Defence Environmental Panel of Experts. This panel could comprise representatives of Capability Development, the relevant Capability Manager, DSTO and an independent industry representative.
4. Shortlisted companies would then be requested to develop a detailed proposal defining, *inter alia*, project schedule, milestones, etc and test and acceptance criteria (specifications).
5. Successful projects would be nominated within six months of the initial EWG presentation and completed within a maximum of a further 18 months.
6. Following successful demonstration at TRL 8, and hence demonstration of operational suitability, Defence would have five courses of further action, namely:
 - a. No further action,
 - b. Acquisition as an Urgent Operational Requirement,
 - c. Implementation through an existing project as a Contract Change,

- d. Acquisition as a Minor Project; or
- e. Implementation as a project through the DCP process.

The obvious benefit to industry is that companies would have a product proven at TRL 8 for promotion and export.