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**THE SENATE**

**PROOF**

**GOVERNOR-GENERAL'S SPEECH**

**Address-in-Reply**

**SPEECH**

**Thursday, 1 September 2016**

BY AUTHORITY OF THE SENATE

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## SPEECH

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<b>Speaker</b> Fawcett, Sen David	<b>Question No.</b>

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**Senator FAWCETT** (South Australia—Deputy Government Whip in the Senate) (09:44): I will commence, in responding to the Governor-General's address, by congratulating you, Madam Deputy President, on your election to your position and wishing you well as you help with the governance of this chamber. And I would like to thank the people of South Australia, not only for their confidence in the Turnbull government and the coalition to provide government but also personally for their support for me to return as one of their representatives in this chamber. By way of extension from that, I also thank the members of the Liberal Party, who have put their confidence in me to represent the views that we bring in relation to ways to grow our economy to provide opportunity for people to build a better nation not just for this generation but, importantly, for the generations that follow.

We cannot start this session of the parliament without recognising that there are colleagues who, through no decision of their own, are no longer with us, and I would like to recognise from South Australia Senator Sean Edwards, Matt Williams and Jamie Briggs, who have served the people of Australia, and South Australia in particular, and who are no longer with us. But at the same time it is my pleasure to be able to welcome Nicolle Flint, the new member for Boothby, and to congratulate her on the campaign she so successfully ran in South Australia.

For the majority of the time allotted to me I would like to talk about part of the coalition's plan for Australia's economy and how we will grow that economy. I will particularly focus on the second point of the plan that was presented to the Australian people, which is around how we can better leverage investment in defence capability to make sure our defence forces have the equipment they need when they need it and that we can use that investment to benefit the broader Australian economy. The reason I wish to focus on this is that there has been a lot of discussion around this policy, including among those who have seen attempts at reform in the past and are somewhat cynical as to whether in fact reform of defence procurement will have an effect, particularly as they look at past ANAO reports that have commented on previous attempts at reform. They have commented that all that has occurred has been greater complexity and more process, cost and delay, as opposed to actually achieving the outcomes. That view extends to members of the public who saw announcements during the election campaign as being purely politically motivated as part of a broader strategy in the national interest, through to the Productivity Commission, who have challenged the underpinnings of the coalition's policy around defence industry and defence capability and have said that it is a step backwards to some of the worst protectionism they have seen, through to members of the crossbench who advocate for quite an expansive protectionist position in defence.

The policy the coalition is bringing forward is none of those things, and today I would like to talk through why the coalition's policy position is different from previous attempts and what the levers are that will actually enable us to change, as well as to articulate a little of what should change and, importantly, to highlight those people who should be responsible for driving some of that change. The first question is: why is this policy position different? Going back to 2013, one of the things the coalition took to that election was the fact that there was a need for a root and branch review of the management of Defence. That came out of the 2012 Senate inquiry into defence procurement. The then shadow minister for defence, Senator Johnston, was a member of that committee. What came forward was the promise to hold a first principles review. That first principles review, delivered after the coalition was elected in 2013, has looked at the fundamentals of how Defence manages its business and, particularly in this area of procurement, the need to have a scalable procurement process so we no longer apply the same process to buying large pieces of capital equipment as we do to smaller buys. That has been a consistent complaint from industry: that there has been huge cost; in fact, sometimes the cost of actually tendering and running the assessment process, even for the Commonwealth, has been an unreasonably large percentage of the total value of the procurement activity itself. So significant reform is coming out of the first principles review.

Secondly, there is the white paper, which, for the first time, actually tries to align our strategic imperatives with the defence capability that is required and then, importantly, not only to identify the resources that are required to

fund the pieces of equipment but, looking at the more holistic view of capability, also to look at what we need to fund to have all of those fundamental inputs to capability: the people, the training, the infrastructure, the doctrine—all of those things that go towards making a capability and that need to be funded. So there has been a more holistic view of capability in the white paper than we have seen in the past.

But the one that really impacts on the election commitment to drive a better outcome for Defence as well as for the taxpayer and the economy, through defence procurement, is the *Defence industry policy statement*. The fundamental difference in this *Defence industry policy statement* compared with the previous ones is the concept of defence industry as a fundamental input to capability. That is important, because it means that no longer do we see industry as something separate from Defence that Defence just draws on when and how it needs it without really caring about its sustainability. Instead, the service chiefs, as capability managers, actually have an interest—indeed, they have an obligation—to care about those elements of defence industry that are critical to the sustainment of effective, affordable and available capability, and I will come back to those three key words later. That is a paradigm shift from the culture that has been in Defence—and to a certain extent in government—in the past. I will talk about why that is important. It is because one of the key levers for change is understanding how we define value for money.

In the past, procurement activities have largely relied on competition to obtain value for money, and, despite a few tacit acknowledgements that you need to consider whole of life, that has focused very much on the procurement stage—the actual acquisition of capability. Now, that is fine when your barriers to entry are quite small and people can enter or leave the market fairly quickly. But, when you have large investments in infrastructure, training and skills, and manufacturing capability, it is not a sustainable approach. You cannot have a range of industry players compete for every project, and sometimes for every phase of a project, and expect that they are still going to be productive and efficient, with low-risk delivery of capability.

So the *DIPS* takes a different approach. It says we need to look at value for money across the project's whole-of-life. There is no point buying something really cheaply up-front if the subsequent contractual arrangements make it almost unaffordable to sustain. There is no point buying something really cheaply up-front if the back-end and through-life arrangements mean that that equipment is not available when the service chiefs need it to respond to government requests. There is no point buying something really cheaply up-front if we do not have the capability to keep that piece of equipment effective as the requirements of its role and its use against threats change. Value for money across whole-of-life means that Defence and the government need to understand which critical parts of industry we need to sustain; where necessary, repair or modify; and certify as equipment that is safe for use.

That does not mean, as some on the crossbench have indicated, that we should be doing everything here in Australia. Clearly, there are some things that it makes no sense to try and do here in Australia, because of either scale or complexity. For example, where there is a large, international user group of a piece of equipment with a common configuration, it is more sensible for us to tap into the engineering, design support, design assurance and manufacturing capability that support that large, international fleet than to try and do it here.

But where we have a small fleet of a unique configuration—pretty much all of our surface ships and submarines, and some vehicles, but particularly small aircraft fleets that are complex, like the armed reconnaissance helicopters—there is clearly a need for a sovereign capability in design assurance and some elements of manufacturing in order to, as a minimum, understand the consequences around equipment fatigue, repair schemes and the need to modify then certify as safe to use. In some cases, the only way to achieve that is through having the capability here to design, innovate, produce and sustain. So one of the challenges is: how do we decide what those areas are? If we are not going to do everything but we cannot afford to do nothing, how do we define where that middle road is?

One of the key elements of the *Defence industry policy statement* is the creation of the Centre for Defence Industry Capability, and a key task of that group is to define what elements of defence industry are fundamentally important to our defence capability—where we should be investing in that sovereign ability of Australians, whether they be uniformed, public servants or in industry, to have that knowledge so that industry has the capability and capacity to design, manufacture and, importantly, certify as safe for use.

Other nations, such as Singapore and France, have well-developed systems. The Defence Subcommittee of the Joint Standing Committee on Foreign Affairs Defence and Trade last year looked at the United Kingdom in detail. In 2005, the UK's industrial white paper explained the need for them to understand what their sovereign

requirements were—and we see that in practice with things like their complex weapons program or, in 2009, their long-term partnering agreement around surface-ship building, where they said, 'We are going to avoid short-term competing contracts; we are going to have a long-term partnership with a joint venture that will build all of the UK's surface ships.' They have contracting models that drive productivity, efficiency and cost savings. In return, industry has the certainty of tenure to invest in its people and its facilities so that it can deliver those efficiencies and savings to the Ministry of Defence and the UK government. There is almost a warranty from the Ministry of Defence that, if they cannot line up consistent work, they will pay for that joint venture to keep people with those key skills employed, because in the long term, even the medium term, the cost of paying for those people to remain available and skilled is lower than it is to let their skills lapse and have to start again, with all of the attendant risk and costs associated with that. The Ministry of Defence have also taken the political pain of being prepared to say, 'We will consolidate down to three key shipyards,' rather than trying to sustain large numbers of shipyards in disparate locations around the country.

The Defence approach here to shipbuilding, and the coalition's commitment to a continuous shipbuild is a plan to consolidate down to Osborne in South Australia and to two key areas of shipbuilding activity in Western Australia. Some people were critical about this during the election campaign, saying that was all about pork-barrelling. But if you look at not only the commitment in 2013 to have a continuous shipbuilding plan but also the Rand review, which talked about the need to have a sustainable workflow, and overseas experience, you see that this is a well-considered, long-term strategic plan by the coalition to put our shipbuilding industry on a sustainable footing so that we have the capacity to make vessels for Navy that are affordable over whole-of-life, available when the Fleet Commander needs them and effective in their role. You only have to look back to 2011 and the collapse of the amphibious fleet, which led to the Rizzo review, to see that these are very real risks. They are not things that are just made up and fearmongering. We have seen quite dramatic impacts on our defence capability where we have not taken this whole-of-life view around how we should be sustaining defence equipment.

What will change? The procurement processes will change. The first principles review is already starting to drive change in that regard. The feedback that I have from industry is very positive about that. The culture needs to change. The strategic culture of government, both within the Department of Finance and the Department of Defence, needs to understand that we have to rethink how we assess value for money. It needs to move beyond a focus on competition over multiple phases of a contract to long-term partnerships for these areas where there are high barriers to entry. The individual culture needs to change. I encourage Defence, when they are teaching about doctrine, personnel training, collective training and other fundamental inputs to capability—not only at the senior levels but right down to their junior officer training—to train their young officers to understand the role that industry plays as a fundamental input to defence capability.

When I was speaking at an industry conference just a couple of weeks ago, I saw an example of that long-term culture manifested in somebody with a key role of managing capability in Defence. They said what they were really interested in was military off-the-shelf acquisition. That was saying to Australian industry that they just wanted to buy offshore without seeing the opportunity for those key elements of Australian industry to be involved in development of the innovative technology and IP that makes the capability of our Defence Force greater—here you can think of current things like CEA and their radars, Saab with their 9LV combat system and other Australian innovations that have been affordable and effective and that provide a suitable base for moving forward.

That culture in Defence does need to change, and the key to it changing is this process being run by the CDIC which asks, 'What are the strategically important defence industrial capabilities we need to have?' and then allows the outcome of that assessment framework and the capability plan that will flow from it to shape the procurement decisions. So, when Defence are considering procurement and provide a brief to the government, the government can see the linkages between the proposed procurement activity and the capability plan and have the assurance that the investment decisions are going to be: firstly, good for defence and defence capability, and secondly, good for Australian industry in terms of developing those things which we want to be sustainable and where we want to develop IP and afford industry the opportunity to have a product that they can export under suitable controls to keep industry sustainable.

With this whole area of defence and its impact on the economy, it is important that we do not allow the cynicism of some in the public and the rationalist view of the Productivity Commission, who have not necessarily done their homework, to prevail. The Productivity Commission's claims about the premiums on things like shipbuilding were quite ill informed. They were talking about premiums of around 30 per cent, but the premium with ship 3

on the AWD at the moment is 13 per cent and decreasing; it is likely to be well under 10 per cent. If you take into account the fact that the human labour component of the total cost of the ship is only around 30 to 35 per cent then that premium is actually even smaller. If we commit to this continuous-build program, if we commit to getting this assessment—the CDIC process of assessing what the critical areas of industry are—we will drive more affordable defence capability looking over whole of life. We will drive more available defence capability looking over the whole of life. We will drive more effective defence capability over whole of life. The spinoff—it is a spinoff; it is not a driver—will be better jobs, better innovation and a better future for our younger people who are training, whether they be in trades or university, so that they will have a decades-long industry. This is a long-term strategic plan by the coalition, and I believe it will transform our defence and our nation.