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PARLIAMENTARY DEBATES



THE SENATE

PROOF

ADJOURNMENT

Defence Procurement

SPEECH

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BY AUTHORITY OF THE SENATE

SPEECH

<p>Date Wednesday, 12 September 2012</p> <p>Page 89</p> <p>Questioner</p> <p>Speaker Fawcett, Sen David</p>	<p>Source Senate</p> <p>Proof Yes</p> <p>Responder</p> <p>Question No.</p>
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Senator FAWCETT (South Australia) (18:59): I rise tonight to continue my remarks on the Senate Foreign Affairs, Defence and Trade References Committee report into defence procurement and specifically on the additional comments that I have made in four areas: governance, strategy, sovereignty and industry. I spoke briefly last night about the governance of Defence and the fact that we need to see a new relationship, such that civil control of the military occurs through the decisions of a well-informed elected minister connected into the governance processes of the whole ADO in an ongoing manner analogous to the chair of a board of a publicly listed company.

I also talked last night about a strategic view of Australia's defence capability: that is, rather than seeing defence and things like the white paper just as a list of equipment, looking at our national defence policy and national security policy, deciding what military outcomes we need for our foreign policy and our domestic capabilities such as counterterrorism or disaster relief and then deciding on the capabilities that we need to actually purchase; but importantly, before issuing documents such as the white paper and the Defence Capability Plan, having a much tighter feedback loop so that government are aware of what those capabilities will cost not only to purchase but also to sustain through their life, such that if they realise that the sum of all those parts is more than they wish to afford in a given time period then the trade-offs can be made before the issue of the white paper and importantly before the issue of the Defence Capability Plan, which is the plan that so many people both within the government and particularly within industry use to base quite serious investment decisions on and when that plan is not adhered to there is a significant lack of productivity of the capital that the taxpayer invests into defence.

I started to speak last night about sovereignty. Sovereignty is the ability of a nation to choose a course of action in terms of defence. It does not mean that we should seek to be a superpower who can make and sustain in Australia everything we need for the defence of the nation. It does mean, however, that we do not want to be a Third World nation who has no alternative but to accept what somebody else chooses to sell us, at a time of their choosing, in a manner of their choosing and with whatever limitations they choose to place

upon it. Australia has always chosen to be somewhere along the spectrum between those two extremes, and the label that has been given to it is that Australia is a 'smart customer'.

What is happening at the moment, though, is the ability to be that smart customer actually requires that both Australian industry and people within Australia's defence organisation need to have the skills and the experience, and the combination of those two means the competence, to assess what is being offered to the nation. The way you obtain those skills is not through doing a course; it is by having hands-on experience. It is like somebody who is an apprentice who works under a master: he gets the experience as well as his TAFE course to become qualified. The only way for defence industry and for Defence to get experience in things such as design engineering, certification, assessing risk and the ability to repair or modify equipment is to actually do it. So there has to be an investment in a level of activity that occurs with Australian personnel to provide the opportunity to grow that experience and therefore the competence to choose our place along the spectrum between the superpower and a Third World nation. Unfortunately, the short-term view of governments that have driven an increasing reliance on off-the-shelf acquisition has meant that we have seen a decreasing level of opportunity for people to grow those skills. So whilst we have people who are doing courses and getting qualifications, without the opportunity to gain the experience, we no longer have enough people with the competence to assess the risk of procurement decisions.

One of the things that came to light during the Senate inquiry was that many solutions presented to government as low-risk, off-the-shelf solutions were in fact quite developmental. Part of the reason that that was not picked up and flagged to government was that people who were assigned to the task did not have the appropriate background in design engineering, in test and evaluation or in certification types of activities to be able to evaluate the datasets that were provided to them by the manufacturer and therefore to provide an informed report back to the decision makers within Defence and government as to the true state of the piece of equipment. So there is a long-term view that has to be held here, and that is that if we wish to be a smart

customer we do need to make a level of investment. As I say, it is not about being a superpower and doing at all, but we cannot afford to just keep going on the trajectory we have been on, whereby we will end up being like a Third World nation. One of the things that differentiates a First World from a Third World nation is the sovereign ability to assess high-tech equipment, where necessary to modify or repair it, to understand the level of safety, risk and capability that it offers, to certify it and then to use it in the military.

A good example of that, because many people think if it is off the shelf it will be suitable, is the Chinook helicopter. The CH-47D helicopter, which is currently in service in Afghanistan with the Australian forces, is a military off-the-shelf helicopter purchased through the American forces under the foreign military sales program. Despite that, before Australia could deploy that to Afghanistan and earlier to other parts of the Middle East, the government did not accept the risk profile that the large part of the American army accepted, so significant modifications—around electronic warfare self-protection, ballistic protection for crews and improving the nature of the self-protection weapons, the Gatling guns, that were on the aircraft, as well as things like sand protection for the engines—were required before that aircraft could be deployed. What that points to is that an off-the-shelf acquisition may not meet the needs of Australia for safety reasons, operational reasons or just geographic reasons such as the distances we need to cover and the conditions we need to operate in. We need to have the ability to identify where those gaps in capability are and, as necessary, to modify, certify and operate the equipment. Defence industry is part of our defence capability. Unfortunately, defence industry has had to work over many years in the face of some fairly entrenched cultural indifference and even antagonism from both government and Defence. ADF personnel quite frequently talk about the fact that industry is just there to make a profit and should not be trusted. Executive governments of both persuasions have at times appeared to regard defence industry just through the prism of job creation rather than seeing it as part of our national security capability.

The Defence Materiel Organisation appears to regard industry as having an unending capacity to absorb risk without cost and to respond at short notice despite indefinite delays to procurement decisions. The DMO expects industry to be willing to create and retain advanced manufacturing capability without any guarantee of reliable cash flow to pay for the lending it has often made to acquire that capability.

Despite that, there is a rich history of Australian companies performing well, and so we need to change the nature of our engagement with industry. Again,

some of those sovereignty decisions come in. At the moment decisions are made purely on the basis of competition. We seem very wed to having competition and seem to think that is the best value for money. In the short term that may be true, but when you look at the concept of sovereignty and that ability to be a smart customer, given that it applies to industry as well as to the Defence Force, there are some situations where the consideration of industry capability should be part of the case that is put to government prior to first and second passes so that the government decision on where, when and how it will purchase equipment takes into account the investment that it wishes to make in a given part of our defence capability.

The current priority industry capability and strategic industry capability sound good on paper, but you can read through the report and the additional comments I have written to look at examples of where the theory is good but in practice it is not working. It is not allowing us to maintain that level of sovereignty to be the smart customer. It is that growing gap between where we think we are, and how we like to label ourselves, and the reality that is at the heart of some of our procurement problems. For those who are interested in the defence of our nation, I commend the Senate report and my additional comments to them.