

**Submission
No 16**

INQUIRY INTO THE DEFENCE INDUSTRY IN NEW SOUTH WALES

Name: Australian Industry & Defence Network NSW

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AIDN NSW SUBMISSION TO THE INQUIRY INTO THE DEFENCE INDUSTRY IN NSW

BACKGROUND

AIDN NSW is the NSW chapter of the 'Not-for-Profit' organisation the Australian Industry & Defence Network Incorporated (AIDN), which is the national industry association for small-to-medium enterprises (SMEs) wishing to do business in the defence and security sectors. Established in 1995, AIDN represents the interests of Australian SMEs in the defence and security industry sectors by advocacy, representation and member services to maximise their defence and security related business.

AIDN is made up of chapters from all states and territories and has a combined national membership network in excess of 750 principal SME companies. Its chapter structures are optimised to reflect the nature of the defence and security industries in each State and Territory, which ensures that its national direction is informed by a full range of industry views.

AIDN NSW is an incorporated association under NSW legislation and was established in 1994. It represents some 130 companies working in the defence and security sectors.

A FRAMEWORK FOR THE STRUCTURE OF THE DEFENCE INDUSTRY IN AUSTRALIA AND NSW

In order to prioritise consideration of the defence industry, both Australia-wide and in NSW, the Federal Government's Defence White Paper and Defence Industry Policy Statement (DIPS) released in 2016 provide a sound basis. The importance of the industry is underlined by its being considered a Fundamental Input to (Defence) Capability (FIC). Certain parts of the industry are given even more importance by being defined as Sovereign Industrial Capabilities (SIC), within a Sovereign Industrial Capability Framework. These SICs are then part of a Defence Industrial Capability Plan (DICP).



MAXIMISING DEFENCE RELATED BUSINESS FOR NSW SMALL TO MEDIUM ENTERPRISES



AIDN considers that framework in which to consider these priorities can be structured as follows:

1. Industry can be looked at in the Capability Streams defined in the White Paper:
 - Intelligence, Surveillance, Reconnaissance
 - Space, EW and Cyber
 - Maritime Operations and ASW
 - Strike and Air Combat
 - Land Combat and Amphibious Warfare
 - Key Enablers (Workforce, Infrastructure, Defence Estate, ICT, NGT and Defence Posture)
 - Air and Sea Lift
2. Capability can then be considered over 3 Horizons:
 - Horizon 1 - capability needed now to support the force-in-being
 - Horizon 2 - capability needed for future Defence projects in the Industry Investment Plan (IIP).
 - Horizon 3 - capability needed to ensure maintenance of a capability edge going forward
3. Methodology for establishing the framework (from each Capability Stream and at each Horizon):
 - Capabilities at the program level that have been prioritised based on the application of strategic guidance and the assessment criteria in the required industrial capability outcome
 - Specific industrial capabilities that underpin defence capability and that are assessed as required to be controlled by Australia
 - DICP structure
 - Selection criteria - Protection of Intent; Independence of Action; Interoperability Limits and Benefits; Assurance of Supply; Essential Skills Retention; and Leverage Comparative Advantage
 - Horizon 3 capabilities – require an Evolutionary Process to take account of emerging/disruptive technologies

This framework can then be used in NSW to inform decisions on the priority to be given to supporting those capabilities most likely to be required by Defence in the short and longer term. AIDN NSW urges the NSW Government to support this Framework. However, this strategic approach will not cover all situations. Further specific support measures are described in later sections of this submission.



THE AIDN POLICY POSITION ON SUPPORTING AUSTRALIAN INDUSTRY

AIDN has produced a comprehensive Defence and National Security SME Policy Position with a strategically formulated set of key objectives to be used in Defence projects to recognise industry as a FIC and support other policies contained in the DIPS. These key objectives are:

- A reconsideration of the definition of value of money in the assessment of both defence capability, sustainment and other project source selection options and defence industry programs to take into account industry as a Fundamental Input to Capability, Sovereign Capability and a range of national interest considerations.
- Mandatory inclusion of relevant Sovereign Industrial Capability in the AIC plans for projects, with clear objectives and milestones, appropriate public reporting of implementation status and a strategic approach to implementation through comprehensive requirements.
- The Defence Industry Capability Plan (DICP) to further inform rigorous priorities for AIC Plans in projects, and to enhance self-reliance through broadly based support for Sovereign Industrial Capability and key technology areas where Defence should carefully nurture its organic SME industry. SMEs particularly contribute to core Defence capability in new technology areas such as ICT, Cyber Security and Simulation Technology.
- Innovation to be a key objective within the Defence Industrial Capability Plan, with a focus on developing capability to drive innovative solutions for projects in the Integrated Investment Program (IIP).
- Where AIC Plans fail to deliver Australian content of at least seventy-five percent of the value of projects including the first 5 years of Through Life Support, the contractor be required to implement an Australian Industry Participation Program (AIPP) to make up the shortfall. In addition to delivering project capability, the AIPP may include:
 - Further elements of the DICP not already included in AIC Plans
 - Innovative solutions that enhance project capability or reduce project, operational or support costs, such solutions being valued at 250% of their cost when delivered by an SME and 150% of their cost otherwise,
 - Project capability delivered to Global Supply Chain customers, or
 - Excess AIPP delivered in other Defence projects.
- Prime Contractors be held accountable for the achievement of AIC KPIs in their contracts, with a requirement for annual reporting of progress. In addition, failure to fulfil the requirements of endorsed AIC plans to have real consequences for non-compliant prime contractors including:
 - For major failures, contract cancellation,
 - For other failures by the public reporting of such non-compliance, and

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- Impacts on the future tender assessment of non-complying companies.
- AIC Plans to include contractually binding deeds of agreement between the prime contractors and supporting SMEs, with such deeds including designated performance requirements for both the prime contractor and SMEs. Changes to the deed would be subject to usual contract change procedures.
- Consistent with the Defence First Principles Review and the establishment of the Centre for Defence Industry Capability (CDIC)¹, a strategically focussed and integrated system be put in place to manage all aspects of SME participation including:
 - efficient and effective scrutiny of AIC Plan, Defence Industrial Capability Plan and Australian Industry Participation Program implementation.
 - Recognition that Defence SMEs are often fundamental to delivery of core capability and that consequentially, Major Service Providers in the Defence Support Services Standing Offer Panel and similar arrangements must be contractually bound to produce AIC plans with identical structure and value to Acquisition contracts, and to utilise SMEs in them.
 - Use of contracting strategies that maximise the potential for SMEs to engage directly with Defence as individual organisations or in consortia
 - Growing SME engagement in Industry policy by direct involvement in the Centre for Defence Industry Capability (CDIC).
 - To encourage new participants into Defence in both manufacturing and services sectors, re-examining and simplifying the current cumbersome Defence Security framework. It is imperative that Australia maximises its ability to transfer talented workforce from other industries to Defence to meet the workforce requirements of the Integrated Investment Program.

AIDN NSW urges the NSW Government to support this Policy Position as key strategy in maximizing the flow of work to NSW SMEs and NSW industry more generally.

¹ 2016 Defence and Industry Policy Statement (DIPS), Section 1 – the Defence and Industry Partnership, p11



SPECIFIC SUPPORT MEASURES

In addition to the more strategic approach proposed in the previous two sections, AIDN NSW considers that there are also many specific measures that will benefit the industry. These can be summarized as:

- AIDN NSW strongly supports the collaboration taking place NSW Defence Advocate Air Marshall (ret'd) John Harvey and the Defence Advocates from other states. Such collaboration has the real potential to increase the size of the defence industry market overall, and so the share to all states. AIDN NSW would also support further development of this collaboration, with inclusion of industry organisations in it to be considered.
- As projects become larger and more complex, and prime contractors seek to rationalise their supply chains to reduce the number of sub-contractors they deal with, alliancing between SMEs becomes more important. However, alliancing in the defence sector is known to be weak. Further, both government and prime contractors have had little experience in contracting models which would promote such alliancing. NSW Government support to provide training in alliancing models and contracting strategies for alliances would greatly assist in this area.
- The NSW government to assist NSW companies win their defence tenders. In the US, it is standard practice that every congressman actively lobbies for the contracts being pitched by the defence companies in their districts. We need our state government to do something similar. This isn't just about lobbying for the very large contracts, but also includes making calls in support of the smaller types of contracts that SMEs are pitching for.
- Defence Industry in NSW feels unsupported by a history of from no to little interest in the NSW Defence industry. As a result, our NSW qualified personnel are working out of state and thus not spending in NSW to the extent they could. This can only be changed by the Government demonstrating its support at a high level and over an extended period.
- NSW SMEs suffer from the need to travel, predominately to Canberra now but more likely to SA or WA or Vic in the future. This could be ameliorated by the NSW government setting up secure facilities, connected to the Defence secure communications networks (DSN/DRN) that can be "hired/used at no cost" by SMEs and small business to undertake defence work without travelling. It would have a video conferencing facility and classified meeting rooms. One could be established in each of Sydney, Newcastle and Nowra. This would not be a massive cost and reduces SME bid costs and increases win chances enormously.
- Promote Regional and SME capability more. Have a rolling focus on the NSW Industry website and marketing across the NSW capability base.



- Undertake a capability study and visit all defence companies to verify and validate capability.
- Fund the establishment of a Defence SME Accreditation scheme by AIDN NSW to map the pathway for SMEs from entry to Global Supply Chain, and show how accreditation works. Identify gaps and build coaching or mentoring or training bridges.
- Reconstitute the Defence Advisory Board for NSW. Mirror other states. Put a good mix of advisers on the board but must include SMEs....and of course AIDN NSW.
- LHD Maritime High Electrical Power support is wanting. WE have good High Power training and support capability here in NSW but not in the Maritime Context. Both LHDs are based here. NSW Government to assist to create a Centre of Excellence for Maritime High Power in NSW.
- Be proactive about creating Newcastle as the auxiliary overflow base for Defence, with a long range plan for a Submarine base capability.
- Build regional defence support capability – there are examples above and others
- Promote and assist our Education institutions to get into the Maritime Shipbuilding College
- Promote our Joint Strike Fighter-based NSW industry
- Give greater promotion to the benefits of the Defence Garden Island Dockyard in our backyard in Sydney.
- Work with Defence to develop wharves and enhance capability to berth cruise ships. There are examples where these can coexist.
- Build NSW support for Defence’s recently-established Innovation Portals by both publicizing there existence and supporting SMEs to submit successful proposals.
- Promote greater NSW attendance at the various Defence industry forums such as SEA 1000.
- Build NSW support to “building a bridge” project for non-defence SMEs to offer services and products into Defence. AIDN NSW and other industry organisations could be funded to develop and drive such a program. Or it could be done in-house in the Department of Industry.

AIDN NSW would be pleased to provide further detail on these proposals and to provide support in their implementation.



CONTACT DETAILS

For further details on this submission, AIDN NSW can be contacted via the Executive Officer:

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We trust this submission will be looked on favourably.

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