

The Northern Australia Defence Summit

Defence Industry Policy Statement: What it should mean for defence industry

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John O'Callaghan, Executive Director, Ai Group Defence Council

Introduction

Thank you for the opportunity to speak to you today about the defence Industry Policy Statement and what it should mean for defence industry.

I come here today on behalf of the Australian Industry Group (Ai Group) which represents the interests of nearly 60,000 Australian businesses across a range of industry sectors, including defence industry.

As Executive Director of the Ai Group Defence Council, it is timely to speak to about a number of activities associated with development and implementation of the Defence Industry Policy Statement.

In speaking to the topic, I want to set the scene via the following themes:

- Turnbull Government's approach to Defence and defence industry;
- Role of prime and sub-prime defence industry contractors;
- Ministerial line-up and defence industry;
- Defence Industry Policy Statement and defence industry; and
- Future for defence industry in the Top End

I'll aim to leave some time for questions at the end, so feel free to bail me up then.

The Turnbull Government

Prime Minister Malcolm Turnbull inherited a Defence policy from his predecessor, former Prime Minister Tony Abbott, which had a number of key features.

These included:

- A commitment to restore the Defence Budget to 2 per cent of GDP over the following decade (the Defence Budget guru, Mark Thompson from ASPI advises that spend is now running close to 1.9 per cent of GDP, up from 1.65 per cent when the Coalition came to office in 2013);
- Approval to acquire an additional 58 F-35 Joint Strike Fighter aircraft (making a total of 72 aircraft ordered for the RAAF), with a squadron to be operational at RAAF Tindal (the first aircraft will enter service with the RAAF in 2020) – which will also see hundreds of millions of dollars (\$1.6 billion at RAAF Tindal and RAAF Williamstown, near Newcastle) of investment to house the squadron;
- A promise to construct 12 new submarines in Adelaide (this followed the leadership challenge in February 2015, led by Coalition members and senators in South Australia); and
- Strong support for the Australia/United States defence relationship, including here in the Top End.

One of Prime Minister Turnbull's first actions upon becoming PM, in September 2015, was to witness the signing of the contract awarded to Thales Australia to build 1,100 Hawkei vehicles in-country. He commented to the Chief Executive of Thales Australia, Chris Jenkins, that he wanted to see this vehicle exported. Over time, you will see this vehicle operating across the north.

The Prime Minister is tech savvy and fully appreciates and promotes the benefits of advanced technologies and associated skills embedded across Australia's defence industry.

He appreciates, too, the technology transfer which occurs from defence industry into other industry domains. Examples include remotely operated trains in the north-west of WA from technology evolved from the F-35 and

Thales Australia's aircraft management system – part of Thales world-wide role which sees 2 out of 3 aircraft flying anywhere in the world at any time managed through this system.

Those of you involved in defence industry appreciate the need to sustain your businesses through both Defence and non-defence work. As a general principle, reliance on Defence work would not offer consistent cash flow, which is especially important for SMEs.

Based upon my own experience working at the Harold E Holt Naval Communication Station at Exmouth some years ago, some specialist or niche capability companies are capable of sustainment directly with Defence. These include locally based SMEs involved in specialist communications support.

Role of Prime and Sub-Prime Defence Industry Contractors

Thirty years ago, Australia's defence industry was dominated by fully government owned factories and dockyards, such as the Government Aircraft Factory in Melbourne and Garden Island Dockyard in Sydney. Today, there is only one government owned player, ASC, based in Adelaide.

The Turnbull Government announced on 11 October 2016 that ASC will be split into three separate government owned companies during 2017. These will support the key capabilities of:

- Shipbuilding;
- Submarine sustainment; and
- Infrastructure

Over the past thirty years we have seen the emergence of some of the world's largest multi-national defence industry companies in Australia. These include: Airbus, BAE Systems, Boeing Defence, Lockheed Martin, Raytheon, Saab Systems and Thales.

Each of these companies have developed supply chains of Australian companies, some of whom are represented here today. A number of these companies – such as Ferra, Marand and Quickstep – are members of the global supply chains of one or more of these primes or sub-prime contractors.

An upside is that each of these mega players has substantial R&D capability offering, for example, scope for Australian supply chain member companies to leverage this capability.

About a maximum of 3 per cent of the international work of these prime and sub-prime contractors occurs in Australia. You may well ask, therefore, why did they bother to come here?

One reason I suggest is because they could see an opportunity to expand their business activity in our region, which happens to be the fastest growing region in the world.

Another is that they could see that Australia was on the cusp of a major capital expenditure program with some 85 per cent of the current capability of the Australian Defence Force being upgraded or replaced. The cost of this upgrade over the next decade alone will amount to some \$195 billion. This is the largest Defence investment program since the Second World War.

Australia offered a common operational environment with all of our coalition partners. This has the advantage of a high degree of interoperability between platforms and systems.

They saw, too, that Australia is a relatively stable democracy (some might dispute this given the number of changes of Prime Minister in the past decade!) with an economy which has seen 25 years of continuous growth. The relevance to business is that security and stability provides a basis for confidence for investment in jobs, skilling and facilities expansion.

Importantly, Australia has a highly capable, experienced workforce able to undertake design, development and sustainment of advanced technology capabilities in both Defence and non-Defence domains.

Our universities are recognised as world-class, attracting large numbers of international students many of whom go on to become leaders in their home countries. This is attractive for further engagement in the region now and in the future.

The Ministerial Team

For the first time ever the Prime Minister appointed a second minister for the Defence portfolio as a member at the cabinet table. No other portfolio has this situation, one which could result in profound benefits for defence industry over time.

Both Senator Marise Payne and Christopher Pyne MP are experienced ministerial performers.

For the first time, we have a dedicated Minister for Defence Industry in Christopher Pyne.

Greg Sheridan, the respected Foreign Editor of *The Australian*, recently described Mr Pyne as follows:

“The arrival of Christopher Pyne in the defence portfolio is the best news on national security for a long time ... Pyne has been hyperactive in his new portfolio and that is what Defence needs.”

I can attest to Minister Pyne’s activism. He is an accomplished media performer able to articulate a narrative which promotes the excellence of defence industry. He’s not frightened to express his views forcefully and colourfully, similar to, say, former Prime Minister Paul Keating.

Minister Pyne is comfortable taking quick decisions, backing his judgement.

He has been visiting many defence industry companies since his appointment, listening to the views of management and workforce alike.

Two week ago, Christopher Pyne was in Washington DC meeting with the Secretary of Defense, Ash Carter, and other senior officials promoting Australia as the regional hub for F-35 sustainment. This is an ambitious bid, but one, I suggest, with real possibility. In time, a number of companies in the Top End could well be the beneficiaries of Pyne’s advocacy on this program.

A reference point for thinking about what this may mean for Australian companies is this: traditionally, sustainment support has been provided in-country for around 70 plus fighter aircraft, such as the F/A-18. The JSF program offers scope to extend this activity to include sustainment potentially

of hundreds of aircraft in the region, noting that the US is committed to supplying nearly 3,000 F-35 aircraft.

Defence Industry Policy Statement

In discussing the Defence Industry Policy Statement, I should briefly mention it as part of the trifecta of major policy announcements by the Turnbull Government earlier this year. These included the:

- Defence White Paper;
- Integrated Investment Program; and
- Defence Industry Policy Statement.

Defence Minister Marise Payne said that ‘The White Paper, together with the accompanying 2016 Integrated Investment Program and 2016 Defence Industry Policy Statement, sets out the Government’s vision to ... collaborate with defence industry.

The Defence White Paper:

- Announced the Coalition Government’s national security focus and priorities;
- Affirmed commitment to a strong, internationally competitive and sustainable Australian naval shipbuilding industry;
- Flagged the Government’s policy to invest in the partnership with Australian defence industry to develop innovative technologies and deliver essential capabilities;
- Recognised the “frustration” within defence industry from previous delays in important capability investments; and
- Acknowledged defence industry as a Fundamental Input to Capability, or FIC.

Given time constraint, I don’t intend to discuss the Integrated Investment Program which replaces the Defence Capability Plan. You can access it on-line at the Defence website if you haven’t already done so. It outlines the capabilities to be acquired over the coming decade.

The Defence Industry Policy Statement centres on two key initiatives: the Centre for Defence Industry Capability (CDIC) and a new approach to Defence innovation. Both initiatives will attract investment of around \$1.6 billion to 2015-26.

The statement had about a 12-month gestation. Importantly, defence industry played a key role in its design. A 'Kitchen Group' of Ai Group Defence Council CEOs sat with the Defence drafting team, led by Defence Industry Division Head, Kate Louis, to advise on the key features of the policy for the benefit of defence industry. Kate Louis had invited the 'Kitchen Group' as a trusted group able to participate in such an important activity.

The group advised that it was unwise to attempt to lay out fully the precise detail of the new structures of, for example, the CDIC at the time of release of the statement. This also applied to the new innovation structures which are now coming to fruition. I expect that you'll see the benefit of these in the coming months.

The Ai Group and its defence industry member companies have a material interest in making sure that the statement's initiatives are achieved, for the benefit of our defence industry.

Minister Pyne recently announced the co-chairs of the CDIC Advisory Board, to be jointly led by Defence and industry. CASG chief, Kim Gillis, and the former CEO of Lockheed Martin Australia, Paul Johnston, are the co-chairs. An announcement about the membership of the Advisory Board is imminent.

The CDIC Advisory Board will be tasked with designing the role of the CDIC, which is to:

- Promote defence industry competitiveness;
- Guide the priorities across defence industry; and
- Connect defence capability with innovation.

Funding for the CDIC will amount to \$230 million over the next decade.

Around \$730 million will be provided for research on next generation technologies with, according to Defence, the potential to deliver game-changing capabilities critical to defence and national security. The Defence

Science and Technology Group will take the lead role in conducting and integrating research in next generation technologies.

A new Defence Innovation Hub, funded at around \$640 million to 2025-26, will be a virtual network intended to bring together Defence's innovation programs. According to Defence, the Hub will be designed to assist defence industry to collaborate on innovation efforts that deliver a capability edge through the capability life-cycle from initial concept, through prototyping and testing to introduction into service.

The final feature is the Innovation Portal under the CDIC. It will be a key communication bridge between Defence, industry and academia, providing vital connections between SMEs and Defence. Companies will connect through *business.gov.au*, the doorway into the Hub of new starters.

Once in the portal, business advisers will engage with companies to assess and potentially refine the idea. Advisers will assess the idea against Defence needs and identify its competitive advantage. Business advisers in the CDIC may also look at the company to assess if it is ready to do business with Defence. The CDIC will have scope to help the proposal to mature.

From my perspective, I will want to see from the CDIC and innovation structures quick results for Australian companies. It's the case that there has been a delay in informing defence industry about the impact the new policies will have on them, due principally to the mid-year federal election and appointment of the new Turnbull Ministry. This delay was unavoidable. The challenge now is to pick up the momentum, with Minister Pyne the champion for doing so.

The Future for Defence Industry in the Top End

Many years ago I had the pleasure of accompanying the then Defence Minister, Kim Beazley, on his regular visits to the Top End to promote defence of the north. He used to refer to the north as Australia's defence frontier. Nothing has changed, the more so as our strategic circumstances become more challenging in our region.

In addition to the F-35 regional sustainment role mentioned earlier, two other events in the past fortnight have reinforced the importance of our north in our Defence architecture.

The first was the announcement by the Minister for Defence Marise Payne during her visit to Washington DC when she met with US Defense Secretary, Ash Carter, to discuss Force Posture Initiatives. It contains two important aspects: the annual six-month rotational deployments of the US Marine Corps and enhanced air cooperation, both of which will occur in the Top End. These activities will see a sharing of the costs, amounting to more than \$2 billion in infrastructure investment over the 25-year life of this agreement.

The skilled, reliable workforce here in Darwin will play an important role in building and maintaining the facilities needed to support the US Marine Corps regular deployments. The scale of this activity will also require additional local vocational training of students in a range of trades including carpenters, electricians and plumbers.

The second development occurred with the visit to Australia of the Singaporean Prime Minister. Last Friday, Defence Minister Marise Payne and Prime Minister Lee signed a Memorandum of Understanding allowing for 14,000 Singaporean Armed Forces personnel to conduct unilateral Army training in Australia for up to 18 weeks per year. Around \$2 billion will be invested in the training areas at Townsville and Shoalwater Bay.

Each of these activities will provide business opportunities for Australian defence companies and others to support regionally vital activities.

Conclusion

For the first time in many years, the prospects for improving the health of Australia's defence industry are on the up. In speaking to many defence industry representatives over recent months, including at the recent Land Forces Convention in Adelaide, there is a high degree of enthusiasm for the policies announced by the Turnbull Government. Bringing the array of initiatives to reality is a shared responsibility for Defence and defence industry. Thank you.