

Industry as a FIC

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THE First Principles Review and the Defence Industry Policy Statement (DIPS) make it clear that the Government wants to redefine the relationship between Defence and Industry. The changes in policy will lead to an assessment of sovereign industry capabilities deemed important by Government and for the first time, a Defence Industry Capability Plan.

The motivation behind this is not just job creation – the intended outcome is military capability that over the life-of-type is more affordable, more effective and more available to the services. In this regard the DIPS approach differs significantly to an offset policy (mandated for defence procurement in many countries) where industrial activity is generated but often on a short term basis and often at additional cost. Through DIPS, Government is flagging its plan to support invest-

ment in a sustainable base of industrial capacity and individual competencies in areas where Australia requires the ability to take sovereign decisions/action independently of the policies or priorities of any other nation.

If the vision is to become a reality, this policy intent must drive change in Defence's procurement practices and priorities.

The first step is to move away from competition forming the primary basis of achieving value-for-money at each step of a project (design build, maintain) and to assess the benefits over the life-of-type that strategic partnerships under suitable contractual models can achieve. The UK complex weapons program is one exemplar where contracting for a long term partner has delivered better capability with increased productivity, lower risk and lower cost.

A second step is to consider industry capability on the basis of programs (ie: industry input to all aerospace systems) rather than

individual projects in isolation. Just like other Fundamental Inputs to Capability (FIC) such as personnel, the three service chiefs – as capability managers – should be responsible to ensure that industry effectiveness and sustainability is considered at a strategic level.

Third, where industry FIC are affected, Defence should be prepared within reason to change the timing and nature of acquisition so as to leverage procurement funding to sustain those elements of industry that have been deemed fundamental to military capability.

Finally, the assessment of value for money must give greater weight to factors other than the upfront price which – when made the primary consideration – can mask unintended consequences that drive a higher net cost across the service life of the system (particularly when metrics such as availability and effectiveness are included). Spillover effects into productive capacity and exports from complex defence programs should also be considered. *

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