

Principles and Practice in Defence Procurement



DEFENCE

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In the previous two columns I've outlined the paradigm shift in Government's thinking regarding its relationship with industry as it implements the First Principles Review call for industry to be treated as a fundamental input to capability (FIC). Key to this changed relationship is that Government will take the sustainability of industry into account when planning procurement and where possible, enter into long term partnerships to encourage industry investment in people and infrastructure that will drive productivity while lowering cost and risk to the tax-payer.

There could be no better example of these principles being put into practice than decisions of the Turnbull Government that are forming the basis of the long term naval shipbuilding plan. To ensure the ongoing effectiveness of complex military hardware like the Future Submarine and Sea 5000, Australia must possess a sovereign capability to maintain, repair and modify that equipment.

This FIC has been at risk as Australian shipyards close or lay off staff due to a lack of work as the LHD and AWD projects (both commissioned by the Howard Government) finish or start winding down from the construction phase. As stated by Defence in

Senate Estimates on numerous occasions, preventing the so called "valley of death" would have required the Government of the day to have made decisions to commission new ships at some point between 2007 and 2013. Not only were no such decisions taken, the slashing of the Defence budget to pre WWII levels and deferral of projects that occurred during the same period, caused considerable harm to many of the second

tier suppliers who generally form the supply chains for ship building primes.

Since its election in 2013, the Coalition has boosted funding to defence and brought forward consideration of capability requirements for Navy so as to minimise the degradation of the ship building FIC. A focussed effort to expedite an evaluation process for over 40 surface vessels and 12 submarines has brought forward work by a number of years. In parallel, decisions to consolidate to key shipbuilding hubs in Henderson (WA)

and Osborne (SA) have been made, consistent with the Defence Committee report, the RAND Corporation Review into naval shipbuilding and overseas best practice so as to make future shipbuilding capabilities sustainable.

The release of the Defence Industry Policy Statement has provided a policy framework to consider whether the "premium" associated with a local build is significant when costs are considered over the whole of life. As the Defence Committee report concluded, whole-of-life cost is reduced when an Australian build develops an experienced Australian workforce able to conduct design assurance in partnership with an Australian supply chain. Any "first of type" premium is largely offset, if not outweighed, by the benefits of increased innovation and productivity in the supply chains supporting our Naval Shipbuilding Plan.

The principles outlined in the DIPS are now becoming practice. The Turnbull Government's decision to build the Future Frigates, Offshore Patrol Vessels, Pacific Patrol Boats and Future Submarines in Australia (especially the first of types) is well-considered and part of our compre-

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hensive plan for a potent and affordable Defence Force, sustained by a national support base which fosters Australian jobs and innovation, thereby growing our economy and securing the future for generations of Australians. *

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