

The Australian Defence White Paper (DWP), Industry Policy Statement (DIPS) and Integrated Investment Program (IIP) released in 2016 heralded a decade of investment into new ADF Capability and a substantial emphasis on integrating Australia's industrial capability as a key consideration in this investment. For the first time, industry was considered as a fundamental input to Defence capability

As we approach four years since the launch of these revitalised policies, it is no surprise that the Defence industrial environment has steadily evolved in response. Most notably, a quick review of the Integrated Investment Program demonstrates that with decisions taken on Submarines, Frigates, Offshore Patrol Vessels, Joint Strike Fighter and Land 400 Phase 2 have collectively committed the majority of the original \$195 Billion of proposed investment. Furthermore, any remaining commitments yet to be made are now influenced or heavily constrained by the major project commitments to date. Key examples are related future sustainment contracts, or contracts for complementary systems and/or components such as weapons, radars and other major systems and subsystems that must interoperate with the larger project items. Similarly, infrastructure projects must align with, and support the delivery of these projects.

The large number of Defence tenders and opportunities still to be decided are therefore generally going to be of lower value with shorter decision cycles.

Focus in industry has shifted from positioning to win major projects, to delivering those that have been won. The selected Prime contractors are beginning delivery of their workshare and in-turn moving to select and finalise supply chain partners. Where previously the emphasis was on Government (through Department of Defence) to Business tenders, new opportunities are now flowing through the supply chains on a business-to-business basis at lower supply chain tiers.

For some of the Prime contractors or OEMs, previous success has created a double-edged sword. A good example is LAND400. Execution of LAND400 Phase 2 has not yet had time to fully ramp up, yet the risk mitigation activity (RMA) and final decision for the next stage of the project (Phase 3) is currently in the process of being decided. The winner of Phase 2 clearly has a running start at Phase 3, though any matters of sub-par delivery against technical or industrial expectations (either real or perceived) will be seized upon.

The flow of contracts and cash through the system is creating a positive environment, particularly for smaller business. At the recent Pacific 2019 event, the mood was noticeably more vibrant when compared to the previous year's, where businesses were positioning in anticipation, with little cash flow to fund activities. At this year's event businesses were meeting to talk about actual contracts and actual delivery, with an emphasis on fulfilling Australian Industrial Capability (AIC) and Global Supply Chain (GSC) requirements.

There is now a steady flow of subcontract opportunities moving through Primes to supply chain partners. This is creating a positive, albeit very complex decision-making environment.

- In some cases, these subcontract decisions may be heavily guided by the Prime contractor, yet with the final decision-making powers vested with the Commonwealth.
- In other cases, industry expectations about AIC is that workshare will flow down to Australian Industry from the Prime, yet the Prime (and their existing international supply chain), may essentially be competing with the smaller supply chain partners.

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- In further cases critical capabilities may not exist in Australia and may require IP transfer or inbound investment for either an Australian business or for an international business to establish in Australia either by themselves or through joint venture.

Nevertheless, there is no doubt that with the majority of big decisions taken, follow-on decision making, and cash flow will be far quicker. Yet the environment is in some ways more challenging as the decision-making environment becomes increasingly complex, particularly when attempting to understand who the influencers and decision makers are with all flow-down work packages.

Sustainment and capability upgrade must also be taken into consideration. Since 2016, much of the publicity and attention has focussed on the large high-profile acquisition decisions. However, the larger value work activities are the sustainment and upgrade of these capabilities throughout their decades-long lifecycles. Now that the platform and Prime contractors are defined, focus needs to be directed to what sustainment of the platform and subsystems will look like well into the future.

Success will be defined by those that are able to offer both a capability advantage for the Australian Defence Force while balancing and maximising the Australian Industrial outcomes. A thorough knowledge of Australian industrial capabilities and areas of strategic advantage is critical to ongoing success. While the environment is complex there is no doubt that the Australian Defence industry is a vibrant and growing industry to be in.



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