



Ai Group Defence Council Forum

SPEECH NOTES FOR MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVE LUDLAM

5 August 2010

Thank you John for your kind introduction and for extending me the opportunity to share my thoughts on the Defence Industry Policy Statement.

I would like to acknowledge the Deputy Premier Kevin Foley, Australian Industry Group and Australian Industry Defence Network members, ladies and gentlemen.

I understand this policy is a culmination of two and a half years of engagement with, and analysis of, the defence industry. It is a policy, I am pleased to say, that receives ASC's full support.

While the policy introduces four key elements to guide defence industry policy, namely: setting clear investment priorities; establishing a strong Defence-industry relationship; seeking opportunities for growth; and building skills, innovation and productivity, it is the detail within these priorities that I believe represent the key elements that ASC is concerned with.

Before I share my thoughts on these points, it's worth stating that ASC is a prime operating within Australia's defence industry.

Following the 2008 absorption of Tenix Defence by BAE Systems, ASC is now the only remaining Australian-owned prime. The company is 100% owned by the Government.

The Government's policy is well presented and clear in its intent. I will not therefore re-iterate it. What I would like to do however, is provide a view on how to make it work for the Commonwealth, how industry can play its part and some examples within ASC of how we are helping fulfil the ambitions of the policy

First of all there is a clear need for **competitiveness, innovation and productivity**.

While one could argue that Government policy should support indigenous programs at all costs for the benefit of sustaining in-country jobs, capability and industry, ASC strongly supports the Government's need for competitiveness and productivity.

The Commonwealth Procurement Guidelines establish value for money as the core principle underpinning all Australian Government procurement. Value for money assessments considers other factors in addition to cost, including fitness for purpose, performance history, relative risk, flexibility, etc.



So when we consider Australia's place in the future of submarine design and build, should we assume entitlement will be the basis for a decision? If this were the case the arguments in favour of awarding this job to ASC are compelling – we have already built a successful fleet of submarines and we have already established a burgeoning defence industry based around this.

However, our defence industry must break the mind set that we have a God given right to be awarded this program, there is no entitlement.

We have no such right unless it is earned fair and square. And, this is the key point made in the Defence Industry Policy Statement. Our defence industry must be competitive on an international playing field.

ASC has set upon a path to drive workplace productivity and efficiency, and invest in the development of Future Submarine solutions.

If ASC wins a share of the Future Submarine program, it will not be because we're Australian-owned, or because we're head-quartered in Adelaide or because we already have the workforce and the tools. It will be because we competed and proved competitive on an international playing field.

We welcome competition for this program, we support the Government's prerogative to seek competition and we intend to be competitive on a world stage to demonstrate value for money.

A large part of winning in an international playing field will result from a strong relationship between defence and industry. The ability to compete will rely on clear communication and innovation in both requirements and offers.

The Australian Submarine Program Office, an Osborne-based joint team that includes members of Defence Materiel Organisation (DMO), the Royal Australian Navy and ASC, sets the scene for such communication as does the Air Warfare Destroyer Alliance - a partnership between DMO, ASC and Raytheon Australia. Both teams, as you know, are based in Adelaide.

Let me now turn to the whole industry and in particular consider the part played by **Small to Medium Enterprises (SMEs)**.

Similarly, the Government's position on innovation, efficiency and productivity extends to SMEs and their ability to compete for work in Australian defence programs.

The Government argues that the relationship between primes and SMEs is crucial. Defence needs strong relationships between these organisations to ensure that its capability needs are developed on time and on budget, with an expectation on primes to nurture and support SMEs as a vital source of innovation and niche capability in the local defence marketplace.

ASC strongly supports this statement and commends the Government for its recognition of this.



In support of our submarine maintenance work, ASC's supply chain includes: 2,000 vendors, 150 subcontractors, four labour pool providers, 7,500 purchase orders each year, plus 70 dedicated supply chain personnel managing the process.

It's worth noting that not all supply chains are the same. Some companies manufacture a constant product, while others, like Woolworths and Coles, use their supply chains to their competitive advantage.

The supply chain that supports our submarine maintenance needs to be dynamic to sustain a constantly changing and evolving demand.

Unlike other businesses, ASC is unable to pop down to the local Bunnings store to procure materials when we run short. There are stringent controls in place to ensure all materials that are used on the submarine platform are fit for purpose.

ASC is dealing with people's lives. We can't take any short cuts, because the safety of the submarine crew is absolutely paramount.

So we rely on the expertise and the high-quality production of materials sourced from our SMEs. This is highlighted by the fact that 80 percent of our supply chain is represented by SME organisations.

It is well known that the Collins Class Submarine Build program had a contractually-embedded Australian industry content target of 70 percent. At the conclusion of the build, ASC had procured 73.5 percent of materials from Australian suppliers.

The majority of these SMEs have gone on to thrive in Australia's defence industry. In fact, today ASC sustains a higher Australian industry content percentage in its submarine maintenance – absent of any set targets.

Independent of any Australian industry targets, these SMEs were competitive, innovative and efficient, and were able to demonstrate value for money to pave the way for their involvement in our submarine maintenance project.

The Government has mandated that, like primes, SMEs must provide value for money in order to be considered for Australian defence projects. And, as I mentioned earlier, a value for money assessment considers factors like: fitness for purpose of the good or service offered, supplier performance history, relative risk, flexibility of the good or service, financial considerations, etc.

In our experience, ASC has found that there are many advantages that SMEs can provide over large organisations. SMEs are more entrepreneurial. They are more willing to be innovators and are less likely to be burdened by established hierarchies.

Being small businesses though, SMEs do need our help. And, it is incumbent on large supply chain organisations, like ASC, to provide guidance and support.

We aid our SMEs by undertaking collaborative reviews with suppliers that may be deficient in some areas, and work with them to develop plans to address issues.



Similarly, a unique aspect of defence procurement is that quite often a significant amount of objective quality evidence must be provided by suppliers with each acquisition.

This level of detail can be quite new to small businesses and, given this, we take it upon ourselves to work with and educate relevant suppliers on any specific requirements. Quite often this would involve teaching SMEs the composition of evidence needed and visiting their premises to assist in the smooth delivery of the end product.

In addition, we maintain key performance indicators, or KPIs, on each of our suppliers. This way, we can begin resolving issues or introduce improvement programs at the outset of any negative trends that are beginning to form.

In our experience, a collaborative partnership approach is more conducive to achieving win-win outcomes, rather than taking a hard adversarial line. After all, we're all in this together and we need our SMEs just as much as they need us.

Conclusion

The Government has rightly identified that it should no longer be in the business of propping up companies that are not commercially viable or awarding business to companies based on their nationality, and ASC supports this approach.

The only way to ensure a viable and resilient industry is to allow market forces to determine which companies will be successful, and this judgment can only come from a competitive assessment of value for money outcomes.

ASC recognises that the development and maintenance of a successful network of SMEs will allow us to better meet the challenges facing the defence industry in the future, and I am encouraged that the Government has identified this fundamental as well.

Thank you for your time. I would be happy to answer any questions you may have.