



Royal United Services Institute of Western Australia

## Newsletter

March 2012

*Promoting National Security and Defence*

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The regular program of Luncheons and Lectures is now in place. Please note the dates in your diaries to avoid disappointment.

#### **Subscriptions:**

**Subscriptions are due on 1 July annually**

**Town - \$40, Country - \$25, Associate - \$5**

Your subscription, and other charges can be electronically transferred to the RUSI.

**BSB 803-205, Account No 20531718, and include your surname**

## **DISCUSSION REPORT - REALSING THE DEFENCE WHITE PAPER 7 FEBRUARY 2012**

The inaugural lunchtime discussion, prompted wide ranging and comprehensive debate by members. Points from the floor highlighted in particular how much the international security situation had changed in the few years since 2009. Disengagement has occurred in Iraq and is programmed for Afghanistan. Terrorism remains a threat but the “war on terror” no longer dominates the headlines or strategic planning. The uni-polar moment of United States dominance has passed and India and China have emerged as significant players as forecast.

From media reports, members noted that the projected 3% real growth to 2018 and the fixed indexation of 2.5% to 2030 did not survive one Gillard budget. In May 2011 Julia Gillard took \$4 billion from defence over the forward estimates. About half of this was funds the Defence Department had been unable to spend in the year. But much of this delay was because the government is so desperately slow and dysfunctional in granting project approvals.

The ensuing discussion by members looked at the balance between capital expenditure, operating costs and personnel in a budget envelope which has dropped to 1.8% of GDP – lower than virtually all NATO countries which we frequently criticise for not pulling their weight in Afghanistan.

The session proved to be a useful introduction to issues raised in the Force Structure Review lecture on February 23.

By way of a further teaser, this is how the Minister for Defence, Stephen Smith saw the governments record on procurement in an address to the Sea Power Conference on 31 January 2012:

“.....in the past 12 months the Government has initiated a range of major reforms to improve the acquisition and sustainment of military equipment.

These include increasing the rigour of the Defence Capability Plan; improving contestability in capability decision making; the establishment of an Independent Project Performance Office; introduction of an Early Warning System to identify problems in projects before they become critical; the extension of Gate Reviews to all major capability projects; and more rigour in the Projects of Concern process.

It is important that we get our capability development and acquisition process right. Last year the Government approved a record 46 first pass, second pass and other major project approvals with a combined total value of the projects in excess of six billion dollars.”

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**The Future of the Defence Industry in Western Australia  
Overview of the Defence Materiel Organisation, the Australian Industry & Defence Network  
and the Western Australian Department of Commerce**

## **DEFENCE MATERIEL ORGANISATION**

The Defence Materiel Organisation (DMO) is part of the Department of Defence. Its purpose is to equip and sustain the Australian Defence Force. In 2011-12 the DMO will spend more than \$11.1 billion acquiring and sustaining military equipment and services,

The annual Public Defence Capability Plan provides an account of Major Capital Equipment proposals that are currently planned for Government consideration. The Plan builds on the Government's commitment to keep industry abreast of Defence's acquisition planning so that it can effectively perform its role as a crucial component of our national Defence capability.

The DMO manages about 40.5 per cent of the overall Defence budget. The capital budget in 2011-12 is approximately \$5.3 billion along with a further \$5.7 billion on sustainment (through-life support). At present there are over 190 current major projects and over 100 minor projects being managed by 7,000 employees at 70 locations throughout Australia and overseas.

The DMO is committed to delivering capability and through-life sustainment of military equipment on time, on budget and to the required capability, safety and quality. The DMO states that it will be a business-like, accountable and outcome-driven organisation with a strong and close relationship with the Government, industry and its Service clients.

The DMO realises that a vigorous, productive and profitable industry is important to equip and sustain the Australian Defence Force. Equally important is the ability of Defence to get the best value for money on behalf of the Australian taxpayer. These objectives require an open and ethical business relationship. DMO and industry are continuing to build this relationship by:

- upskilling their workforce as part of implementing the Government's Skilling Australia's Defence Industry policy;
- finding innovative ways to work smarter and driving value for money at all levels; and
- contracting so that risks are borne and priced by the party best able to manage those risks.

## **AUSTRALIAN INDUSTRY & DEFENCE NETWORK INCORPORATED**

The Australian Industry & Defence Network Incorporated (AIDN) is the peak industry association for small-to-medium enterprises (SMEs) wishing to do business in the Defence and Security sectors. Established in 1995, AIDN represents the interests of Australian SMEs in the defence and security industry sectors by advocacy, representation and member services.

AIDN is made up of State and Territory chapters with a combined membership in excess of 800 principal SME companies. Its chapter structures are optimised to reflect the nature of the defence and security industries in each State and Territory, which ensures that its national direction is informed by a full range of industry views.

## **WESTERN AUSTRALIAN DEPARTMENT OF COMMERCE**

The Industry, Science and Innovation Division is a part of the Western Australian Department of Commerce portfolio. Its purpose is to facilitate strategic investment in industrial, scientific and innovation capacity and capture the benefits for the State.

The Division acts as a strategic catalyst for industry and innovation. The aim is to maximise community benefits from current economic strengths, emerging market opportunities and enabling technologies. Programs are focused on facilitating the development of industry sectors or sub-sectors that provide, or have the potential to provide, a high value added contribution to the economy.

The aim is to help maximise the potential of those sectors; to encourage growth industries that are viable, sustainable and internationally competitive; and to bring further value and wealth to the people of Western Australia. The current focus is in the areas of: marine; defence; minerals and oil and gas services; manufacturing and the digital economy.

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### **AIDN Defence Industry Survey 2010**

#### **AIDN Defence Industry Survey 2010**

Some 18 months ago, the Australian Industry Defence Network (AIDN) released the results of the 2010 Defence Industry Survey. Conducted in conjunction with Logie-Smith Lanyon Lawyers, the survey reviewed defence contractors' experience in tendering, negotiating and performing defence contracts. The purpose of the survey was to provide an industry perspective on defence procurement, contracting and dealings with Defence and defence industry companies. The survey provided an opportunity for those in the defence industry to present their views and opinions on doing business with Defence and within the defence industry.

The results generally reflected those of the 2009 survey except for the following:

- those respondents with an 'Annual Turnover' of greater than \$100 million has increased dramatically; and
- the amount of money spent on negotiating with contractors, subcontractors and Defence has largely declined.

The survey found that the five most time-consuming matters for the respondents in **negotiating contracts with Defence** were (in descending order) schedule & delay, price, variations and change control, intellectual property, (equally) acceptance testing and financial capacity & guarantees.

The five most time-consuming matters for the respondents in **negotiating contracts with Prime Contractors** were (in descending order): price, schedule & delay, variations and change control, warranties and defects, and limitation of liability.

The five most time-consuming matters for the respondents in **negotiating contracts with Subcontractors** were (in descending order): price, schedule & delay, warranties and defects, variations and change control, and acceptance testing.

Specific questions in the survey revealed the following"

- **47.6%** of respondents felt that the time and money spent tendering and negotiating

- contracts with Defence represented value for money to their organisation;
- **41%** of respondents felt the ASDEFCON suite of documents were not user friendly, and were difficult to understand. ;
  - nearly **30%** of the respondents admitted to having **no** knowledge of the **ASDEFCON** suite of documents whatsoever; and
  - nearly **30%** of respondents admitted to having **no** knowledge of the **Defence Procurement Policy Manual**.

AIDN noted that many of the issues raised in the survey have previously been identified by Defence and that the findings of the survey validate the procurement and contracting initiatives being undertaken by the Defence Materiel Organisation, to make procurement process clearer for small to medium enterprises and to simplify the procurement process for lower value contracts.

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## Background Australian Marine Complex

### **AUSTRALIAN MARINE COMPLEX**

*(Part of a series of background articles relating to Defence Industry in WA)*

The Western Australian Government is investing in infrastructure at the Australian Marine Complex (AMC) to provide a platform for industry development and contribute to the growth of the State's economy. As part of the 2009-10 State Budget, Treasurer and Minister for Commerce Troy Buswell announced a \$35 million allocation for a service and supply base to be built at the AMC servicing the oil and gas industry.

This will complement the \$174 million infrastructure upgrade program that is currently being undertaken, comprising the floating dock, transfer wharf and the Self Propelled Modular Transporter (SPMT) system. The AMC, located in Henderson, is a world-class facility developed to enhance the opportunities created by industry clusters supporting the shipbuilding, defence and subsea oil and gas industries. It provides management, research, design, manufacturing, fabrication, assembly, repair and maintenance services to these industries.



Since its opening in 2003, the AMC Common User Facility has seen high demand, generating in excess of \$233 million in business and creating more than 3,500 jobs from approximately 200 contracts directly undertaken at the facility. The AMC \$35 million service and supply base will feature a service wharf to accommodate roll-on/roll-off vessels along a 4.4 hectare staging area located within the AMC Common User Facility.

Chevron Australia will be the first client to use the base to support operations for the State's biggest oil and gas project off the north-west coast, the Gorgon Project. Commerce Minister Troy Buswell said the service and supply base would increase the infrastructure capabilities at the AMC and further stimulate the economy. "Both the base and the Gorgon Project will have far reaching benefits for the State with Gorgon expected to inject billions of dollars into our economy and the base expected to create 46 direct jobs and 125 indirect jobs when it opens," he said.

Construction of the AMC service and supply base is expected to start in the second half of this year and is due to be completed by early 2010. The floating dock, Self Propelled Modular Transporter (SPMT) system and transfer wharf are being pieced together one by one and will soon be available for use by industry. The floating dock is set to commence trials in July. The infrastructure will have the capacity to lift a 12,000 tonne vessel out of the water for service and maintenance, while the SPMT system will have the capability of moving vessels and heavy duty modules weighing up to 4000 tonnes.

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## 2012 PROGRAM

<b>MARCH</b>	
<b>8 March</b>	<b>Rescheduled Lecture – Defence Structure Review 7 for 7:30 Major General Mike Crane DSC, AM, Head Force Structure Review</b>
13 March	Lunch Discussion <b>Cancelled</b> – Replaced by 8 March Lecture
22 March	Seminar - The Future of the Defence Industry in Western Australia
<b>APRIL</b>	
3 April	Lunch Discussion – Strength and weaknesses to Australia's contribution to the United Nations
19 April	Lecture – Land Combat Vehicle System
<b>MAY</b>	
8 May	Lunch Discussion - Defence White Paper 2014
24 May	Blamey Oration – Mr Duncan Lewis, Secretary Department of Defence

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## April Lecture – Land Combat Vehicle System

Our evening lecture on 19 April will provide an overview of the Land Combat Vehicle System (LCVS). LCVS is the Army's largest, most expensive and most complex major capability equipment project to date. The project aims to deliver the mounted close combat capability to the Land Force from 2025. LAND 400 will provide an integrated suite of land combat vehicle systems to fill the mounted close combat capability gap that is partially being enabled by a number of disparate existing light armoured vehicle fleets.

The LCVS will be part of the future wider Combined Arms Fighting System (CAFS) – required by the Army to enable the Army Objective Force (Force 2030) in support of strategic guidance detailed in the Defence White Paper 2009. The LCVS will be employed in close combat in a variety of roles and will be integrated with selected legacy and new equipment as part of a networked capability.

The LCVS is likely to require characteristics such as precision lethality, survivability, integration, mobility support and sustainability to deliver a fighting system that enables an effective mounted close combat capability to meet the demands of the Contemporary Operating Environment (COE).

Recognising the significance and size of this project Defence has established an Integrated Project Team (IPT) for Land 400. The IPT includes specialist staff from a number of key Defence agencies working collaboratively as a single team.

The project is scheduled for Government First Pass consideration in early 2013. There have been two Requests for Information – the first in 2006 and the second in June 2010. The information provided by Defence Industry will be used to inform future decisions.

***(PLEASE NOTE THE EARLIER SCHEDULED DATE OF  
19 APRIL DUE TO ANZAC DAY)***

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## Book Review

### **Defence Procurement and Industry Policy A small country perspective**

London : Routledge, 2010.

**ISBN:** 9780415362887

**Authors:** Stefan Markowski, Peter Hall, Robert Wylie

**Stefan Markowski** is an Associate Professor of the University of New South Wales in the School of Business at The Australian Defence Force Academy, Canberra, Australia. **Peter Hall** is an Emeritus Professor at the University of New South Wales at The Australian Defence Force Academy. **Robert Wylie** is a Lecturer in the School of Business at the University of New South Wales at The Australian Defence Force Academy.

Arms purchases are among the most expensive, technologically challenging and politically controversial decisions made by modern-day governments. Superpower spending on weapons systems is widely analysed and discussed. But defence procurement in smaller industrial countries involves different issues which receive less attention. This volume presents a general framework for understanding smaller country defence procurement supported by country, industry and project studies.

Part I provides a general framework for analysing smaller country defence procurement, focusing on the formation of national defence capabilities. The framework is then used to analyse issues around the development of procurement demand, the characteristics of defence industry supply, contracts and relationships between buyers and sellers, and government policy for defence procurement and industry development. Part II focuses on defence procurement in seven smaller industrial nations with widely varying historical and political settings (Australia, Canada, Israel, Singapore, Spain, Sweden and The Netherlands). Part III consists of two Australian case studies of the procurement issues raised in, respectively, the naval shipbuilding industry and in a major, complex defence project.

The book addresses the needs of public and private sector managers, military planners, procurement specialists, industry policy-makers, and defence procurement and industry educators. It presents general principles in an accessible manner and points to real-world experience to illustrate the principles at work. Therefore it will be of interest to scholars and practitioners in defence economics, strategic procurement, public sector procurement, and defence industry policy.

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### In the News Strait of Hormuz

The Strait of Hormuz is a narrow, strategically important strait between the Gulf of Oman in the southeast and the Persian Gulf. On the north coast is Iran and on the south coast is the United Arab Emirates and Musandam, an exclave of Oman. The strait at its narrowest is 54 kilometres (34 mi) wide. It is the only sea passage to the open ocean for large areas of the petroleum-exporting Persian Gulf and is one of the world's most strategically important choke points.

Ships moving through the Strait follow a Traffic Separation Scheme (TSS), which separates inbound from outbound traffic to reduce the risk of collision. The traffic lane is six miles (10 km) wide, including two two-mile (3 km)-wide traffic lanes, one inbound and one outbound, separated by a two-mile (3 km) wide separation media



To traverse the Strait, ships pass through the territorial waters of Iran and Oman under the transit passage provisions of the United Nations Convention on the Law of the Sea. Although not all countries have ratified the convention, most countries, including the U.S., accept these customary navigation rules as codified in the Convention. Oman has a radar site Link Quality Indicator (LQI) to monitor the TSS in the strait of Hormuz. This site is located on a small island on the peak of Musandam Peninsula.

On an average day in 2011, about 14 tankers carrying 17 million barrels (2,700,000 m<sup>3</sup>) of crude oil passed out of the Persian Gulf through the Strait. This represents 35% of the world's seaborne oil shipments, and 20% of oil traded worldwide. More than 85 percent of these crude oil exports went to Asian markets, with Japan, India, South Korea, and China representing the largest destinations.

**STAY INFORMED:**

The Defence Capability Plan 2011 is available on line at:

[http://www.defence.gov.au/dmo/id/dcp/html\\_aug11/index.html](http://www.defence.gov.au/dmo/id/dcp/html_aug11/index.html)

Building Defence Capability: A Policy for a Smarter and More Agile Defence industry Base is available on line at:

[http://www.defence.gov.au/dmo/id/dips/DIPS\\_2010.pdf](http://www.defence.gov.au/dmo/id/dips/DIPS_2010.pdf)

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