

WA DEFENCE REVIEW

DEFENCE INDUSTRY INTELLIGENCE | MILITARY AFFAIRS | NATIONAL SECURITY | GEO-POLITICAL ANALYSIS

SUMMARY OF PROCEEDINGS

Strategy, Defence & Industry Dialogue

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Communicating
with influence

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AT

COUNCIL HOUSE, CITY OF PERTH

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INTRODUCTION

The WA DEFENCE REVIEW Strategy, Defence & Industry Dialogue is an independent, apolitical, round-table policy discussion forum, operating under the Chatham House Rule. It brings together, by invitation only, senior officials and decision-makers from across government, industry, defence and academia to deliberate on policy and issues relating primarily to Western Australia's defence sector within the context of Australia's national interests.

This, the third such Dialogue held under the auspices of WA DEFENCE REVIEW, builds on the momentum of the first two Dialogues held earlier in 2018, which were highly successful. The September 2018 Dialogue was hosted in partnership with the City of Perth at Council House and chaired by former Defence Minister Professor Stephen Smith, who is now the Chair of the UWA Public Policy Institute. The theme of the Dialogue was “Defence and Resources: Future Trends and Prospects.”

The views expressed in the summary below are a condensation of matters discussed and do not necessarily reflect the views of the Chair or any individual participant.

DISCUSSION

Theme 1: Review of the current regional security environment.

It was noted that WA is in an unprecedented position whereby it has a Minister for Defence Issues with a specialist agency, Defence West, and multiple industry bodies focussed on defence matters, all of which has brought a heightened awareness of Defence and defence-industry matters across the community.

This enhanced interest and activism comes when, for the first time, WA's case for more focus on its location with respect to the Indo-Pacific region, rather than the Asia-Pacific region, matches Australia's national interest. No longer can this State's advocacy for Defence deployments and Defence contracts be dismissed as mere parochialism. Australia's Defence White Papers of 2013 and 2016, and the Foreign Policy White Paper of 2017 specifically use the term 'Indo-Pacific', in recognition of the fact that the Indian Ocean region is very much in play now and for the future.

This position has evolved since the end of the Cold War, at which time the world had but one great power. There are now two, with China expected to exceed the USA in economic output by mid-century. Not to be underestimated is the rise of India, a population behemoth on par with China, and still to reach its full economic potential. In addition, WA has on its doorstep the world's largest Islamic-majority country, Indonesia, also promising burgeoning economic growth. The dramatically increased economic presence and naval power of China was noted. The effectiveness of Australia's commercial and political engagement with India and Indonesia was raised. The training of Singapore Air Force personnel at RAAF Base Pearce, located 35km from Perth, was noted as a particularly beneficial engagement with one of our northern neighbours.

Australia's external national engagement has long had a South Pacific and Asia-Pacific orientation, which has been governed largely from the eastern states. This now requires some reorientation. To be influential in changing this mindset, we need more than just words in documents.

Advocacy should be pursued with a view to bringing senior politicians, bureaucrats, thinkers, and decision-makers to this State, to allow them to 'see, touch, breathe and feel' Western Australia. This would enable them to develop a sound appreciation of the mineral, oil and gas reserves in WA; and the importance of securing them for the defence of Australia. Finally, to enable them to appreciate the geographic position and relevance of WA to Australia's defence posture and capability in the Indian Ocean region.

Theme 2: Synergies between Defence and Resources Industries.

Previous WA DEFENCE REVIEW events have focussed on the considerable degree of overlap in skills and capabilities between the defence and resources (mining and oil & gas) sectors. Also, that augmenting training and, importantly, reorienting to a different business culture (e.g. greater commercial focus and more timely operation), perhaps the degree of overlap can be improved considerably. The latter is not to be underestimated as, for example, finalising Defence contracts can require considerably longer timeframes than is usually the case for resources contracts.

We have also seen that there are existing WA companies that have long serviced both the defence and resources sectors, along with other sectors that fall within their skillsets. One successful WA engineering company offered the following advice to others:

- a) Move away from the low end of the process, which can be done more cheaply overseas, to the higher more value-added end of a process, such as the automated cutting of gears.
- b) Broaden the range of industries you supply, such as defence, resources, civil works, construction, and transportation.
- c) Diversify your markets, for example to different regions, states and overseas, as all sectors and markets have their rises and falls.

For many companies, Defence's requirements alone are too small and/or too intermittent to warrant being a sector specialist. The resources sector, though very much larger than the defence sector, similarly experiences prodigious swings (booms and busts) that create uncertainty and insecurity. It was also noted that long-term contracts are necessary to allow industry to invest in areas that contribute to capability. When those contracts expire, unless there are viable alternatives, those capabilities may be lost to both the Commonwealth and WA. Therefore, servicing a broader range of sectors will enhance the capacity to deal with the boom and bust cycles, particularly those associated with the resources sector.

The present discussion identified many areas of overlap between defence and resources, such as operating from, living in, or being based in remote places; the development of major projects; contract and project management; robotics and automation; remote location survival skills; using space maps; aerial photography; topographic and bathymetric LIDAR; drone technology; battery technology; autonomous underwater vehicles; power and communications; data capture and management; inspection and maintenance; risk assessment and mitigation; and supply chain management. These were seen by some to be indicators of potential to service both sectors.

In both sectors, however, there has been a tendency to bundle requirements into large contracts in order both to simplify contract management and to improve economies. This imposes a requirement for Small and Medium Enterprises (SMEs) to find ways to partner with defence industry prime contractors.

The meeting identified the need for prime contractors to engage with SMEs, both to inform them of the process, and also because they are often the source of new ideas. It saw staying ahead of the game by being innovative in technology to be a matter of importance and noted that the universities have a role to play in this regard. This led to a discussion on the need for a significantly increased level of collaboration and to give effect to the concept of a Team WA approach. This might entail the use of working groups and industry clusters. Examples of three different clusters suggested concerned the sub-sea and autonomous vehicle industries, and an aviation and ground fuels cluster.

On the other hand, the point was made that WA is noted for the large trades component in its industries, and while pursuing higher technology solutions, we should not overlook the need to have a more broadly trained workforce.

Theme 3: Increasing WA's share of the Defence budget.

The meeting expressed the view that to be successful in increasing WA's share of the Defence budget, there was a need to select just two or three items to pursue. Having too many goals would likely diminish effectiveness, whereas focussing on just a few would enhance the prospects of success. Furthermore, it was suggested that the State should decide whether it wishes to be primarily a defence 'builder' or a defence 'sustainer'.

Because of WA's geographic position with respect to the Indian Ocean, it was suggested that WA should focus more on developing its sustainment/maintenance capability, rather than its build capability. For example, WA industries have proven knowledge and experience in sustainment operations. Mining and maritime industries in the remote North West should be offered to Defence as a proven capability. Currently, at great cost and with dwindling expertise, Defence continues to struggle to provide their own support organically, which is often done through rigid and expensive contracts.

Furthermore, since national policy is well advanced with respect to the allocation of Defence build projects, it may be counter-productive to continue to be perceived as advocating solely or exclusively for a greater share of the construction phases. There was general consensus that it would be more effective to accept the current reality and focus on promoting WA as a centre for Defence sustainment. In addition, the value of sustainment work over the lifetime of Defence platforms is expected to exceed build cost. Sustainment work is less exposed to fluctuation in demand and therefore more predictable.

WA already has a well-established sustainment centre at Henderson, which carries out mid-cycle dockings for the Collins submarines and upgrades for the Anzac frigates. The Australian Marine Complex - Common User Facility (AMC-CUF) provides exceptional facilities for further sustainment work and has the capacity to be extended to handle any of the ships in the Navy's fleet, for example, by simply increasing the length of the floating dock.

On a separate issue, some expressed the belief that there is a gap in communication between Defence and industry that needs to be bridged so WA firms can gain access to Defence work. In fact, measures for improved communication have been pursued for decades with limited success so far. Two major channels of information and involvement that deserve greater focus include the Centre for Defence Industry Capability (CDIC), which has a presence in WA, and Defence prime contractors, who actively engage SMEs to supply capability for the Defence projects they manage. SMEs with ambitions of becoming defence suppliers should seek to be recognised and included in the supply chains of these larger companies.

Not to be overlooked is the considerable work which is potentially available to WA firms in non-platform construction areas such as base supply and sustainment, base upgrades and minor works. It was reported that over \$350m is currently being expended on an upgrade at HMAS *Stirling* alone. Noting the substantial growth in the Royal Australian Navy's fleet and capabilities, and the growing geopolitical rivalry in the Indian Ocean region, HMAS *Stirling* will become in future an even more important asset than it currently is.

This offers WA industry the opportunity to become more heavily involved in its development and in supporting the Navy. Similarly, this also rings true for RAAF Bases Learmonth, Curtin and the Cocos Islands, which provide an ever-increasing reach into the Indian Ocean, and again enable local industry participation in the development and sustainment of these facilities.

Theme 4: Defence posture and the North West.

A recurring issue for Western Australians is the protection of the State's resources infrastructure, both onshore and offshore, which it is believed could be a target for malign actors. Past WA DEFENCE REVIEW dialogues have pressed the need for a more considered Defence presence in the North West, both for deterrence and intervention.

The present discussion, however, noted that under existing protocols, the Australian Defence Force (ADF) will not deploy for either a terrorist or major catastrophic event, such as a natural disaster, unless and until called upon to do so by civil authorities. This raises a question as to whether civil authorities in the North West are adequately resourced to be first responders to calamitous events and/or to determine the need to escalate.

It is to be expected that the major resource companies would themselves have visited these issues and likely have in place risk identification and mitigation plans. It is not known how extensive and effective their plans might be, or the extent to which they are already cooperating with civil and military authorities. Nevertheless, it takes little imagination to envisage crippling damage being wrought by asymmetrical means as basic as a disgruntled employee using on-site equipment to sever an undersea communication cable vital to all Australians, or to sabotage a major energy installation. Nor is it difficult to imagine an external threat such as an explosives-laden boat, manned or unmanned, having a significant detrimental impact.

The meeting therefore wished to note the need for resource companies, and both civil and military authorities, to collectively update their risk identification and mitigation plans to both prevent and respond to potential terrorist events.

There was further discussion on the subject of land and sea transport in the event of a crisis in the North West. The point was made that the reinstatement of a coastal shipping service would be invaluable in a crisis for moving large quantities of defence materiel, as well as civil supplies. It was also felt that roads suitable for large-scale movements are inadequate and vulnerable. Temporary roads are created by the private sector for purposes such as mineral exploration and extraction, then left to return to nature. Some of these could be maintained by authorities to assist in creating an improved emergency road network that provide alternate access routes.

OUTCOMES

WA DEFENCE REVIEW dialogues do not fully debate all aspects of a subject or necessarily have access to specific information and expertise on the day, but they represent an expression of the concerns, interests and the will of a cross section of the WA community. As such, the following notes are made to assist and encourage further investigation:

- The concept was endorsed of multiple WA sectors and interests combining to speak with one voice as Team WA, with the objective of bringing east coast decision makers to appreciate that a focus on the Indo-Pacific, with a commensurate pivot to WA, is in the national interest.
- The concept of increased synergistic interaction between the defence and resources sectors should be developed by a suitable agency or working group with a view to its facilitation and encouragement, to help meet the needs of industry, Defence and resources sectors.
- Similarly, the concept of encouraging industry clusters to form, in order to facilitate synergies between defence and resources should be examined. Three clusters that might be worthy of consideration are the sub-sea and autonomous vehicle sectors, and an aviation and ground fuels cluster.
- The resource and private industry sectors are more agile and able to adopt or develop technology at a faster pace than Defence due to long procurement cycles. By the Commonwealth working closer to the resources sector, there would be greater exposure to emerging technologies for adaptation within a defence context.
- Further investigation with a view to achieving the maximum benefit to WA from the extraction and refining of rare earths, as well as components for electric-battery manufacturing, should be vigorously pursued, as should the potential for niche production of specialty chemicals from locally mined and strategically important commodities (e.g. nickel and lithium products) in WA for Defence purposes.
- WA should work to promote itself as a centre for defence maintenance/sustainment, building upon the significant maintenance/sustainment services already being delivered by WA-based firms, and WA's outstanding industrial infrastructure, including that at Henderson, and offering the potential for expansion and improvement to match future demand.
- Expansion of the work already done by industry, defining what their operational issues are, and feeding that into the SME network to foster development of solutions to include the requirements of the ADF.
- There could be synergies in greater data and information sharing between the defence and resources industries, as well as the universities concerning skills requirements, availability of suitably skilled employees, skills specific to remote areas, and other human resources matters.
- National interests suggest that resource companies, together with civil and military authorities, need to share information and/or meet frequently to update risk identification and mitigation plans for the protection of infrastructure vital to the economy, against potential asymmetrical or other unforeseen threats.
- To prepare the North West for potential large-scale military deployments, and support industry and community needs, consideration should be given to alternate transport routes and modes that may be required, giving attention to the matter of roads and coastal shipping.
- Given the move in resources to robotics and remote control of operations, cyber security was identified as an increasingly sensitive risk.
- Every encouragement should be given to Defence, and the University and TAFE sectors, to collaborate more effectively on skills and training needs required for the future.
- To influence policy decisions, companies large and small need to work through industry organisations, rather than individual companies going it alone.