

The (unnecessary) challenges for the Australian high technology SMEs supplying to Defence

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A quick look at ADM's list of the Top 40 Defence contractors reveals that it is dominated by local subsidiaries of foreign owned prime contractors, with only one single Australian supplier of high technology systems on the list (EOS).

One might be forgiven for concluding that Australian owned industry - generally SME's - are just not particularly good at developing high technology Defence systems, and that they are simply not competitive against overseas suppliers.

After all, Defence acquisition, is run according to competitive principles, so the list at face value would indicate that Australian suppliers are not up to the mark.

Is this really the case?

Australian higher education institutions are well regarded in the science and technology areas, and the basic human resources needed for a strong defence high technology sector are readily available. And we are prepared to invest in it and have the capacity to continue to invest.

So why is the acquisition of advanced Defence technology from Australian-owned suppliers not more prevalent?

The start of the problem appears to lie with the Departments interpretation of the Commonwealth Procurement Rules in relation to the consideration of project risk during tender evaluation. Proposals involving technical development appear to be actively marked down. This acts to advantage overseas suppliers (or the local subsidiary of a foreign owned prime) which may have an offering that is already in service with their own defence force, as a result of development contracts funded by that country's defence force. The risk has already been taken by another nation.

This immediately puts the Australian technology supplier behind the eight ball.

Yet the assumption that any need to undertake technical development poses a risk to project delivery is overly simplistic. After all, the technical risk to project delivery is not simply a matter of **how much** technical development is proposed but is also a question of **how good** the proposing company is at undertaking the relevant type of development.

For example, a local supplier might have an exemplary track record of delivering development intensive projects; yet even with such a record, a tendered proposal from this Australian company would still be ranked behind a proposal from an overseas supplier requiring a lesser degree of development.

The results of this approach are predictable. Local technology suppliers attain at best an intermittent stream of development projects from Defence in their area of expertise. Unsurprisingly, this causes the technologies and products from the overseas

suppliers, with continuous (rather than intermittent) support from their own defence forces, to further improve their competitive position.

The result is a self-reinforcing system. Australian suppliers are competitively disadvantaged, which reduces their ability to win projects with Defence, which then further reduces their competitive position.

The outcome is bad for all Australians.

The acquisition organisation believes it has eliminated technical risk - but is left with different risks: the impacts of export controls, forex fluctuations, and managing engagements with suppliers for whom Australia is not their most commercially valuable customer.

The Defence end user becomes even further bound to technology supplied from overseas, compounding further the vulnerability of the ADF to disruptions of supply and/or support.

The silver lining of this sorry state of affairs is that the solution becomes obvious.

Rather than having a system that self-reinforces in a negative way, Australia's acquisition system needs to self-reinforce in a positive way.

Where local technology suppliers have a strong record of delivery on projects involving further development, the technical risk of further tenders involving development should be rightly assessed as minimal. This will immediately improve the ability of local suppliers of technology to win further development contracts, which in turn further improves the competitive position of the offerings of those companies.

The ADF benefits through the responsiveness both during the delivery project and subsequent support arrangements that can only be attained with local suppliers; and it reduces its vulnerability to overseas supply disruptions.

Local industry, being placed on a better footing, will become a more attractive proposition for the investment capital accumulating in the nation's superannuation system, enabling further expansion and maturation of sovereign industrial capability.

But the key to inverting what is currently a negatively reinforcing system to become a positive reinforcing system is to address the approach to assessing the technical risk of tendered offers.

The risk associated with the existence of development within a tender can only be evaluated in conjunction with an assessment of the ability of the supplier to undertake development of that nature. Where local suppliers' track records indicate that they consistently succeed at undertaking such development, the technical risk must rightfully be considered to be minimal.

This simple and logical change will unleash material growth in the high technology SME sector of the defence industry and should be immediately implemented.

Australia needs to support a local defence industry. Now more than ever Australia needs to focus on our domestic economic growth. We also need to ensure that we are investing in fostering high technology knowledge through education – but without a vibrant and receptive industry sector to absorb, use and continually grow this knowledge it remains fundamentally impossible to achieve a self-reliant and sovereign industrial base.

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