



# Defence industrial policies & their impact on acquisition outcomes: a comparative analysis of the UK & Australia

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# Summary

- Defence industry capabilities: definitions
- Priority defence industrial capabilities: definition & rationale
- Prioritising policies & consequences: Australia
- Prioritising policies & consequences: United Kingdom
- Comparison & conclusions

# Industry capabilities

- “Capability” an imprecise term used in different ways – but always implies managing/integrating resources (knowledge, skills, technology, production capacity) to successfully perform a (usually) strategic task
- In defence context, the task is support for military systems/sub-systems enabling that system to work effectively (e.g. maintenance of naval vessels; adaption of software)
- **Industry** capability means capability located in industry but not necessarily confined to a single firm (in Australia, industry capability = industry function)

# Priority defence industrial capabilities

- Industrial capabilities are assigned priority status if viewed as necessary, in-country, for sovereignty/self-reliance
  - To ensure operational independence against the range of operations we wish to conduct (UK Defence Industrial Strategy, 2005)
  - To confer essential strategic advantage that would be undermined if capabilities not domestically available (Australian PICs 2009)

# Identifying industrial capability priorities

- Views vary as to what is “essential” or “critical” for “self reliance” (Australia) or “appropriate sovereignty” (UK) because of varying degrees of risk aversion/perceptions risks to security of supply/cost consideration/path dependence
- (e.g.) UK DIS 2005 emphasised:
  - Criticality to safeguarding the state
  - Necessity for ensuring continued/consistent equipment performance
  - Ability to maintain international strategic influence
- But subjectivity & politics remain important

# Implementing priorities

- Procurement process
  - Local industry involvement requirement as quid pro quo i.e. suppliers required to build/maintain locally priority capabilities
  - Offsets/Industrial Participation: suppliers required to transfer technologies, train, undertake R&D in priority areas
  - Long Term Partnering Agreements
- Cost implications: local production may be less efficient; offset costs built into price; partnering may lead to monopoly inefficiencies
- Because of subjectivity in prioritisation costs can be high

# Australian examples

- F/A-18 jet fighter:
  - McDonnell Douglas required All to create prioritised engineering, maintenance & spares provision
  - All officially estimated to add at least 17% to cost
- JORN:
  - Developed science locally & implemented by industry not involved in early R&D for project
  - Much delayed project & led to higher costs: Telstra/GEC Marconi incurred 80% allocated costs to achieve 20% of progress
  - Lockheed Martin ultimately called in to rescue

# The United Kingdom experience

- In contrast to Australia, idea that UK MOD should publish defence industrial priorities a relatively recent development
- Thatcher Governments: tension between role of MOD as oligopolistic customer to the defence industry & Conservative Party opposition to the idea of industrial strategy in any sector
- Growing debate on defence industrial capabilities prompted by increasing pressure on defence budgets; consolidation of the UK defence industry; “globalisation” of UK defence companies & threat of exit in favour of U.S. investments
- 2002 Defence Industrial Policy set out MOD support for foreign ownership of UK defence industrial capabilities
- **2005 Defence Industrial Strategy (DIS):** aim was to provide a clear strategic view of defence industrial capability requirements to allow industry & government to better plan for the sustainment of critical defence capabilities

# “Appropriate sovereignty”

- Key criteria used by DIS to identify critical industrial capabilities
- *“We must maintain the appropriate degree of sovereignty over industrial skills, capacities, capabilities and technologies to ensure **operational independence** against the range of operations that we wish to be able to conduct”*
- Strategic assurance : onshore capabilities needed for the security of the state
- Defence capability: capabilities needed to assure armed forces of “continued and consistent equipment performance”
- Strategic influence: capabilities necessary for strategic influence in military, diplomatic or industrial terms

# Implementing priorities:

- Long Term Partnering Agreements with selected companies to sustain key capabilities (& achieve efficiency savings)
- E.g. Maritime Change Programme (BVT Surface Fleet, BAE-VT joint venture) (£700-1100m net benefits over 15 years)
- E.g. Team Complex Weapons (MBDA, QinetiQ; Roxel; Thales UK) (£1 billion benefits over 10 years)
- E.g. Strategic Partnering Agreement with AgustaWestland (through life cost savings for helicopter support)

# The costs of prioritising industrial capabilities

- MOD-Treasury conflict over the costing of the DIS meant that DIS did not include indication/commitment to future budget
- *“[DIS] do not include the costs which will be incurred in the move away from competitive procurement in many areas, and from sustaining technological and industrial capabilities in the UK”* (Defence Select Committee, 2007)
- *“The DIS essentially mandates certain industrial strategies to be implemented by the Department in fulfilling its requirements. These have cost implications for the equipment Programme....”* (Gray Report, 2009)

# 2012 White Paper

## *National Security Through Technology*

- Overheated defence budget & fiscal austerity
- Off The Shelf Procurement “wherever possible”
- *“Many companies wanted a list of areas that we will protect, similar to that set out in the Defence Industrial Strategy of 2005.... At a time of constrained budgets and unpredictability of threat, we believe it is more appropriate to set out our understanding of what operational advantages and freedom of action we need to protect, and what steps we will take to preserve the minimum elements necessary to protect our national security” (Ministry of Defence, 2012: p.6)*
- Publication of ten year equipment plan expected later in 2012 to provide clarity to industry on future capability requirements

# Discussion/conclusion

- Concerns about sovereignty/self-reliance /security of supply key influence in identifying priority industrial capabilities
- Views vary as to what constitute “priority” defence industrial capabilities because of varying degrees of risk aversion/perceptions risks to security of supply/cost consideration/path dependence - subjectivity & politics remain important
- Creating/maintaining indigenous industry capabilities comes at a cost – rhetoric supporting local defence industry capabilities likely to become more nuanced and/or limits will be placed on resources available to support those capabilities