

Defence Industry Association of New Zealand
11th Defence Industry Forum 2008

Secretary of Defence John McKinnon

Keynote address

Tuesday 7 October 2008

It is a pleasure to be able to attend the Defence Industry Association's annual forum again and an honour to be given the opportunity to deliver the opening address. I would like to take this opportunity to acknowledge the contribution made by your Association, by the Defence Industry Committee of New Zealand which advises the Minister on defence industry matters, and by all those represented here today to the effective interaction between defence industry and the Crown.

The involvement in the business of Defence of the members of your Association is an important enabler for the Ministry of Defence and the New Zealand Defence Force. We are committed, within the framework of government procurement guidelines, to promoting opportunities for strong industry involvement both in the acquisition and through-life operating and maintenance phases of many of our procurement projects. This has been applied in Project Protector, which has generated more than the contracted \$110 million worth of work for New Zealand industry involving over 85 New Zealand companies. Two of the major aircraft upgrades, the P-3 project and the C-130 project will shift their centre of activity to Marlborough in the course of next year, when Safe Air will take over the upgrade work on the remainder of those fleets for L-3 Communications Integrated Systems. In May the Minister of Defence signed a contract with Agusta Westland for the purchase of five A109 light utility helicopters. The helicopters are being built in Italy but we are investigating with a number of New Zealand companies scope for post acquisition support.

What is equally noteworthy is the involvement of an even wider range of New Zealand companies in defence business world wide. Among these are A&G Price Ltd of Thames, which has been supplying Singapore with complete articulated drive/steering assemblies for All Terrain Tracked Carriers (ATTCs) and a range of other cast and machined components for five different models of APCs and ATTCs, as well as supplying Australia with a variety of ANZAC frigate components. A number of other companies are still involved with the frigates – Mace Engineering, Steelfort Engineering, Noske-Kaeser New Zealand Ltd and Davin Industries Ltd. Flight Cell Ltd of Nelson has provided the US and numerous other countries with multi-link hands free aviation communications hub for global satellite phones. SPEL of Trentham has provided the ADF with fire engines.

Within New Zealand, the support provided to camps and bases by VT Fitzroy in Devonport, Serco at the Army camps, Safe Air Limited for the Air Force, and that provided by the many other New Zealand companies allow Defence Force personnel to focus on what they do best. There is a significant amount of infrastructure development under way in the Defence Force, including for example the establishment of facilities for 3 Squadron at Ohakea.

Since I last spoke at this Forum I have been able to visit all the offshore Ministry of Defence projects. In May I was able to visit Marignane in Provence to observe progress with our prototype NH 90. The three components had been assembled on the production line, but I was just a few weeks too early to see them mated. In June I visited in quick succession Greenville Texas, Mobile Alabama and Edmonton Canada, and saw for myself how the P-3, B757 and C-130 projects respectively were progressing. The B757 is the furthest advanced. We were very pleased to welcome the first of the two converted platforms back to New Zealand in August. The strike at Boeing is obviously having an influence on the schedule for the second aircraft, but we are still hopeful that it will be delivered by the end of this year. In Edmonton the first of the C-130s had its first outing while I was there and has now undertaken a programme of test flights. Work on the second aircraft is well advanced. The P-3 project is proving the most challenging of the three. Just a little over a week ago I made my first flight in a P-3 and was impressed by the energy and enthusiasm of the crew. They are eagerly awaiting the delivery of the upgraded aircraft and we will be doing everything possible to ensure that they are not disappointed.

These projects, together with the Training Light Utility Helicopter acquisition, represent a very large commitment to the upgrading of the Air Force, with all platforms being upgraded or replaced. The aggregate cost of all these projects currently stands at NZ\$1.75 billion.

I have also visited the dockyard in Williamstown several times in the past year, including for the launch of OPV Wellington, and was in Whangarei in August for the naming of the fourth IPV, Taupo. The issues we face with Project Protector have been extensively covered in the media, as well as being examined dispassionately in the independent Review of the Safety and Functionality of HMNZS Canterbury by John Coles, commissioned by the Chief of Defence Force and me at the direction of the Minister.

The Chief of Defence Force and I are acting on all the recommendations in that review. We are revamping the governance structures within Defence. We are ensuring good connectivity between the acquisition process and the defence end-users. And we are rebuilding the capability of the Acquisition Division, taking account of some of the skill shortages identified by John Coles. I recently appointed Mr Des Ashton as Deputy Secretary (Acquisition) in the Ministry of Defence. Des is here at the Forum and will be renewing or making acquaintance with many of you over the next few days.

There are other issues related to HMNZS Canterbury itself which are now the subject of commercial discussions with BAE Systems Australia, and it would be inappropriate of me to comment on these at this time. What I do want to say is that we, Defence, remain entirely confident that when these issues are sorted and the ships all safely delivered that we will have a very significant capability for the Royal New Zealand Navy. John Coles commented that to move from policy formulation to introduction into service of such a new capability in 10 years, which is what is likely to be the timeline even in our

current circumstance, is remarkable. Without wishing to understate the seriousness and materiality of the issues we have to resolve, it is important for us all to keep these issues in perspective. Certainly that is the approach that other navies, perhaps more familiar than we are with the problems that can confront new vessels and new capabilities, are taking. We have had high levels of interest from Australia, the United States and from Europe in the capabilities we are bringing on board. That bodes well for the value and utility of Project Protector.

The next major naval project is a set of upgrades for the two ANZAC frigates. The Close-in Weapon system upgrade is under way in the United States, and preliminary design work is being done in Australia for the Platform Systems Upgrade, a project which over all is expected to cost around \$57 million. The scope of the larger self defence upgrade will be one of the major decisions we have to make in 2009.

The above may suggest that I have spent less time focussing on Army acquisitions. To a degree that is true, as given the cycle of Army re-equipment, many of the major procurements had already been made. These include the Light Armoured Vehicles, the Light Operational Vehicles (which replaced the Landrover), the Javelin Medium Range Anti Armour Weapon and more recently the VLLAD alerting and cueing system that allows the networking of the Mistral air defence missile launchers

Defence procurement attracts attention because of the sums of money involved, because the decisions taken have long reaching consequences, and because they are significant for our security and for our place in the world. Furthermore as I very quickly discovered on taking up this position, everybody has a view about how and with what our Defence Force should be equipped, and those views are often firmly indeed passionately held.

This is so in New Zealand even if in a relative sense the sums of money we spend are not large compared with those of close defence partners such as Australia or Singapore. But in terms of New Zealand government expenditure they are significant and they are also lumpy. Ensuring that that expenditure is appropriately and fully reported is important for stakeholder confidence in procurement decisions and in the manner in which they are implemented. That is something to which both I and the Chief of Defence Force are fully committed.

The need to manage the distinctive characteristics of defence expenditure lay behind the formulation of the Long Term Development Plan for Defence (the LTDP). The LTDP categorises and prioritises the range of major defence projects so that decisions on individual capabilities can be taken with full visibility of the range of likely or possible calls on the defence budget. It is not a budget itself, but it helps inform budget and funding decisions. The LTDP was first constructed in 2002 and has been updated regularly since then. The most recent update is shortly to be released. It sets out a snapshot of the current inventory of projects. This includes the creation of a new category of capabilities delivered – with the LTDP over half way through its 10 year life,

some projects have already been concluded, while others are at various stages of completion. The Update sets this out for each project, and you will hear more detail about the current projects later in this Forum.

Given that we are over half way through the current LTDP we are beginning to turn our thoughts towards what should succeed or replace it. Even now there are projects which have funding requirements beyond the current expiry of the LTDP, and there are others which are over the horizon but in respect of which we will shortly have to start investigating options for replacement. The most immediate of these is the replacement for the C-130s transport aircraft, whose life will come to an end about 2017, the replacements for HMNZS Endeavour and HMNZS Manawanui, and further out, the successors of the ANZACs. This suggests that a programme which takes us through to the 2020s would be the minimum planning horizon that would be desirable.

John Coles in his review drew our attention to some inherent characteristics of the New Zealand defence environment. Even in much larger defence procurement structures it is hard to find well qualified and experienced project managers. Pressures on the labour market are acute in this area. We will always be asking a lot of those who work in defence procurement. The trick is to ensure that they are appropriately supported, both through management and governance, and also through the accessing of resources from outside as circumstances require.

As in any project, in managing defence projects we have to balance the three variables of cost, time and performance. Given the funding envelopes within which we operate, it is not surprising that we have favoured fixed price contracts as the best way of protecting against risk on that front. This is likely to continue to be our preferred approach.

On performance we see ourselves as being conservative, not being 'leading edge' let alone 'bleeding edge', but at the same time our need to extract the maximum value out of our limited number of assets has led us into some innovative capability solutions. I mentioned Project Protector. HMNZS Canterbury is deliberately a "multi-role" vessel. Its primary function is tactical lift into the South Pacific and beyond, but it will also fulfil a training function and supplement the new patrol vessels. Another example is the passenger and freight combination into which we have configured the B757s. Both those commissions had unusual complexities and one lesson we can take out of the Coles Review is not to underestimate, in good Kiwi fashion, those complexities. Managing them can be a significant part of the life of a project.

That multi 'role-ing' is also a function of the requirement for defence assets to be available for tasking by or coordination with other government agencies, whether Fisheries, Conservation, Police or Customs. The National Maritime Coordination Centre undertakes this coordinating work in respect of our EEZ; the new patrol vessels (and the MRV) have been fitted out accordingly. The new helicopter fleets are also tagged in this respect. The need to ensure that major defence procurements, where appropriate, have a whole of government utility, will I am sure continue to be an input into our capability decisions.

Our limited number of defence assets also has an impact on our management of schedule. If there is one single message that I wish everybody to take away from this Forum it is that we can ill afford time delays, and those we are currently encountering present serious problems. When replacing or upgrading we have to be very conscious of, and carefully manage, any delays, and their impact on the operational capabilities of the defence force. We do not have a ready margin of capability or funding to plug gaps if there are significant delays in programmes. Again this is an area which requires good communication between all those involved.

All major defence capability decisions are best taken within a clear policy framework which, having assessed the current and future security environment, is able to determine the force structure and mix of capabilities which best allow the Government to discharge its security responsibilities to our own people, regionally and internationally. Given the major capability decisions ahead of us, and bearing in mind that we need to look ahead 30 years, we are at the point where it would make good sense to assess that framework. Many other governments are responding to new circumstances in just this way, Australia, France, and the UK, to name just three.

That others, especially Australia, are embarked on this same task is useful in so far as it gives us reference points for the issues we need to address. But we also have to bear in mind the unique features of our security situation. We have direct responsibilities which extend from the Antarctic to the South Pacific, from the Equator to the Pole. That in itself demands a wide range of capabilities simply to operate effectively across such vast tracts of ocean. Beyond that, New Zealand governments wish to be able to make a defence contribution to international peace and security. Currently we are doing so in Afghanistan and Timor-Leste, but over the 30 year life of our defence capabilities we could well find ourselves called upon to contribute in a quite different range of theatres.

While the circumstances in which we might wish to deploy the Defence Force, especially beyond our region, are necessarily uncertain, the criteria we have to apply are much less so. We have to operate within approved funding envelopes; we need combat capable personnel who are flexible and versatile; and we have to match the capabilities of both potential adversaries and our likely defence partners. Finding the right mix of capabilities to meet those criteria and undertake all required defence tasks is not easy, but we have done it before and we will do it again.

In conclusion, I wish you well with this Forum and look forward to meeting and talking to as many of you as possible over the next two days.

Thank you.