

MICHAEL WARD

MANAGING DIRECTOR RAYTHEON AUSTRALIA

As one of the longest-serving defence industry CEOs, Raytheon Australia's Michael Ward has seen a lot of changes since assuming his role in 2009. To learn more about how he sees the future of industry, Group Editor Ewen Levick spoke with him recently.



DM: What is important to you at the present time?
WARD: Over the last few years the environment has changed quite dramatically; our strategic circumstances, the Defence Strategic Update 2020, the Quad, the recent AUKUS announcement and the inclusion of industry as a Fundamental Input to Capability (FIC). In these changed circumstances the need for sovereign capability has never been more important.

But sovereign capability on its own won't deliver the national outcomes necessary to support our strategic defence aspirations. To realise these aspirations, I would pose industry must pivot to being a capability partner for Defence, not just the traditional supplier of goods and services, and Defence must fully embrace industry as a Fundamental Input to Capability.

Industry must continue to invest and collaborate. We need to be focused on capability-level engagement and delivering operational capability outcomes rather than just providing the stove piped solutions to individual FICs that has been the traditional approach. We need to assist Defence to plan, deliver and realise the full potential of the operational capabilities they acquire.

In addition, Government should continue to provide strong guidance and governance and we must continue to enhance sovereign capabilities. And of course, while we do this, we need to remain focused on the objective; which is delivering world-class operational capability for the ADF.

As a capability partner, industry should be focused on, and be prepared to commit to best-for-capability outcomes; and that brings an interesting twist because the best capability outcome is not necessarily the best outcome for an individual company. We've got to assist Defence to realise the full potential of the capability, not just ensuring the equipment meets the specification but ensuring that the customer – in this case Defence – can realise the full potential of the capability they have acquired.

An example I would give is the Land 19 Phase 7B program where we're in the process of delivering a short-range ground-based air defence capability for Army. What we're actually on contract for is to deliver the major equipment and to provide sustainment for that equipment. What the customer gets from us is the major equipment, some individual training and sustainment of the equipment.

That stove piped delivery does not go far enough in helping them to realise the full potential of the capability. So, we shouldn't stop at just delivering major equipment, providing

some training and a level of sustainment, rather what we should be doing is assisting Army through operational test and evaluation, integrating the capability (not just within the scope of the project but also into the broader ADF environment), and full introduction into service. We should assist Army to get to the point where that capability is fully operational and certified to operate in a contested joint environment. That's realising the full potential of the capability.

We should also assist in 'evergreening' the capability. One of the challenges of the procurement cycle is that equipment is generally delivered quite some time after the need has been identified by the capability manager, and some time after technology baselines for the capability have been set. Therefore, almost immediately on introduction of equipment into service, there is a need to look at refreshing the capability. The continual refreshing of capability is what we would call 'evergreening'. That needs to be done with industry providing 'evergreening' options for Defence, Defence making the decisions on how they would like to proceed, and industry supporting implementation of 'evergreening' options. In providing options, industry provides the 'technology window'; identifying what is possible to enhance the capability in light of changing requirements. And

PROFILE

2009	Managing Director, Raytheon Australia
2006	General Manager Strategy and Business Development, Raytheon Australia
2005	Chief Operating Officer, Raytheon Australia
2000	Joined Raytheon Australia
1984	Graduated, University of NSW
1981-2000	Australian Army



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all of this should be based upon taking a life-of-type view of the operational capability.

So, back to my example; we don't just need to deliver a short-range ground-based air defence capability to Army. We need to be looking at delivering the capability, how it will be introduced into service, how the full potential of the capability will be realised and how it will be 'evergreened' so it remains cutting edge throughout its life-of-type.

Finally, and this is really important, industry has got to have the in-country capability to perform that role. It's all very well to reach back for expertise from overseas - and that's an important facet of delivering capability for the ADF - but you have to have the in-country capability to operate as a capability partner.

ADM: When you said government needs to fully embrace industry as a fundamental input to capability, you placed an interesting emphasis on the words 'fully embrace'. Why?

WARD: Defence needs to operate, and interact, with industry at the capability level rather than at the project equipment level. Again, I'm back to emphasising the point: it's not about engagement for the provision of goods and services, it's about engagement with industry for the generation of an operational capability outcome.

On the Defence side, the focus needs to be on operational capability outcomes with a view to the role industry will play in delivering those outcomes. Rather than viewing industry as a vertical stovepipe that delivers major equipment or sustainment, looking at how industry can operate more as a horizontal capability partner that might contribute across multiple FICs.

We're moving into more complex systems with more sophisticated technology and faster rates of evergreening or technology advancement. Harnessing the opportunities this presents and addressing the challenges is really a white space which has to be filled. Industry is well placed to contribute strongly to addressing that white space; working with Defence, partnering to deliver and evergreen leading edge operational capability across its life-of-type.



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ADM: You said good outcomes for capability sometimes differ from good outcomes for a company. How do companies accept that, while also answering to shareholders?

WARD: If you take a whole of life approach, and you're dealing at the capability level with Defence, then there are peaks and troughs. So, sometimes a best-for-capability decision mightn't be great for the company but the next time might be quite positive for the company. So, the benefit for industry evens out across the life-of-type.

You know, we just can't take the view that industry will only do things for Defence to the significant advantage of the company. It's about a long-term partnership. There are ups and downs through the capability life cycle but ultimately, it's good for both parties.

ABOVE: An SM-2 missile performs a successful launch and intercept from the USS Mobile Bay during testing of the Aegis Baseline 9 combat system.

LEFT: Raytheon Australia's new Centre for Joint Integration where the Land 19 Phase 7B program is being delivered.

ADM

Defence Industry Magazine

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ADM: What is your definition of sovereign capability versus in-country capability?

WARD: As one of a number of Australian primes, we understand the criticality of running an Australian company, operating a local profit and loss, leading with a wholly Australian leadership team empowered to make decisions locally, growing local talent and continuously investing in Australian based capability. I'm not alone in thinking this. If you spoke to my industry peers in the other primes, they would have a similar view.

We really just can't allow for the personal agendas of a few to confuse what is a very important focus on sovereign capability. There's been a lot of commentary and misleading representations about Australian ownership and profits being taken offshore. And I'd make a couple of points about that.

For an Australian subsidiary that operates a profit and loss (P&L), profits are returned to the shareholders, in this case the parent company, via dividends. No different for a company that's listed on the ASX returning profit to shareholders via dividends, whomever or wherever those shareholders might be, or to owners via dividends for privately owned Australian companies.

But before you get to the point of distributing dividends, there's a myriad of costs and investment. Regardless of the nature of the local company - whether it's a subsidiary of an offshore multinational or it's listed on the ASX or it's privately owned - these include the flow down into the supply chain,

taxes and investment. Investment encompasses things like capability investment, additional capability in country, research and development and those sorts of things. And it is not right to say that offshore primes don't contribute to the Australian economy. Local subsidiaries pay tax; we pay local tax, company tax, payroll tax, GST; our employees pay personal tax and of course the supply chains pay tax. So, when people have a discussion that says offshore primes don't contribute to the country, it's just not correct.

In Raytheon, we've got a high level of delegation to make local decisions and we've been running a local P&L down here for at least a couple of decades.

ADM: With that answer in mind, what does sovereign capability mean?

WARD: In simple terms sovereign capability is the ability to access or own IP. It is to develop IP, to manufacture things in Australia, to integrate things in Australia, to sustain things in

Australia, to do that evergreening we talked about and do all that at the capability level.

ADM: Beyond P&L, how do you manage the relationship with your overseas parent when local interests differ, or when there are cultural differences?

WARD: The cultural difference question is an important one and we've got a lot of experience in collaborating with our parent company. I would say that it's a very rare thing for the interests of the ADF to differ from the interests of the parent company. The company is there to support their customer and whether they're doing it for the US or they're doing it for Australia, it's no different.

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LEFT: An Evolved Sea Sparrow (ESSM) missile is fired from the aircraft carrier USS Carl Vinson.

ABOVE: An SM-3 Block IIA ballistic air defence trial is conducted from the Aegis Ashore Missile Defense Test Complex at the Pacific Missile Range in Hawaii.

ADM: How important is it to have Australians running Australian programs?

WARD: It's not just important, it's essential. It's about having that relationship with the customer; more so than the relationship with the parent. Understanding the ADF, understanding the culture, understanding how we contract in Australia, understanding how we execute contracts in Australia, understanding how we generate capability in Australia which again is slightly different and culturally different from the way it is done in the US or in other places in the world.

ADM: Is the whole ecosystem, both department and industry, adapting well to the lifecycle view of capability?

WARD: Yes, we've made a lot of progress. There's a lot more to be done but certainly the landscape that we look at today versus a decade ago is markedly different. Firstly, the declaration of industry as an FIC was a big step forward. Now we are engaged with Defence at the capability level, having discussions at the capability level and talking about how to realise the full potential of the capability.

ADM: Is there a model that you use for this approach?

WARD: Each of our customers is a little different in the way that they might approach this. Navy approaches it a little different from Air Force, and a little different from Army. I look at it in terms of us providing access to what is possible, what can be done with this capability, to whichever capability manager. Then it's important for Defence

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LEFT: An SM-6 missile is loaded into its specialised container at the Raytheon Missile Defense Redstone Missile Integration Facility for delivery to the US Navy.

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to make the decisions and for industry to implement those decisions. And in this process using industry to provide the 'technology window' - identifying what is possible to enhance the capability in light of changing requirements.

ADM: What are the risks facing the delivery of Defence's capability ambitions?

WARD: There's a lot of focus on sovereign capability being just in-country capability, and I think it would be naive to think that we can deliver against the ADF's capability aspirations with everything being done from scratch in Australia. This is really important to developing sovereign capability as we need to recognise that Australia doesn't have the capability, capacity, deep pockets, or time to develop everything from first principles. We must also build the ability to access technology from other countries and where possible and appropriate we should transfer that technology to Australia.

Now that, in no means should that be the number one priority. The number one priority should be establishing in-country sovereign capability, but we've got to be able to effectively access technology from other countries as well.

ADM: What does the next year look like for Raytheon?

WARD: It's pretty exciting. We've got quite a few proposals in with the customer. We have quite a few programs which are currently in start-up and of course we have our longer-term programs that we've been working on for, in some cases for a couple of decades, which are going through, to some extent, an evergreening activity.

Across the industry, confidence is high. We are collabo-

rating more than ever with industry and I see that continuing to ramp up over the next few years.

ADM: How is Raytheon Australia preparing for the Sovereign Guided Weapons Enterprise?

WARD: We responded to the RFI issued by Defence. We're waiting for advice from Defence in regard to how they wish to proceed, but I think we've been very consistent in regard to our view on how to proceed with guided weapons, in particular framed by the statements by the Prime Minister and the Minister for Defence, that what they're really looking to do is to build a sovereign capability for guided weapons that are currently in inventory or plan to be in inventory.

Fundamentally that drives us down the path of US-based weapons. Over and above that, there is also a political aspiration to add resilience to the US missile supply chain from Australian-based production. That means becoming a second source for supply into the US market.

The government has been smart in deciding that what they want to do initially is to look at the manufacture of weapons which are currently in or plan to be in inventory. If we manufacture those weapons to US certifications, we do not need to re-integrate those with platforms and combat systems. This approach removes a significant risk.

I'll leave you with one comment - I've been doing this for a lot of years and never have I seen better alignment across the industry. When I talk to my peers in other primes, we all have similar views about how we can best support Defence in delivering world-class operational capabilities for the ADF. When we talk to senior levels of Defence and with Government, they have similar views on how industry can best contribute. There's great alignment across the sector. An alignment that I have not seen exist in the last couple of decades. ■

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