

## 2022 FEDERAL ELECTION POLICY STATEMENTS

### DEFENCE INDUSTRY POLICY

Statement by Innes Willox,

Chief Executive of Ai Group, the national employer association

#### Key Points

- The recent Russian-Ukrainian conflict has profound implications for the global security order, including Australia's own national security. We have seen a swift response from a range of our international partner nations, including substantial increases in allocation of GDP spending for national defence and security purposes, reflecting a wartime environment setting.
- Concerning developments in our own region signal a need to shift Australia's defence and national security settings and procurement policies to bolster our ability to defend Australia. While the strategic circumstances have deteriorated since the 2016 Defence White Paper, the funding model and acquisition methodology for Defence have remained largely the same.
- The new AUKUS partnership presents an opportunity to reset our strategic and resourcing requirements in co-operation with our close allies and international partners.
- The COVID pandemic has illustrated two critical fundamentals:
  - in times of crisis, countries will generally act in their national self-interest; and
  - supply chains underpinning defence capability are vulnerable to disruption.
- The Defence sector remains critical to underpin Australia's national security and contribute to our economic prosperity. It is vital that we have the vision, strategy and practical actions to build the Australian defence industrial base to deliver the required capability to the Australian Defence Force.
- A central element in expanding capability is to significantly lift the value for money from the considerable allocation to defence spending.

#### Policy approach

The Australian Industry Group recommends:

- An update to our national security settings and Defence funding model in light of the deteriorating strategic environment. This should include a new national security strategy matched with an updated investment program for Australian Defence Force capabilities to meet the growing threats.

- Reform of the Defence capability development, acquisition and sustainment system, including:
  - lifting constraints for Defence and industry during times of imminent threat and to help ensure surge capacity;
  - reviewing Australia's strategic reserves, war stock and rapid response capability, and replenishing as necessary;
  - taking a more agile approach to capability development, acquisition and sustainment, and ensuring industry is a true fundamental input to capability throughout the capability life cycle;
  - proper engagement with industry in the AUKUS process, including convening an urgent industry partnership roundtable with the US and UK;
  - bringing additional industry skills and experience into Defence procurement areas; and
  - ensuring Defence requirements are set early and remain stable, applying the 80-20 rule to avoid spiralling customer requirements.
  
- A new approach to expand and protect our defence sovereign industrial base and supply chains. This would involve:
  - a dedicated line of effort to map Australia's defence industry supply chains, identify true sovereign capabilities and develop approaches to protect our critical supply chains;
  - further development of our defence industrial capabilities within Australia to help underpin our sovereign requirements. This process should involve prioritising the development of the local defence industrial base in acquisition and sustainment decisions;
  - an overhaul of the Sovereign Industrial Capability Priorities system, including a renewed focus on the continuous shipbuilding program;
  - the transfer of intellectual property on major programs to help increase design and manufacturing capability;
  - additional protection for Australian businesses against cyber threats through targeted government assistance for the defence industry; and
  - a revitalised strategy for building the required Defence and defence industry workforce and skills.

### *Defence resourcing*

In response to the current and emerging demands on the defence budget, the importance of getting maximum value from defence spending is intensifying and the reforms listed above are central to improving efficiency and effectiveness of such spending.

Nevertheless, it appears likely that, even after firm and enduring efficiency gains are put in train, defence spending may need to rise beyond the current level of 2.1% of GDP.

In the near-term, with the extent of current pressing demands, and before efficiency measures have yielded full benefits, a rise in expenditure appears appropriate.

Over the longer-term, Australia's Government will need to reconsider the proportion of GDP allocated to Australia's defence commitment.