



The Australian Industry Group
Submission to the Performance of the
Department of Defence in supporting the
capability and capacity of Australia's
defence industry

August 2023



Introduction

The Australian Industry Group (Ai Group) welcomes the opportunity to provide a submission to the Performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry.

The Ai Group Defence Council is the peak national representative body for the Australian defence industry. We bring Government, Defence and defence industry together for the benefit of national security and the development of the defence industry, as well as providing trusted advice to a wide range of Defence and industry stakeholders.

The aim of the inquiry is to comprehensively assess the Department of Defence's performance in supporting Australia's defence industry's capability and capacity. This includes evaluating its role in meeting the current and future needs of the Australian Defence Force (ADF), fostering collaboration and opportunities with adjacent industries, addressing reliance on foreign inputs, and managing supply chain risks.

The inquiry seeks to enhance the defence industrial base through scientific, technological, and industrial cooperation, while also examining programs and initiatives for improving the industry's capability and capacity. Ultimately, the inquiry aims to strengthen the relationship between the Defence Department and the defence industry to ensure a robust, sustainable, and effective defence capability for the nation's security and sovereignty.

To inform this submission, Ai Group gathered views from a range of member companies with a focus on areas requiring reform to support our national security and develop the Australian industrial base. By leveraging these insights, we can shape policies and initiatives that foster innovation, drive exports, and bolster our sovereign capabilities.

Our recommendations focus on the following key themes:

The feedback from members covers various matters, such as reputational impact due to cancellations or descoping of major prospects and contracts, the need for a clearer process of transitioning developmental innovative technologies into operational service, and the importance of facilitating and funding companies, especially SMEs, to obtain relevant credentials and standards.

The feedback emphasises the need for early industry engagement, clear guidance, and specific time frames to achieve speed to capability. It suggests Defence should work more efficiently with industry, leveraging each other's strengths, to deliver optimal outcomes for the ADF. To enhance the sovereign industrial base, Defence must also define what constitutes a sovereign industrial base and establish a clear path to capability development aligned with the nation's defence and security priorities.

1. **Transparency and Collaboration:** The importance of transparency and collaboration between Defence and the defence industry. The need for deeper and more meaningful consultation, open lines of communication, and fostering a collaborative environment to achieve better outcomes.
2. **Long-Term Planning and Investment:** The call for comprehensive long-term planning and investment in the defence industry and the need for clear intent, guidance, and specific time frames to achieve speed to capability. Long-term planning is seen as essential for

assessing capability requirements and aligning industry investments to develop relevant capabilities.

3. **Funding and Support:** The necessity for adequate funding and support from Defence to facilitate the growth and development of the defence industry. This includes providing additional funding for research and development, innovation programs, and capability acquisition.
4. **Streamlining Acquisition Processes:** The importance of streamlining acquisition processes and reducing unnecessary bureaucracy is highlighted by the members. This is essential for attracting a broader range of industry participants and expediting the delivery of capabilities to the ADF.
5. **Workforce Development:** Workforce development and the collaboration between Defence, industry, and educational institutions to develop a skilled workforce that meets the industry's needs, particularly in STEM education and vocational training programs.
6. **Regulatory Support:** The significance of regulatory support to facilitate industry growth and innovation. This involves ensuring up-to-date and flexible regulations, technology transfer initiatives, intellectual property protection, and support for industry compliance with relevant standards and certifications.
7. **Sovereignty and Strategic Industries:** The concerns about the need to define and build a sovereign industrial base, reflecting the nation's defence and security priorities. There is a call for a whole-of-government approach to support strategic industries, including considerations for workforce availability and suitability.
8. **Export Opportunities:** The importance of actively supporting the defence industry in accessing export markets, promoting Australian defence products and services internationally, and endorsing products that are in operational service.

Recommendations

Australia's defence industry plays a pivotal role in supporting the capability and capacity of Defence to meet current and future needs. To ensure effective collaboration and mutual trust between Defence and industry, it is essential to address inherent challenges, including regulatory barriers. The following recommendations are proposed to assist Defence's in enhancing the defence industry's capabilities, foster collaboration, and secure Australia's sovereignty.

1. Support to Australia's defence industry in meeting the current and future needs of the Australian Defence Force

To achieve the delivery of timely and appropriate solutions, Defence must actively enhance its collaboration with the defence industry through more meaningful consultation, while also increasing transparency in the relationship. This involves early engagement with the industry and transparency, which are crucial in shaping industry efforts and meeting the needs of the ADF efficiently.

To make this happen, Defence should consider implementing measures like industry secondment of Defence personnel, professionalisation of the workforce to foster technology development and cooperation among academia, industry, and Defence, as well as creating joint facilities and Integrated Project Teams (IPTs).

Defence should further adopt comprehensive long-term planning practices and make the ADF's information and capability requirements publicly available, akin to the previous Defence Capability Plan (DCP). This process will assess the ADF's capability requirements, identify technology trends, and prioritise emerging threats and strategic priorities. By providing clear and predictable requirements, industry can align its investments and develop relevant capabilities, fostering better preparedness for future defence needs. This emphasis on long-term planning will facilitate better alignment of industry investments and capabilities with ADF needs, as well as identification of technology trends, emerging threats, and strategic priorities. Consequently, the defence industry can align investments and develop relevant capabilities effectively in response to these requirements.

- **Recommendation:** Defence should proactively engage with industry prior to the initial project approval (pre Gate zero). This approach will enable the collection of valuable insights from companies regarding emerging technologies, potential risks, and innovative solutions, empowering more informed decision-making throughout project development.
- **Recommendation:** Defence must communicate its intent, guidance, and precise time frames for successful capability development in a clear and direct manner. Implementation plans and accountability for priority projects are indispensable in expediting capability development and achieving efficient outcomes. Providing clear intent alongside specific time frames is crucial as it aids the industry in developing capabilities and making necessary investments for successful program delivery.

Workforce Development

To ensure our sovereignty ambitions are achievable Defence must consider workforce availability and suitability across the enterprise – the ADF, public service, and industry. Collaborating with industry and educational institutions is instrumental in developing a skilled workforce that meets the defence industry's demands. Supporting initiatives for STEM education, promoting apprenticeships, and fostering industry-academia partnerships ensure a continuous supply of talent to drive innovation and excellence in the defence sector.

- **Recommendation:** Defence should collaborate more with industry and educational institutions to develop a skilled workforce that meets the needs of the defence industry. Investing in workforce development ensures a skilled talent pool to meet industry demands.
- **Recommendation:** Enhance the workforce and skills development through funded and supported pathway programs, incentivised hiring from outside the industry, and more stable workforces through better strategic planning.

2. Work to address the reliance of Australia's defence industry on inputs, be they tangible or intangible, from abroad and key capabilities that could form the basis of targeted exports:

Defence should actively support the defence industry in accessing export markets. By providing greater export assistance, promoting Australian defence products and services internationally, and facilitating participation in international defence exhibitions and trade shows, Defence can diversify industry's customer base and reduce the reliance on foreign inputs. Facilitating access to export markets is a strategic move to diversify the defence industry's customer base and boost economic growth. Through greater export assistance, international promotion of Australian

defence products and services, and participation in global defence exhibitions, the Defence Department helps the industry expand its reach and contribute to Australia's international standing.

- **Recommendation:** Increase internal "marketing" efforts within Defence to ensure the Global Supply Chain (GSC) Program Office actively drives industry to explore and capitalise on industry opportunities. Externally, advertise Australia's world-class capabilities and the program's benefits through the establishment of dedicated support teams.
- **Recommendation:** AGSVA accept Five Eyes nationality as a Waiver for Citizenship, particularly for shipbuilding/submarine building contracts. Recognising Five Eyes nationality as a waiver for citizenship would enhance domestic capabilities and foster key partnerships with allied nations, supporting the goals of reducing reliance on foreign inputs and enabling targeted exports of defence industry products.

3. **Assessment and response to the risks that interruptions to supply chains may present to the ready access to such inputs and the benefits of producing defence industry outputs in Australia:**

Defence must streamline acquisition processes and cut unnecessary bureaucracy to attract diverse industry participants, including small and medium-sized enterprises. This optimisation is crucial for faster delivery of capabilities to the ADF. By simplifying procurement practices, reducing administrative burdens, and ensuring transparent and fair competition, Defence can expedite the acquisition process and enhance industry participation, resulting in more efficient defence acquisitions. Such streamlining will also help avoid supply chain disruptions and ensure reliable access to inputs for defence industry outputs in Australia. Defence should maintain up-to-date, flexible, and conducive regulations and policies. Additionally, engaging in technology transfer initiatives, encouraging intellectual property protection, and supporting compliance with relevant standards will further boost innovation and efficiency in defence activities.

- **Recommendation:** Review the Australian Industry Capability (AIC) policy and provisions to ensure they are effective, and defining clear success measures for capability development.
- **Recommendation:** Provide regulatory support to facilitate industry growth and innovation, including ensuring up-to-date and flexible regulations, technology transfer initiatives, intellectual property protection, and support for industry compliance with relevant standards and certifications.

4. **Role in enhancing Australia's defence industrial base by pursuing greater advanced scientific, technological, and industrial cooperation through AUKUS and other defence partnerships:**

The Defence Strategic Review (DSR) and AUKUS have reset the Defence agenda to provide economic benefits right across the nation and establish a new level of collaboration between the three AUKUS partners. Defence should foster collaboration and partnerships with AUKUS partners to enhance Australia's defence industrial base.

- **Recommendation:** Develop an AUKUS visa to expedite free movement of US, UK, and Australian citizens to support joint capability programs. Implementing an AUKUS visa would facilitate the collaboration and movement of skilled professionals between Australia, the US, and the UK, fostering joint capability programs. This partnership can create opportunities for adjacent industries to contribute their expertise and technologies to the development of advanced defence capabilities, enhancing the overall sustainability and viability of Australia's defence industrial base.

5. Design and implementation of programmes and initiatives that seek to improve the Australian defence industry's capability and capacity:

Defence must allocate resources for research and development, innovation programs, and capability acquisition. This encourages the industry to develop cutting-edge capabilities and maintain global competitiveness. However, it's equally important to encourage industry-led research and development initiatives. Defence should foster genuine research through strategic partnerships with industry and academia. By collaborating with these sectors, the industry gains access to a wider pool of knowledge and expertise, driving innovation and technological advancements. Investing in key areas such as advanced manufacturing, research and development, and emerging technologies remains essential for Defence to enhance the defence industry's capability and capacity. With a dual approach of providing funding and stimulating industry-led research efforts, the defence industry can thrive and remain at the forefront of technological advancements globally.

- **Recommendation:** Defence should increase the budget threshold for minor projects and more effectively utilise tools like Smart Buyer. Empowering capability managers with increased budgets and efficient procurement tools fosters agility and responsiveness in acquiring capability, encouraging industry-led ideas that align with ADF's needs.
- **Recommendation:** Enhance the defence Industry as a Fundamental Input to Capability (FIC) through appropriate consultation, trust, collaboration, and funding for strategically vital programs.
- **Recommendation:** Defence Department should collaborate more with industry and educational institutions to develop a skilled workforce that meets the needs of the defence industry, particularly in STEM education and vocational training programs.

Conclusion

The Ai Group Defence Council appreciates the opportunity to present this submission for consideration in developing the Performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry. The Defence Council is appreciative of the leadership in Government, Defence and other government stakeholders in driving national security outcomes and development of the Australian sovereign industrial base. Our intent through this submission is to provide insights and recommendations we believe will support the continued growth of the sector, deepen the Defence and industry partnership, and help to continue to deliver capability to the ADF.

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