

Developing Australia's defence industrial base:

A time for urgency, optimism and action

Executive Summary

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December 2023

sovereign capability



AIDN

Australian Industry & Defence Network. The Australian Industry & Defence Network (AIDN) was established in 1995 to develop a national representation for small-to-medium-enterprises (SMEs) operating in the Defence sector: www.aidn.org.au

SAPA

The Sovereign Australian Prime Alliance (SAPA) is an informal grouping of large Australian prime contractors to the Federal Government, comprising:

Austal, Australia's global shipbuilder, www.austal.com

Gilmore Space Technologies, Australia's leading venture-capital-backed space technology company, www.gspace.com

Macquarie Technology Group, Australia's data centre, cloud, cyber security and telecom company, www.macquarietechnologygroup.com

NIOA, Australia's largest family owned global munitions company, www.nioa.com.au

SAPA's shared goal is to advocate for Federal Government to cultivate and support Australia's sovereign prime contractor companies in the interests of achieving a more secure, self-reliant and resilient Australia.

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First published December 2023.

Executive summary

This report sets out a pathway to building genuine sovereign capability in Australia's defence industry.

It's the creation of a group of Australian companies from diverse areas, but all with the purpose of keeping our nation secure in dangerous times.

We are the NIOA Group, Gilmour Space Technologies, Austal, Macquarie Technology Group, and the Australian Industry Defence Network.

We think that a broad consensus is developing in government, parliament and society that now is the time to take bold steps to strengthen Australia's national security. The world has entered a new age of instability, strategic competition and uncertainty. We must stop the slide towards conflict by reinforcing the sinews of deterrence and stability. We can do that by strengthening our alliance and international partnerships, building up the Australian Defence Force (ADF) and boosting our industrial capacities.

The current and recent Australian governments should be applauded for their considerable efforts to deliver precisely those outcomes, but it's clear that more must be done, and done more quickly.

This report is intended to be a practical, constructive contribution to the public debate and government decision-making on how best to harness the capacities of Australian industry to equip and support our defence force and also be a better, stronger partner to our friends and allies.

The 12 chapters contain forward-looking ideas, informed by practical understanding of how Australian companies succeed, grow and deliver, combined with an appreciation of the challenges and authority that working in government can bring. We propose a deep working partnership between Australian companies, government ministers and the Defence organisation, driven by the urgency of our strategic environment and focused on results that strengthen Australia's military power and national security.

We do not think that war in our region is inevitable. We must play our part in collective security and deterrence to make conflict less likely—and we must be prepared in the event that deterrence fails, as it has in Israel and Ukraine.

We see defence industrial capacity as contributing to broader national goals beyond defence. It's an enabler of national resilience to weather unexpected shocks from multiple causes—recent examples for Australia being the Covid-19 pandemic and the national bushfire disaster that preceded it.

Given the risks of dependency on single sources of supply, a lesson from recent crises is that Australia needs multiple approaches to reduce supply-chain risks in defence and other parts of our economy. Defence industry policy done well can help here.

And, however trusted and capable offshore partners and their local arms may be, the simple fact is that those sources of supply can be stretched in meeting their own national needs. That creates a need for Australia to be able to call on companies headquartered here and with operations here. In the gravest crisis, Australian priorities will be their core focus.

The lesson from other countries, with differing political, geographical, strategic and economic environments, is that even the most open economies can provide a policy environment that grows vibrant local defence industries. Defence industries in South Korea, Sweden, Türkiye and Israel show that this is possible.

We can learn from their approaches and adapt ideas to our own environment, economy and political system.

The good news is that, despite a consistent narrative to the contrary, Australia has a highly capable industrial base that produces powerful, innovative products across a wide span of sectors. Australia is highly capable in the world of technology, all things digital and something that is becoming more obviously critical to an effective military: developing and making 'the small, the smart and the many'—systems that have a real impact on the battlefield but can be made in numbers that let them be used, lost and rapidly replaced.

We have highly capable space and counter-space firms, digital and health services, and manufacturing, from the small and the precise to complete armed surface ships.

The arms of big multinational defence and tech primes that operate in Australia are essential elements in our national defence, as are partnerships between those firms, their multinational elements and Australian-headquartered companies. However, Australia's alliance and partnerships, from AUKUS to our growing strategic partnerships with Japan, South Korea and European powers, can't thrive without a strong Australian-owned industrial base that makes Australia a contributor and not just a customer.

So, what is to be done?

We propose eight key recommendations to be acted on urgently, all of which are explored and explained in this report.

1. Declare the intent to establish Australian defence industry primes

The government should state that Australia's deteriorating strategic outlook is such that a major effort is needed to build and sustain Australian-owned defence industry prime contractors (primes).

The government must set the market conditions that will enable those firms to emerge.

Supporting the cultivation of Australian defence industry primes will not preclude using the US Foreign Military Sales program for acquisitions, or contracting foreign-owned defence industry primes, but we can't maintain our current excessive reliance on international partners at a time when those partners are facing their own crisis of defence supply.

2. Establish a Government Defence Industry Steering Council

Too much defence industry policy has been made in Australia *for* defence industry and not *with* defence industry.

A Government Defence Industry Steering Council should be established, reporting directly to the Minister for Defence. It must be drawn from leaders of companies with their headquarters in Australia and operations here and be a combination of large, medium and small Australian firms.

Its key value will be to bring Australian industry into a trusted and senior-level policy discussion with government and to ensure that direct and effective working relationships are formed between

the skilled personnel in our companies and their military customers.

Its key purpose will be to monitor the implementation of the Australian industry policy directions outlined in this report and work in partnership with government to deliver against its priorities.

3. Produce a new definition of 'industrial sovereignty'

It's inescapable that, when a national crisis occurs, a government will demand absolute priority support from companies headquartered in its jurisdiction and will use legal and regulatory measures to achieve that.

For Australia to have assured supplies in a conflict, we must have capacity in companies whose headquarters and operations are in Australia, where the Australian Government that can exercise ultimate priority. This is industrial sovereignty: Australian companies with their headquarters and operations here will make Australia their ultimate priority in times of crisis.

4. Revise the Commonwealth Procurement Rules to recognise economic security and industrial sovereignty as 'value for money'

Economic security and industrial sovereignty are policy ideas that need to be baked into Treasury and Finance policymaking more broadly as enablers that will help Australia adjust to our more dangerous world.

On procurement specifically, the Commonwealth Procurement Rules need to be updated to explicitly connect to the increasing need for economic security as a foundation of national security.

Trusted partnerships and greater Australian industry capacity will provide the ADF with assured access to what it needs to fight a sustained conflict. Those factors must be stated to be value-for-money considerations in the Commonwealth Procurement Rules and supporting guidance to normalise their application by Defence officials.

5. Change Defence's core processes and structures to enable and grow direct partnerships with Australian companies

Assured and resilient supply and rapid fielding of innovative capability are the Australian

Government's overriding priorities for defence industry. They are to be key criteria driving decision-making on how the Australian defence budget is spent.

Wholesale, not incremental, change is needed in Defence's Capability and Sustainment Group, in the Naval Shipbuilding and Sustainment Group, and in the approaches of Defence's capability managers. Defence's decision-making and business processes must now favour scale and mass, instead of the overriding single focus on the performance of individual systems that has dominated Defence acquisition in recent decades.

And it must seek assured flows of all the consumables of conflict, instead of relying on limited stockholdings and offshore supply chains that will be subject to disruption and others' priorities.

This requires direct contractual relationships between Defence and medium and small Australian firms.

6. Create a new \$1-billion budget line to fund sovereign capability pathways and products from medium-sized and small Australian companies for defence purposes

The best defence industry policy with the most willing implementation by central agency and Defence officials will fail without funding. Cash flow and reasonable profit are enablers of successful product development and capability and service delivery.

This new funding line in the defence budget is to be available in the May 2024 Budget and to grow over the following three financial years to \$1 billion annually to fund vital capabilities that must be delivered by Australian-owned companies.

7. Make AUKUS Pillar 2 deliver now, by setting industry to work

We need faster action to deliver on AUKUS Pillar 2 technologies. Australia is intended to be a technology and capability contributor to AUKUS, not simply a price and technology taker.

There is some world-leading technology resident in Australian medium and small companies that should be brought into the AUKUS conversation. And the barriers to entry to doing business with Defence must be reduced to bring in new entrants.

8. Replace the fruitless search for the perfect list of 'sovereign capabilities priorities' and detailed industry plans with practical priorities

Centralised planning models such as Defence's strategic industry capability priorities can't keep up with the pace of strategic and technological change.

Instead, the high-level priorities for Australian industry in the defence sector are to be:

- the 'consumables of conflict': supplies and services that are essential to supply our military in a time of conflict
- AUKUS Pillar 2 capability areas: cyber, artificial intelligence and autonomy, undersea capabilities, hypersonic and counter-hypersonic capabilities
- space and counter-space capabilities
- shipbuilding
- powerful battlefield and enabling innovations that deliver asymmetric effects, such as those we see in Ukraine.



This report calls for urgent action to strengthen Australia's national security.

Industry leaders could sit back and wait for the Australian Government and the Defence organisation to produce the next policy direction, but, rather than leaving all the heavy lifting in this policy area to the Defence Department and the government, we offer some constructive inputs to the public debate.

A group of like-minded Australian companies worked together to produce this report. We are the NIOA Group, Gilmour Space Technologies, Austal, Macquarie Technology Group—which together form the Sovereign Australian Prime Alliance (SAPA)—and the Australian Industry & Defence Network.

We span defence, national security, space, national and regional resilience capabilities, offering some of the best locally developed technology in Australia.

The report sets out a pathway to building genuine sovereign capability in defence industry.

This pathway would enable Australian medium-sized and small companies, each with innovative, potentially world-leading capabilities, to be marshalled together by an Australian prime contractor to generate robust, resilient capability for Defence.