

The Australian Industry Group

# Defence Industry Development:

Australian Defence Industry Policy Post COVID -19

August 2020



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# About Ai Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Ai Group is **genuinely representative** of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for ***thriving industries and a prosperous community***. We offer our membership strong advocacy and **an effective voice at all levels of government** underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the **resources and the expertise** to meet the changing needs of our membership. We provide the **practical information, advice and assistance** you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as **Australia's leading industrial advocate**.

We **listen** and we **support** our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We **provide solution-driven** advice to address business opportunities and risks.

## Australian Industry Group contact

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## Executive Summary



Strong and competitive defence industries that are aligned with national defence objectives are critical to Australia's national interest. The COVID-19 crisis has been an important test for Government, Defence and Defence industry to determine how well Australian Defence industry, supply chains and industry policy can stand up to strategic shock and overall, the Government, Defence and defence industry response has been positive.

The recently released 2020 Defence Strategic Update and 2020 Force Structure Review are welcome initiatives to help provide strategic and funding certainty for Defence and the Australian Defence industry. Ai Group looks forward to continuing to work with Government and Defence in supporting implementation of these important policies and investment plans.

While the Government and Defence responses to the COVID crisis have been effective, the pandemic has highlighted the fact that we do not have a sufficient understanding of the depth and breadth of our Defence industry supply chains, neither do we understand the source of origin of many component parts.

This would be an important time to review both the resilience of supply chains and Australian Defence industry policy. The last policy statement was released in early 2016 in the *Defence Industry Policy Statement*. It would be timely to review this document in light of the strategic changes post pandemic, looking at how we can best balance the concept of self-reliance with what is affordable and what makes sense from an economic perspective.

In order to progress an update to our Defence industry policy, as well as test and develop strategies for the supply chain, we recommend the following directions:

- Ensuring the 2020 Force Structure Plan takes into account ADF capabilities that could be largely built and maintained by Australian industry, which would also help drive a new era in Australia's Defence industry;
- More detailed information to support the 2020 Force Structure Plan and public release of Defence's Integrated Investment Program. It is critical that the Government release an updated public Integrated Investment Program, particularly given the last public document was released in early 2016. The Integrated Investment Program gives industry the information it needs to invest and skill its workforce to support delivery of capability for the Australian Defence Force.
- Development of an updated Australian defence industry policy reflecting our new circumstances and post COVID-19 environment, underpinned by the concept of Australian defence industry as a national strategic asset for the country.

A handwritten signature in black ink that reads "Innes Willox". The signature is written in a cursive style and is positioned above a horizontal line.

Innes Willox

Chief Executive

Australian Industry Group

# 1. Introduction and Strategic Environment

The COVID-19 crisis has been an important test for Government, Defence and Defence industry to determine how well Australian Defence industry, supply chains and industry policy can stand up to strategic shock.

Overall, the Government, Defence and defence industry response has been positive. Government and Defence have been forward-leaning and robust strategies have been put in place to:

- Help ensure business continuity;
- Pay invoices early, and ensure prime companies are flowing payments immediately down to small to medium enterprises;
- Set up a COVID-19 task force and communication cell to assist companies with issues such as freight and cross-border strategies; and
- Develop a 'Deed of Recovery' to approach contractual issues in a strategic manner.

The recently released 2020 Defence Strategic Update and 2020 Force Structure Review are welcome initiatives to help provide strategic and funding certainty for Defence and the Australian Defence industry. Ai Group looks forward to continuing to work with Government and Defence in supporting implementation of these important policies and investment plans.

## 2. Review of Australian Defence Industry Policy and Supply Chain Resilience

The release of the 2020 Defence Strategic Update and Force Structure Plan offers an ideal opportunity to review the resilience of our Defence industry supply chains. The 2020 Defence Strategic Update notes that the Government's plans include '*more durable supply chain arrangements and strengthened industrial capabilities to enhance the ADF's self-reliance, including in the context of high-intensity operations*'. (p33)

While the Government and Defence responses to the COVID crisis have been effective, the pandemic has highlighted the fact that we do not have a sufficient understanding of the depth and breadth of our Defence industry supply chains, neither do we understand the source of origin of many component parts.

This would be an important time to review both the resilience of supply chains and Australian Defence industry policy. The last policy statement was released in early 2016 in the *Defence Industry Policy Statement*. It would be timely to review this document in light of the strategic changes post pandemic, looking at how we can best balance the concept of self-reliance with what is affordable and what makes sense from an economic perspective.

### 3. Defence Industry Action Plan

In order to progress an update to our Defence industry policy, as well as test and develop strategies for the supply chain, we recommend the following:

- Conducting an evidence based and data-driven piece of research to understand the Australian defence industry supply chains, beginning with our sovereign industry capabilities as defined in the Defence Industrial Capability Plan.
- Make recommendations regarding the depth and breadth of sovereign capabilities, as well any vulnerabilities that need to be addressed, ensuring that we address the following elements of sovereignty:
  - Design, research and development capability;
  - The requirement for domestic manufacturing and support capability;
  - An appropriately skilled workforce;
  - Intellectual Property and technology transfer in large programs.

This research would underpin a set of recommendations regarding Australian defence industry policy, including:

- Ensuring the 2020 Force Structure Plan takes into account ADF capabilities that could be largely built and maintained by Australian industry, which would also help drive a new era in Australia's Defence industry;
- More detailed information to support the 2020 Force Structure Plan and public release of Defence's Integrated Investment Program. It is critical that the Government release an updated public Integrated Investment Program, particularly given the last public document was released in early 2016. The Integrated Investment Program gives industry the information it needs to invest and skill its workforce to support delivery of capability for the Australian Defence Force.
- Development of an updated Australian defence industry policy reflecting our new circumstances and post COVID-19 environment, underpinned by the concept of Australian defence industry as a national strategic asset for the country.

### 4. Summary

The COVID-19 crisis has highlighted very positive aspects of the Defence and industry relationship. It has also emphasised the need for us to protect the Defence budget, understand our supply chains and develop an updated Defence industry policy suited to our new strategic environment. The 2020 Defence Strategic Update and Force Structure Plan offer an ideal opportunity to further build the Defence and industry partnership with a renewed emphasis on Australia's self-reliance.

