

# Inquiry into the Department of Defence Annual Report 2023-24

Submission to the Joint Standing Committee on Foreign  
Affairs, Defence and Trade

**February 2025**



# Introduction

The Australian Industry Group (Ai Group) Defence Council appreciates the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade for its inquiry into the Department of Defence Annual Report 2023-24 (the Inquiry).

As the peak national representative body for the Australian defence industry, the Ai Group Defence Council brings together Government, Defence and industry to strengthen national security and support the sector's development. It also serves as a trusted advisor to a wide range of Defence and industry stakeholders.

To inform this submission, the Ai Group Defence Council consulted its member companies. This submission outlines key issues raised by Defence Council members, including funding allocations to meet strategic priorities, development of the industrial base and industry engagement. Addressing these issues is critical to ensuring defence industry is positioned to meet Australia's evolving national security challenges. Greater visibility of Defence's processes and progress on key initiatives and programs will help build industry confidence to continue to invest in critical technologies and workforce.

# Key Issues

The terms of reference of the Inquiry are very broad, covering a wide range of Defence programs and activities:

1. Sovereign Defence Industrial Priorities
2. Defence Estate, Security and Resilience
3. AUKUS
4. Uncrewed/Autonomous Systems, AI and their integration into the Joint Force
5. Progress on the transformation to an integrated focused force
6. Australian international defence cooperation and competition
7. Other issues as communicated to Defence.

Given the breadth of the terms of reference, it is not possible in a single submission to cover every aspect to appropriately reflect the complexities of the issues. Accordingly, we have summarised key issues that members have raised with us, followed by a summary of the individual themes. We would be very pleased to provide additional detail to the Committee as required.

In canvassing our member views, the following key issues were raised:

**Resourcing Defence to achieve the Defence Strategic Review objectives:** Members continue to express concerns about Defence's ability to meet strategic objectives within the allocated funding. Many have observed a perceived 'slowdown' in new projects and solicitation requests. There is also significant strain within existing programs facing funding challenges that are resulting in de-scoping programs, challenging both Defence and industry's ability to deliver desired objectives. Budget pressures—driven by inflation, workforce challenges, the drive to reduce over-programming and estate costs—are further straining resources. The nuclear-powered submarine program is adding significant financial demands,

impacting the Integrated Investment Program (IIP). Maintaining confidence in the IIP and commitment to fully funding existing programs is critical to ensuring ongoing private sector investment.

**Workforce challenges in Defence and industry:** Workforce shortages remain a major issue for the defence industry, including the availability of skilled personnel, wage pressures, and competition from other sectors. Strengthening the workforce pipeline from education into the industry is essential. We welcome the establishment of the Maritime Workforce and Skills Council and acknowledge its progress. Expanding this model to a national level across the broader defence capability ecosystem could be beneficial. Consideration of how to more efficiently mobilise existing industrial capacity and workforce would also benefit addressing near-term workforce challenges before existing skills are lost to other industries.

**A comprehensive industry strategy:** Ai Group continues to advocate for a structured, detailed defence industrial strategy to support the National Defence Strategy and IIP. While the Defence Industry Development Strategy (DIDS) and Sovereign Defence Industrial Priorities (SDIPs) are positive steps, an overarching strategy, supported by detailed implementation plans is still needed to ensure an enduring and responsive industrial base with surge capacity.

**Regulatory reform and procurement:** We commend Defence's efforts to streamline procurement processes. However, further improvements are necessary to drive real efficiencies, particularly in innovation-related activities and programs. A procurement process that can be tailored to the risk and complexity of a procurement would support optimised outcomes. Reform should also be considered more broadly than the Defence procurement processes, and should consider whether the Commonwealth Procurement Rules (CPRs) are 'fit for purpose' in all cases to support a more commercial approach to Government procurement and speed to capability. Members also continue to raise issues in relation to the implementation of broader regulatory programs – including industry engagement and efficient implementation of the amended Defence export controls legislation.

## Terms of Reference Themes

### 1. Sovereign Defence Industrial Priorities and Defence capability

Industry welcomes the Government's intent to shape priorities through the development and clarification of the SDIPs in the DIDS. However, the SDIPs remain high-level, and greater detail is needed to guide industry investment. Members also highlight the complex interplay between SDIPs and the need to build both capacity and capability within Australia's defence industrial base.

Several members have expressed concerns about the lack of transparency in achieving sovereign priorities, including continuous naval shipbuilding, guided weapons and explosive ordnance self-reliance, and advancements in research and innovation. Amid heightened scrutiny of Defence spending, this uncertainty risks undermining confidence in Australia's commitment to developing a sovereign defence industry. Greater clarity is essential to ensure industry and the broader community are fully engaged in delivering a robust and effective defence capability.

There is also concern that the SDIP strategy has done little to advance industrial development as a whole. The lack of strong industry consultation and consistent communication makes it difficult for firms to reconcile stated capability needs with actual acquisition programs. As a result, uncertainty persists, making it challenging for companies to allocate capital, infrastructure, workforce, and capability to meet Defence requirements. Additionally, limited collaboration on industry-wide capability development in line with SDIP timelines hinders participation in further developing the Australian Defence Force (ADF).

Policy and funding shifts—such as the cancellation of JP 9102 (satellite communications program) and delays in innovation programs—have further deepened industry uncertainty. Some members have noted that unpredictable decision-making raises concerns about the economic viability of sustaining defence operations in Australia. Cancellations, project descopeing, and policy shifts pose significant risks to long-term investment. As Australia competes for defence industry investment globally—against nations with stronger track records in managing and executing contracts—these challenges compound the confidence gap.

In this context, industry seeks greater consultation and engagement across key areas, including Continuous Naval Shipbuilding and Sustainment, Guided Weapons, and initiatives under the Australian Submarine Agency (ASA). Major acquisition programs, AUKUS initiatives, and naval research efforts are progressing simultaneously, yet industry engagement has been inconsistent. For example, in relation to the Royal Australian Navy's recent decision on uncrewed vehicles - early communication could have enabled better resource allocation, strengthened trust, and fostered a more competitive process. Another example is the decision to replace Army's fleet of sea boats through a Foreign Military Sales case with the United States Navy. Concerns have been raised as to the investment by the SME community in these examples prior to the Defence decisions to use alternative paths.

The Commonwealth can better support industry by clarifying SDIP requirements and ensuring ongoing dialogue to align strategic objectives and investment priorities. Clearly articulating the direct connection between the SDIP to funded programs in the IIP, and commitment to continuous engagement with industry, would greatly benefit industry's ability to invest in future capability and workforce development.

Workforce development remains a pressing concern for sustaining a sovereign industrial base. While the Commonwealth has announced major workforce initiatives, they remain broad in scope and will take time to materialise. Competition from the mining and resources sectors, particularly in South Australia and Western Australia, exacerbates the challenge of retaining skilled personnel. With a major program such as JP 9102 cancelled and other programs progressing slowly or being de-scoped, there is a growing risk that skilled workers will exit the sector, weakening sovereign design and manufacturing capability. Retaining this workforce may require increased remuneration, adding further pressure to company and project budgets.

Innovation remains a critical pillar of a sovereign defence industry. Industry welcomes the placement of ASCA closer to capability managers, as recently announced. However, members have raised concerns about the future of ASCA - greater transparency on ASCA's long-term funding and priorities would provide industry with confidence in the government's commitment to innovation.

ASCA's funding allocation represents a very small percentage of the Defence budget, and new investment is urgently needed to supplement, rather than replace, existing funding. Australia should benchmark its defence R&D investment against that of key international partners and provide clearer reporting on how funding is allocated and tied to measurable outcomes. Focus needs to be placed on establishing the 'problem statement' and incentivising the mobilisation of industry and academia to innovate to address the problem statement and establishing clearer pathways to operationalise the outcomes.

## 2. Defence Estate, Security and Resilience

Defence infrastructure is critical to national security, yet its ability to respond to evolving threats requires greater prioritisation. The Defence estate should be a foundational element of a broader national resilience strategy, but such a strategy has yet to be fully developed. In particular, the security and resilience of Defence facilities—especially against asymmetric threats—demand increased attention.

This is a broader concern than perimeter security and needs to encompass the full scope of force protection, including air and maritime defence, and cyber security.

Accelerating infrastructure development in northern Australia is essential. Timely funding allocation is crucial to ensuring that critical facilities are operational when needed, particularly in the context of a dynamic and increasingly contested Indo-Pacific region. The Government outlined a \$3.8 billion investment to enhance military infrastructure in northern Australia, which is a welcome step. However, greater transparency is needed regarding how this funding will be distributed. It remains unclear whether it includes previously announced projects, such as the \$1.1 billion investment at RAAF Base Tindal or the \$568 million for runway upgrades on Cocos Island.

To strengthen Defence infrastructure, a dedicated portion of the \$3.8 billion should be explicitly allocated to enhancing facility security, resilience, and force protection measures. Greater clarity on these investments will help ensure Australia's Defence estate is fit for purpose in an increasingly complex security environment.

### 3. AUKUS

Australia's commitment to the AUKUS partnership is of national significance, playing a pivotal role in strengthening national security. Pillar I presents an historic opportunity for the ADF and the defence industry. The nuclear-powered submarine program is critical to enhancing Australia's defence capabilities and ensuring long-term security. However, industry feedback suggests that progress since the announcement of the Optimal Pathway in 2023 has been slow, and greater urgency is required to address key concerns.

#### Limited Industry Engagement and Delayed Decision-Making

Industry stakeholders report that progress on Pillar I has been notably protracted, with the ASA engaging minimally with the defence industry. This lack of consultation is concerning, as it limits access to critical expertise, particularly from companies with extensive experience in nuclear governance, complex platform maintenance, complex submarine systems and nuclear engineering services. Instead of engaging these companies directly, the ASA has referred queries to overseas government agencies, which then liaise with the same Australian companies through a delayed, indirect process. This approach has resulted in unnecessary inefficiencies, slowing decision-making on key program issues. The Defence Council looks forward to the findings of the Richardson Review in the coming months.

#### Establishing a Collaborative Industry Forum

To address these challenges, Australia should establish a formal industry-government forum for AUKUS Pillar I, ensuring regular, direct engagement between Defence, industry, and key stakeholders. We are informed that a successful model already exists in the UK: the Submarine Sponsorship Industry Board, which has facilitated direct and continuous communication between the UK Ministry of Defence and industry partners since 2009. Industry feedback indicates that this forum has improved transparency, enhanced coordination, and reduced friction between stakeholders.

Australia would benefit significantly from implementing a similar forum, incorporating defence nuclear regulators, industry operators, and the Royal Australian Navy as the end user. Such a mechanism would foster trust, streamline decision-making, and accelerate the delivery of critical capabilities under AUKUS.

#### Defining a Nuclear Sustainment Model for Australia's Submarines

A critical challenge for the ASA is establishing a clear sustainment model for Australia's nuclear-powered submarines. The Royal Navy (RN) and the US Navy (USN) have adopted different approaches, and Australia must determine which model best aligns with its strategic and operational needs.

The USN model places significant responsibility on the end user in the sustainment process, whereas the RN model distributes responsibilities among the RN as the operator, the Ministry of Defence/Submarine Development Agency as the buyer, and industry as the service provider.

A well-defined, tailored sustainment model is essential to guide funding decisions, workforce planning, and program milestones—all critical to ensuring the program's long-term success.

## Commercial Viability and Australia's Nuclear Ecosystem

The high capital costs and complexity of nuclear-powered submarines necessitate a commercially viable ecosystem in Australia. For the program to be both successful and sustainable, commercial operators must be actively involved in the process.

A robust, competitive industry will not only support the sustainment of the submarine program but also develop the skilled workforce necessary for long-term operations. The ASA and the Commonwealth must work closely with industry to establish a framework that enables sustainable growth while ensuring that Australia's national security objectives are met.

The ASA and the Commonwealth should also work more closely with existing members of Australia's submarine enterprise and industrial base to ensure that the skills that have been developed over the life of the Collins Class submarine are not lost but are enhanced to help support the industrial capacity needed for a multi-class submarine fleet.

## Transparency in Funding and Expenditure

The ASA is responsible for delivering and sustaining Australia's nuclear submarines. Over the forward estimates period, the Government projects approximately \$6 billion in investment in the Australian industry and workforce, including at least \$2 billion in infrastructure in South Australia and \$1 billion in Western Australia. The Commonwealth also projects up to \$8 billion in investment over the next decade for significant infrastructure upgrades at HMAS Stirling to support the AUKUS program.

The total projected cost of the program—ranging from \$268 billion to \$368 billion over three decades, including over \$100 billion in contingency funding - raises questions about future allocations. Industry seeks greater transparency regarding the management of contingency funding and the specific scope of the 2025-26 expenditure.

Providing clear details on early expenditures is essential to ensure funds are effectively directed toward the program's long-term objectives.

## AUKUS Pillar II: The Need for Market Signals and Funding Clarity

Industry acknowledges ongoing efforts by the Government and Defence to progress AUKUS Pillar II, including to generate an enhanced enabling environment. However, the most pressing issue remains the lack of distinct funded programs and clear market signals to encourage industry investment. In some respects, AUKUS Pillar II still appears to be a policy-based activity rather than a funded activity focused on capability delivery.

Industry seeks a transparent understanding of:

- Which new capabilities and funded programs identified in the IIP fall under AUKUS Pillar II
- Which existing initiatives have been incorporated into Pillar II (for example, Maritime Big Play)

- What co-development programs are contemplated under AUKUS Pillar II, and what level of Australia industrial participation can be expected.

Greater clarity in these areas would help industry assess the scope of Pillar II capabilities and make informed investment decisions.

#### 4. Uncrewed and Autonomous Systems, AI and their integration into the Joint Force

The integration of uncrewed and autonomous systems into the Joint Force represents a significant advancement, underpinned by accelerated near-term investments. However, greater transparency is needed to clarify progress in both technology development and the policy, legislative, and regulatory frameworks—particularly regarding Artificial Intelligence (AI) applications.

The rapid evolution of uncrewed systems and AI presents both opportunities and risks. Ensuring their effective integration into Defence operations requires greater visibility into testing, exercises, and operational deployment. Increased transparency in these areas will not only enhance confidence in their adoption but also ensure they are deployed within a well-regulated and accountable framework.

#### 5. Progress on the Transformation to an Integrated Focused Force

Assessing Defence's progress in transforming into an integrated, focused force capable of addressing Australia's most significant strategic risks remains challenging. A lack of transparency (within security requirements) around prioritisation and resourcing has made it difficult to determine whether Defence activities are effectively aligned with critical risks—such as securing Australia's northern approaches, maintaining economic connectivity, contributing to Indo-Pacific security, and supporting the global rules-based order alongside our partners.

While the Defence Strategic Review outlined key strategies to address these challenges, many of its recommendations were not fully reflected in the 2023-24 Defence Portfolio Budget Statements (PBS). Defence acquisition funding has also been under pressure – for example, the October 2022 budget forecast defence acquisitions of \$73.9 billion over the 2023-24 to 2025-26 forward estimates. The May 2024 budget showed that acquisitions for this period had been reduced by \$6.9 billion or 9.4%.

The military equipment acquisition program has struggled over a long period of time with persistent underperformance, frequently falling short of forecasted expenditure. The DSR highlighted that the program was already 24% over-programmed within the forward estimates. Without adequate funding, this over-programming is likely to worsen, leading to delays, reductions, or cancellations of critical projects. The DSR's \$7.8 billion reprioritisation for new requirements further exacerbates affordability challenges.

Greater alignment and transparency between Defence's strategic objectives and resource allocation is essential to ensuring that Australia's defence capabilities are positioned to meet evolving security challenges effectively.

#### 6. Australian International Defence Cooperation and Competition

Australia's international defence cooperation, assistance, and responses to regional and global contingencies require greater clarity. Industry has noted that the lack of detailed explanations regarding Australia's contributions and engagement in these areas limits understanding of its strategic role and objectives.



To enhance transparency and provide a clearer framework for cooperation, Defence should articulate how Australia's efforts contribute to regional and global security. This is particularly critical in the Indo-Pacific, where Australia's leadership is essential to maintaining regional stability and advancing multilateral security arrangements.

## Conclusion

The Defence Council recognises the substantial challenges Defence faces in ensuring Australia's security and readiness for future threats. To address these effectively, we recommend that Defence embrace greater engagement with industry, particularly in areas like sovereign defence capabilities, major Defence acquisition programs, and international partnerships.

The Defence Council urges clear communication on Defence's strategic priorities, consistent funding for innovation and infrastructure, and immediate action on critical AUKUS and emerging technology initiatives. Achieving these objectives will require well-defined policies, enhanced transparency, and stronger collaboration to align industry with Defence's goals.

As Australia builds its defence capabilities, it is crucial that Defence ensures its plans, policies, and investments are practical, clear, and transparent. Open dialogue and collaboration will be key to developing a sustainable, resilient defence industry that meets Australia's long-term strategic needs.

The Defence Council is committed to supporting the creation of a stronger, more capable defence force and a robust, competitive defence industry.



# About the Australian Industry Group

The Australian Industry Group (Ai Group) is a peak employer organisation representing traditional, innovative and emerging industry sectors.

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, we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance members need to run their businesses.

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.

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