

UNCLASSIFIED



**Australian Government**  
**Department of Defence**

SEC/OUT/2018/141

Senator Linda Reynolds  
Chair Senate Standing Committee on Foreign Affairs, Defence and Trade (Legislation)  
PO Box 6100  
Senate  
Parliament House  
CANBERRA ACT 2600

Dear Senator Reynolds

At the Supplementary Budget Estimates hearing of 19 October 2016, Defence agreed to provide the Committee with a summary of progress to support integration of Australian industry as a Fundamental Input to Capability ahead of future estimates hearings. Defence is next scheduled to appear at the 2018-19 Budget Estimates in May 2018.

Since the release of the Defence Industry Policy Statement on 25 February 2016, Defence continues to progress to integrate Australian industry as a Fundamental Input to Capability. A summary of Defence's progress to date is enclosed for the Committee's information. Defence continues to progress implementation of key initiatives to build the capacity and capability of Australia's Defence industry to support Defence's needs.

For further information about this matter, my departmental contact is:

Mr Scott Dewar  
Acting Deputy Secretary, Strategic Policy and Intelligence

I trust this information will be of interest to the Committee.

Yours sincerely

Greg Moriarty  
Secretary

 May 2018

**Enclosures:**

1. Summary of progress to integrate Australian industry as a Fundamental Input to Capability

## **Summary of progress to integrate Australian industry as a Fundamental Input to Capability**

Defence Industry Policy Division continues to progress the implementation of key initiatives of the 2016 Defence Industry Policy Statement.

The integration of Australian industry as a Fundamental Input to Capability will ensure Defence fully considers the industrial capabilities and the capacity of Australian businesses to deliver Defence capability. It is the explicit recognition by Government and Defence of the contribution that defence industry makes to Defence capability.

Full implementation of the Defence Industry Policy Statement and the integration of Australian industry as a Fundamental Input to Capability requires sustained engagement and will be achieved through the implementation of a range of initiatives. Implementation is being closely coordinated across Defence, particularly with Naval Shipbuilding Plan implementation, noting the interdependency between the naval shipbuilding sector and broader defence industry development and support.

Integration of Australian industry as a Fundamental Input to Capability is being advanced across a number of complementary areas, as addressed in this update. Together, the work in these areas ensure that Defence is establishing the long-term policy settings to shape our defence industry, entrenching Industry as a Fundamental Input to Capability across Defence business processes and supporting industry development and innovation.

### **Strategic planning of the industry base**

- Defence has completed substantial work on the major policy initiatives that will plan and guide development of the defence industry over the next decade to ensure that defence industry can meet our capability needs and mature into an internationally competitive and sustainable industry.
  - Considerable progress has also been made to maximise Australian industry involvement in defence materiel procurements.
- With the Defence Export Strategy and the establishment of the Australian Defence Export Office, Defence is advancing industry as a Fundamental Input to Capability through earlier and greater support for defence exports.
  - Defence will be looking at ways to identify export opportunities across the Capability Life Cycle. This is a long term initiative that will support the sustainability and affordability of Australian Defence Force capability.
  - David Johnston has been appointed as the first Australian Defence Export Advocate. This role will provide international advocacy on behalf of local defence industry to help secure export sales and contracts.
  - The Australian Defence Exports Office was established on 23 April 2018 and will provide a focal point for the advancement of Australian defence exports with a focus on strengthening the resilience and sustainability of Australia's defence industry to meet Australia's defence capability needs. The Australian Military Sales Office has been incorporated into the Export Office on 20 March 2018, the 2018 Australian Military Sales Catalogue was released by the Minister for Defence Industry showcasing the products and services of 69 Australian companies.

- The Australian Government released the first Defence Industrial Capability Plan on 23 April 2018. This Plan provides the Government's vision and objectives for the development of Australia's defence industry over the next decade.
  - The Plan outlines opportunities for Australian industry – particularly small to medium enterprises – to support the delivery of the Integrated Investment Program, providing more information to industry than ever before.
  - The Plan also brings together in one place for the first time how Defence will partner with industry and use all of the current defence industry and innovation initiatives to achieve the defence industry sought over the next decade.
  - The Plan recognises the strategic importance of Defence and defence industry sovereignty to Australia's defence and national security. It provides a stronger definition of Australian defence industry based on having Australian-based capability,
  - It also introduces Sovereign Industrial Capability Assessment Framework and initial list of ten Sovereign Industrial Capability Priorities.
  - The Sovereign Industrial Capability Priorities will be managed across Defence planning – recognising their importance to Australian Defence Force operations and to capability delivery.
  - Implementation Plans will be developed for each Sovereign Industrial Capability Priority and Australian Industrial Strategies for each Integrated Investment Program Capability Stream from mid-2019.
  - The release of the Defence Industrial Capability Plan is a significant milestone in the normalisation of Industry as a Fundamental Input to Capability.
- Defence is developing a Defence Industry Participation Policy that will provide a more consistent approach to the consideration of Australian industry at the national and local levels in Defence procurements over \$4 million.
  - This Policy is due for release in mid-2018 and will ensure opportunities for Australian businesses to contribute to Defence projects are maximised.
  - It will address the Commonwealth Procurement Rule requirement for economic benefit assessment for all procurements of \$4 million and above.
- Defence is also developing a Defence Industry Skilling and Science, Technology, Engineering and Mathematics (STEM) for release in mid-2018. This Strategy will coordinate support for our defence industry workforce and skills base to meet anticipated workforce demand over the next decade.
  - This Strategy will be aligned with the Naval Shipbuilding Plan and recently announced Naval Shipbuilding College.
- The Naval Shipbuilding College will work closely with shipbuilders to increase the size and skill level of the naval shipbuilding and sustainment workforce.
  - The College will leverage a national network of education and training providers to deliver the specific skills required.

### **Integrated business processes**

- Defence policies continue to advance industry as a Fundamental Input to Capability. Industry integration and consideration is being sought earlier and more regularly through the Smart Buyer, Capability Life Cycle and Force Design Cycle.
- Defence projects are actively engaging with Australian industry to raise awareness of the opportunities on offer to Australian industry and help small and medium enterprises demonstrate their capabilities to prime contractors.
  - The successful tenderer for LAND 400 Phase 2 (Mounted Combat Reconnaissance Capability), Rheinmetall, has signed 24 teaming arrangements across Australia and has a further \$151 million of teaming arrangements to be finalised and announced. Over 40 Australian lead suppliers will be involved in key acquisition and sustainment activities, creating a peak of 1,450 jobs nationally.
  - Involvement of Australian industry in the Future Submarine Program is of vital importance to the construction and sustainment of the submarine fleet into the future. Naval Group and Lockheed Martin Australia have already commenced engagement with Australian industry, with eight open submarine industry days completed to date.
  - The Integrated Soldier Systems Branch (ISSB) Industry Forum was conducted on 22 March 2018, and was attended by around 125 representatives from 77 different companies and supporting organisations.
- The Australian Industry Capability Program plays a vital role in driving Australian industry as a Fundamental Input to Capability.
  - The Australian Industry Capability Program requirements apply to all major capital equipment projects of \$20 million and above, including those subject to recent announcements such as the Offshore Patrol Vessels and Combat Reconnaissance Vehicles.
  - The Program will also support the consideration of Sovereign Industrial Capability Priorities in Australian Industry Capability Plans.
- The Australian Defence College, which includes the Centre for Defence and Strategic Studies (CDSS) and the Australian Command and Staff College (ACSC), has developed curriculum offerings that explain how industry is a Fundamental Input to Capability, with a particular focus on defence technology, industry and capability elements.

### **The Centre for Defence Industry Capability**

- The Centre for Defence Industry Capability supports Australian industry outcomes by supporting defence industry development and export initiatives for small to medium enterprises.
  - As of 3 April 2018, the Centre for Defence Industry Capability has approved 342 advisory services, provided 31 Capability Improvement Grants worth \$1.1 million (including GST) and held stakeholder outreach events to more than 5,000 participants.

- The Centre for Defence Industry Capability will continue to provide ongoing support for Defence major projects and policies to support implementation of industry as a Fundamental Input to Capability. The Centre has begun its delivery of a series of ‘Introduction to the Defence Market’ seminars across regional centres and state and territory capitals. The ‘seminar series will conclude in Adelaide on 15 May 2018.

### **The Defence Innovation Hub**

- The Defence Innovation Hub is continuing to build the innovation capabilities of Australian industry and research organisations, and to deliver innovative solutions for Defence capability. The Defence Innovation Hub manages a portfolio of Defence innovation investments that is coherent and aligned with strategy.
- Since it commenced operation, the Hub has received 432 innovation proposals, and awarded 37 innovation contracts with a total investment of more than \$56 million. Clarity and transparency on Defence’s strategy led priorities for investment has seen 85% of proposals and 89% of Hub investments aligned with the top three priority capability streams. The Hub also manages a portfolio of legacy innovation projects worth approximately \$62.1 million.
- When the Defence Innovation Hub commenced operations in December 2016, the primary market interface was through open solicitation against the defined priority capability streams, where industry and research organisations “push” ideas and proposals to Defence.
- In May 2018, the Defence Innovation Hub will launch Special Notice solicitations, to “pull” proposals from industry in response to specific capability challenges or problems faced by Defence. The establishment of a permanent Special Notice capability follows three successful pilots that were held during 2017, including a partnership between the Defence Innovation Hub and Army to deliver Army Innovation Day 2017. The Special Notice service leverages the innovative capacity of a wide spectrum of Australian business to solve problems, to enhance Defence capability.
- The Defence Innovation Hub will also pilot a new service offering in April, in support of the ADF called Rapid Assessments (RA). An RA involves Defence industry or academia analysing and answering a problem concerning a Defence capability gap or opportunity or need identified by Defence. Each RA is expected to take less than six months to complete once in contract and each is to cost less than \$500k (GST included). The deliverable in all circumstances is a report on the findings of the activity.

### **The Next Generation Technologies Fund**

- In the twelve months since its launch in March 2017, the Next Generation Technologies Fund has strengthened Defence research partnerships across Australia with major new programs established, including Grand Challenges and Defence Cooperative Research Centres.
- The Next Generation Technologies Fund has received more than 900 proposals, funded collaborations with more than 40 companies, universities and publicly-funded research organisations, and committed more than \$110 million to research programs in the coming years.
- Defence will continue to grow and mature the Next Generation Technologies Fund portfolio in the coming year, in topic areas aligned with agreed Defence S&T priorities.

- Through the first Grand Challenge to counter improvised threats, \$19 million has been invested with 8 industry partners (including primes and small companies), 12 university partners and CSIRO. A similarly varied partnership profile is developing under the first Defence Cooperative Research Centre, addressing trusted autonomous systems, now that the plan for the formation of the company has been approved.
- The Next Generation Technologies Fund has now supported more than 100 research activities with industry, universities and publicly-funded research agency partners, with many more in the pipeline. For example, 90 proposals have been received in response to a national call, in the field of quantum technologies, in January this year.
- The Next Generation Technologies Fund has successfully demonstrated its potential for attracting partners new to Defence research, for example: one in three of more than 200 submissions to the Grand Challenge program came from applicants without existing Defence collaborations.
- Industry and university partners are indicating co-contributions totalling more than 80% of Defence investments made.