Contents

1. Executive Summary......................................................................................................... 3
2. HunterNet Defence Forum – 9 Sep ................................................................................. 4
3. Industrial Capabilities Vital............................................................................................... 4
4. International Trends in the Defence Industry Sector ....................................................... 4
   4.1 Centralisation ................................................................................................................ 5
   4.2 Diversification ........................................................................................................... 5
   4.3 Skills and Capabilities............................................................................................... 5
5. Development of Internationally Competition .................................................................... 5
   5.1 “Internationally Competitive”........................................................................................ 5
   5.2 Defence Industry Policy................................................................................................. 6
   5.3 Australian industry content ............................................................................................ 6
   5.4 Sustainment .................................................................................................................. 7
6. Future of Existing Industry Support Programs ................................................................. 7
   7.1 Innovation and Enterprise ............................................................................................. 7
   7.2 Identity ...................................................................................................................... 8
   7.3 Knowledge................................................................................................................ 8
1. Executive Summary

The Australian industrial capabilities must be maintained and grown. The ADF capabilities must not rely on imports and we must retain our skills base and train the young people for advanced manufacturing and technology. The country must be able to self-sustain through times of crisis. The PICs and SICs need reviewing through consultation with Defence and industry on a continual basis.

In recent times, there has been a trend to centralise the purchase and support of platforms and there has been little or no technology transfer eliminating the opportunity for industry to participate in the acquisition and sustainment. Recent purchases of C-17s and Super Hornets have highlighted this. Will this happen to the F-35, if something is not done now?

The Primes are diversifying and the SMEs should be supported by government to diversify during low periods in the acquisition cycle. Manufacturing must be maintained to keep the skills and capabilities.

The government needs to encourage companies to be internationally competitive. There has been some support through DMO industry support with Defence Export, innovation and Skilling but has this been approached correctly and has it been appropriate. The support offered needs to be reviewed and programmed for alignment with all selected industries.

The current Australian Industry content requires policy and process needs improvement. Products need support by senior Defence officers at trade shows to boost markets and in particular identify product that Australia excels.

There are some excellent industry support programs through Defence Capability innovation e.g. CDG, RPDE, DSTO, and CSIRO; funding; targeted skills development programs and supply chain engagement. This needs improvement with programs for collaboration for industry to work together for future opportunities and needs to be wider than Defence. The best Australian technology and capabilities should be used, supported and funded if required in projects from all regions of Australia.

Innovation should be recognised as part of acquisition and modify the idea that innovation is a risk and that companies need to grow their business through innovation and therefore support and improve the economy and also the ADF’s capability.

Defence and industry need to retain people to maintain knowledge, growth and support of the future Defence force.
2. HunterNet Defence Forum – 9 Sep
At the Defence Forum on 9th September, a presentation was given by Mr. Mike Kalms, Defence White Paper panel expert and followed with input from round table discussions from Hunter Defence industry and support framed around the following questions from Mr. Kalms:

- What industrial capabilities are vital; for the ability of the ADF to field forces and must be located in Australia?
- What are the consequences for Australian industry of international trends in the defence industry sector?
- How can the Government best encourage the development of an internationally competitive Australian defence industry?
- What is the future of existing industry support programs provided by Government?
- How can industry policy better support innovation and enterprise?

3. Industrial Capabilities Vital
What industrial capabilities are vital; for the ability of the ADF to field forces and must be located in Australia?

Australia cannot rely totally on imports for ADF capabilities:

- International partners have limits
- How do we sustain and enhance capabilities as threats emerge / change
- Can we integrate new capabilities or enhancements

How are we to retain really smart young people in Australia if it is not in advanced manufacturing / technology and sustainment?

PICs and SICs is a path that needs increased focus as one input. The PICs and SICs should be reviewed for the inclusion for Australia to be able to have the capabilities and resources available to defend Australia. Industry capabilities for manufacturing (shipbuilding) and sustainment must be aligned. Human and material resources (fuel) for all platforms must maintained and improved.

Defence needs to recognise that Defence industry is not just in the capital cities and the regions contain capability and technology.

4. International Trends in the Defence Industry Sector
What are the consequences for Australian industry of international trends in the defence industry sector?
4.1 Centralisation

- Centralisation may impact and potentially exclude Australian SMEs i.e. Collins style submarines versus nuclear propelled submarines being developed by other countries.

- Centralised supply trend shrinking, restriction of technology transfer; USA have not been overly forth coming. The impact will potentially eliminate or further reduce Australia’s role in the supply chain.

- The C-17s and Super Hornets purchased under FMS are maintained in the US. Will this be the trend for the F-35 sustainment as time goes by the US and other countries companies will shore-up opportunities if a program for sustainment is not planned in the short term?

4.2 Diversification

Diversification of companies e.g. Lockheed Martin to be sustainable outside of Defence contracts doing ATO IT. SMEs need also to be broader suppliers rather than purely Defence, with other Government contracts or international companies – supply globally. Defence should assist companies to diversify so when the next Defence cycle comes around that particular company is still operating and survived the Defence spend trough.

4.3 Skills and Capabilities

Skill sets and companies’ capabilities will potentially be lost if all manufacturing e.g. Cars and shipbuilding are moved off shore.

5. Development of Internationally Competition

How can the Government best encourage the development of an internationally competitive Australian defence industry?

5.1 “Internationally Competitive”

“Internationally competitive” can mean many things including:

- Cost
- Schedule
- Perceived value
- Sustainment costs
- Economies of scale

As a nation we need to decide what we want to be:

- Manufacturers
- Shipbuilders
- Sustainment
- Agriculture
- Mining
• Alternative energy
• Defence
• Aerospace
• Others

The government should make a decision and support it:

• Are we trying to be all things to all people (watering down the allocation of national resources)?
• Are we trying to be competitive in too many areas?
• Understand where we are competitive/where we would like to be competitive.
• Generate economies of scale.

5.2 Defence Industry Policy
Defence Industry Policy – currently includes

• Export Support – success (?)
• Innovation – success (?)
• PIC/SIC – not that useful too difficult to identify what falls into which categories
• Skilling – SADI – successful
• DIIC Support

What others could be included and should the whole process be reviewed and changed to meet future Defence industry needs?

5.3 Australian industry content
There is no solid industry policy on Australian industry content. Current Risk complexity of Policy Space includes:

• Support through AIC
• Development of products
• Marketing Australian individuals
• Promoting products
• Australian Military Sales

Policy and support encourage development of products that:

• export version of Australia made product (i.e. down spec from MILSTD to enable greater range of sales and reduce cost)
• various examples from other countries cited

Employ a marketing strategy that leverages off:

• using military uniformed personnel to boast/market products (US military promotional activity in Northern Territory cited)
• what we are good at … Bushmaster - others
5.4 Sustainment
Sustainment should be considered in the policies and processes for opportunities for industry in an international market. Sustainment is not valued and not considered in maintaining competitive tension. There should be more opportunities for Australian SMEs.

6. Future of Existing Industry Support Programs
What is the future of existing industry support programs provided by Government?

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<th>Defence Capability Innovation</th>
<th>Defence Only</th>
<th>Industry Wide</th>
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<tr>
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<td>CDG, RPDE, DSTO, CSIRO, Universities</td>
<td>R&amp;D Support, University Grants, Non-defence</td>
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</tbody>
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<th>Industry Capability</th>
<th>Project Related Private Funding</th>
<th>Capital investment Grants</th>
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<th>Skills Development</th>
<th>Targeted Programs within industry wide programs</th>
<th>Apprentices, University Schools, Immigration</th>
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<th>Industry Collaboration</th>
<th>Today</th>
<th>HunterNet</th>
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<td>Subcontractors</td>
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<td><strong>Tomorrow</strong></td>
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<td>Australian + Other</td>
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<td>Consortiums with lead</td>
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<th>Supply Chain Engagement</th>
<th>GSC, Trade Missions, NSW Trade &amp; Investment</th>
<th>NSW Trade &amp; Investment, EFIC, Austrade</th>
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<th>Value Creation</th>
<th>To scale programs for success, they need to be wider than Defence.</th>
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Defence policy should ensure that the best technologies and capabilities are used for projects and development. Industry should be funded in particular SMEs to ensure that the best value is gained and the growth of industry for future sustainment and maintaining a balanced economy. The policy of using a Prime should be reviewed in particular for the development of technology.

7. Industry Policy Better Support Innovation and Enterprise
How can industry policy better support innovation and enterprise?

7.1 Innovation and Enterprise
Innovation is something that defines identity.

The Australian Defence capability is small in a global sense and needs innovation.

There is nothing wrong with companies seeking returns and this is not bad.

Acquisition is about driving down risk.

Innovation initiatives counter acquisition posture.

Provide funding for initiatives

Companies will start if this is the case

Modify acquisition away from risk – Misalignment

7.2 Identity

Fundamental and cultural recognition that Defence exists to protect and assure sovereign interests, which includes economic prosperity.

It is good for business to make money. This prosperity is good for the wellbeing of all Australians.

Business makes money from leading in innovation for the long term

Acquisition must support innovation over risk.

Innovation within Defence must be rewarded.

Defence must support innovative Australian industry as a core value.

7.3 Knowledge

Be more knowledgeable in Defence – must maintain knowledge by retaining people in the organisation.

Defence industry innovations bring value to other industries - so innovation in Defence, and assisting the sale of Defence innovations must be embraced.