Dear Secretary

The Victorian Government welcomes this opportunity to provide input to the development of the 2015 Defence White Paper, and in particular, the companion Defence Industry Policy Statement (DIPS) and ten-year Defence Capability Plan.

The Victorian Government recognises the critical need for a sound and coherent approach to Australia’s long-term Defence policy settings and Australia’s defence capability. Victoria will welcome a sustainable Commonwealth plan that aligns Defence policy, strategy and capability planning with adequate resources. Victoria looks forward to continuing to play a vital enabling role in supporting Australia’s defence and national security interests and objectives. This submission focuses on issues of key relevance and importance to Victoria’s State interests, and role as Defence’s enabling State.

While the Defence Issues Paper 2014 considers a broad and comprehensive range of inquiry areas, this submission focuses on providing a Victorian perspective in the areas of defence industry and deciding defence capabilities. Specifically, this submission highlights Victoria’s strengths relative to Defence’s requirements, particularly in relation to:

- Industry policy;
- Defence bases and personnel; and
- Science and technology.

In tendering this submission, Victoria believes that the Commonwealth should see Australian industry as integral to Australian defence capability – an enabler that Australian defence capability cannot be without in order to fulfil its mission.

The Victorian Government awaits the White Paper’s conclusions and looks for a positive emphasis on Australia’s defence industries. We also look forward to policy settings that will create and encourage the conditions for success in Australian industry – SMEs and locally based primes – as a vital contributor to Australia’s defence capability. Victoria would also welcome the opportunity to contribute to the development of the companion DIPS and Defence Capability Plan.
If you have any queries pertaining to the attached submission or should you seek further Victorian Government assistance in the development of the 2015 Defence White Paper and companion publications, please contact Mr Matthew Lynch, the Director Aviation, Defence and Aerospace with the Department of State Development, Business and Innovation via email at matthew.lynch@dsdbi.vic.gov.au, or by telephone on (03) 9651 9846.

Yours sincerely,

THE HON DAVID HODGETT MP
Minister for Manufacturing

03/11/2014
Victorian Government submission to the development of the 2015 Defence White Paper
Introduction

The Victorian Government welcomes this opportunity to provide input to the development of the 2015 Defence White Paper, and in particular, the companion Defence Industry Policy Statement (DIPS) and ten-year Defence Capability Plan.

The Victorian Government recognises the critical need for a sound and coherent approach to Australia’s long-term Defence policy settings and Australia’s Defence capability. Victoria will welcome a sustainable Commonwealth plan that aligns Defence policy, strategy and capability planning with adequate resources. Victoria looks forward to continuing to play a vital enabling role in supporting Australia’s defence and national security interests and objectives.

In responding to the areas of inquiry being considered by the Department of Defence (Defence) and the Defence White Paper 2015 Expert Panel, this submission focuses on those issues of key relevance and importance to Victoria’s State interests, and role as Defence’s enabling State.

While the Defence Issues Paper 2014 (the Issues Paper) considers a broad and comprehensive range of inquiry areas, this submission focuses on providing a Victorian perspective in the areas of ‘Defence Industry’ and ‘deciding defence capabilities’. Specifically, this submission highlights Victoria’s strengths relative to Defence’s requirements, particularly in relation to:

1. Industry policy
2. Defence bases and personnel

A number of questions raised in the Issues Paper are addressed under these headings in this submission.

Successive Victorian Governments have supported local industries which in turn support the Australian Defence Force (ADF). This support includes: assistance for the Williamstown shipyard to deliver the ANZAC Class Frigates, Air Warfare Destroyer and Landing Helicopter Dock projects; support for the Bushmaster Vehicle delivered in Bendigo and the Defence Science Institute – just to mention a few. In more recent times the Victorian Government has led defence trade missions to the United States. Such trade missions are strengthened by Victorian Government Business Offices located in target markets such as the United States and a dedicated defence industry business development manager in Washington DC. The Victorian Government is also supporting the AIR 5428 (Pilot Training System) bid which is currently under evaluation.

The Victorian Government has established the Defence Council Victoria which provides strategic advice to government and Victorian companies involved in the defence and national security sector.
The Victorian defence industry will continue to benefit from the active support of the Victorian Government, which values the economic contribution defence business makes to the State’s economy, along with the role Victorian industry plays in delivering competitive capabilities to the ADF and global supply chains.

Victoria considers that it is Defence’s enabling State as its defence-related activities are foundational to the ADFs ability to plan, train and defend Australia and to protect Australia’s interests. This claim is based on the State’s strengths in providing supporting industries, training, and research, development and innovation.

In enabling Australia’s defence capabilities, Victoria makes Defence’s personnel, equipment and industry ready for service.

**Victoria’s Land capabilities**: Victoria is home to the design, manufacture, systems integration, sustainment and support of Defence’s land capabilities. This includes the innovative design of key complex land systems such as the ADF’s Special Operations Vehicle in Port Melbourne, the Bushmaster and Hawkei in Bendigo and the integration of systems for the G-Wagon in Mulgrave.

Co-ordinated preparation and positioning of the Victorian defence industry in line with the Commonwealth’s intentions would assist the Victorian Government’s strategic preparation of land domain industries present in Victoria. This would relate to the preparation of skilled manufacturers as well as, where appropriate, the provision of financial support to companies likely to increase Australia’s defence industry base in line with the Commonwealth’s strategic Defence planning.

**Victoria’s Maritime capabilities**: Naval shipbuilding is of particular interest to Victoria. The Victorian Government considers that a local shipbuilding industry capable of building, maintaining and modifying vessels throughout their lifecycle will be critical to the Royal Australian Navy’s capacity to operate new naval capability.

Victoria has an excellent maritime precinct and shipbuilding capability in the BAE Systems shipyard at Williamstown. The Williamstown naval shipyard directly employs 1000 Victorians and is capable of providing Australian content for naval ships across Defence’s future programs. BAE Systems Australia has invested heavily, with the support of the Victorian Government, in modernising the Williamstown shipyard. Williamstown now possesses the equipment and facilities needed for modern naval shipbuilding and integration projects.

The supply chain connected to the BAE shipyard constitutes approximately 900 employees and at least 45 companies. This demonstrates the strength that can accrue with the concentration of an industry capability in a certain locality. A more strategic approach to maritime capabilities by the Commonwealth Government would enhance this strength.
In March 2014, the Australian National Audit Office (ANAO) released an audit report into Defence’s SEA 4000 Air Warfare Destroyer (AWD) project. This report cited the Defence Materiel Organisation’s (DMO) view that Williamstown is the best performing of Australia’s shipyards.

The Victorian Government considers that developing and maintaining an indigenous defence industry capability, including a national shipbuilding industry, is of national strategic importance and vital for the economic development of Victoria. It is critical to Victoria’s future as a centre for advanced manufacturing and for the creation and retention of highly skilled jobs. Therefore, the Victorian Government remains committed to securing the future of the Williamstown shipyard and building a competitive local shipbuilding industry. The Victorian Government will welcome any action by the Commonwealth to this end.

**Victoria’s Military Aerospace capabilities:** Victoria has the largest and most innovative aerospace sector in Australia. It supplies research and development and design services, and manufactured components to international, commercial and military customers.

Victorian companies have won 70 per cent of the Australian-based supply chain contracts for the global Joint Strike Fighter (JSF) Program, Victoria is also home to the Air Operations Division of Thales Australia that has developed and is operating airspace control solutions for Australian and international civil and military customers.

In the field of aerospace research, development and innovation, Victoria is home to the Advanced Composite Structures CRC which is a collaborative partnership between research institutes, including RMIT and Swinburne Universities and industry, which is generating globally recognised aerospace outcomes in the area of carbon fibre composite structures. Similarly, DSTO’s Melbourne-based Platform Sciences Laboratory is Australia’s leading aeronautical research institute, performing extensive analysis of aircraft structures, propulsion systems and flight mechanics.

**Victoria’s cyber and advanced technology industries:** Victoria is committed to taking an industry lead in the emerging domain of cyber warfare, information and ICT security. Victoria has already supported global primes such as Lockheed Martin and Exelis to establish an ICT hub in Melbourne. Victoria will seek opportunities to facilitate industry growth in this emerging domain, having identified its vital enabling characteristics for the ADF and for broader security and civilian activities.

**Victoria’s broader defence industry capabilities:** Victoria produces both munitions and defence apparel in support of Defence’s activities. The Victorian Government commends the Commonwealth for its support of the munitions factory at Benalla. Separately, Australian Defence Apparel’s (ADA) production of Defence uniforms is located in Bendigo.
1. Industry policy

Victoria is a centre of advanced manufacturing in Australia, and the State’s defence industry is an important component. The Victorian defence industry consists of more than 300 companies and generates between $1.5 billion and $2 billion in revenue and around $170 million in exports annually. The State’s defence industry also employs around 8,000 highly educated and skilled Victorians in the design, manufacture and integration of military equipment, and the provision of services to support national and international defence activities.

The Victorian Government considers that a local defence industry capable of building, integrating, maintaining and modifying Defence equipment and systems throughout their lifecycles will be critical to the ADF generating and sustaining the required capabilities to support Australia’s Defence and national security interests.

To this end, Victoria seeks a defence industry policy that maximises Australia’s existing industry assets and ‘Australian Industry Content’ (AIC) – including those which reside in Victoria – while creating the conditions necessary for Australian industry to succeed. Specifically, Victoria seeks a policy that will help Australian industry demonstrate its capability against the Commonwealth’s defence and financial requirements.

Victoria supports the Commonwealth’s view in the Defence Issues Paper that the “ADF relies on defence industry to supply and maintain the equipment required for military operations, which necessitates a robust in-country industrial base”. However, Victoria notes that for this to occur, the Commonwealth needs to set the industry conditions that generate certainty for, and confidence in, local industrial capabilities. These conditions should enable defence industry to be viewed as an asset for Australian productivity. Victoria believes that a critical element to establish these conditions is the need for a fully-costed, ten-year Defence Capability Plan that provides industry with a pipeline of work into the future.

Victoria suggests that any Defence Industry Policy Statement (DIPS) resulting from the 2015 White Paper should be decisive, enduring, fully implemented, and integrative of local industry within broader defence capability settings. A new DIPS should have a statement that incorporates and identifies a clear and unambiguous role for local industry in enabling defence capability, and a measurable and significant effect on the industry sector in Australia.

**Q: Which industrial capabilities are vital for the ability of the ADF to field forces and must be located in Australia?**

The Victorian Government supports the position that the supply and maintenance of defence capability necessitates a corresponding requirement for a local industrial base. The Victorian
defence industry has the capacity to provide and deliver an almost complete capability as required by the vast majority of the ADF. While there is a trend towards multinational collaboration and the globalisation of the defence industry, Victoria’s defence industry has proven its skill and value in working within such settings.

Victoria welcomes any commitment from the Commonwealth to identify and develop local industry capabilities to enable and support Defence and the ADF. The Victorian Government considers that the current process for determining Defence’s Priority Industry Capability (PIC) and Strategic Industry Capability (SIC) requirements is generally sound, while the focus on sustainment capabilities is appropriate. This is an area where the greatest risk lies should Australia be involved in high-end warfare over a long period of time. However, regular revision of the existing PICs and SICs may help Defence address an evolving strategic environment that could be aligned to the regular Defence White Paper review and development process.

**Q: What are the consequences for Australian industry of international trends in the defence industry sector?**

The Victorian Government notes, but does not wholly support, the trend in defence procurement toward greater sourcing of equipment and systems from offshore manufacturers.

Victoria considers that any downturn in international demand for defence equipment that leads to spare market capacity, and a lack of Commonwealth policies encouraging domestic industry work, may make it more attractive for international companies to build equipment and systems for Defence and the ADF offshore.

If these trends remain unchecked, opportunities for Australian industry to manufacture defence equipment for local and export markets will become increasingly limited over time. A potential consequence would be diminished or lost local industrial capability, including PICs and SICs, which could in turn have strategic implications for Australia’s capacity and ability to field military forces.

The Victorian Government encourages the Commonwealth to be creative in developing initiatives to preserve domestic capabilities that are deemed vital to Australia’s national defence and security interests. Victoria will help facilitate any such initiatives where it is able to do so.

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

**Supply chain opportunities.** The Victorian Government considers that Australian defence industry will only be internationally competitive if it is given continuity of work in sufficient volumes that warrants investment in improved and efficient production runs. International competitiveness is also unlikely to grow without global supply chain opportunities. A continued and enhanced global
supply chain program is therefore critical. It is also essential that Australian industry continues to competitively leverage local and global supply chain opportunities available through major defence contracts.

**Managing defence industry interests.** The Victorian Government also considers that the DMO could assume greater responsibility in setting the conditions in major contracts that create pathways to opportunity for Australian industry. The best opportunities for local industry arise when an early decision on a particular capability solution is made. The prime example of this is the Joint Strike Fighter (JSF) program where the early decision to select the JSF as the likely solution, along with the commitment to join the development program, led to significant opportunities for Australian industry.

The establishment of robust and effective arrangements is required to ensure matters in the national industry interest are properly managed. In this sense, support to identified medium and long-term strategic defence industry programs/capabilities should be sustained where they enable a broader national industry interest, even if Defence does not consider the industry program an immediate priority for defence purposes.

To support Australia’s defence industry in developing its international competitiveness, the Commonwealth could make a clear industry statement in the DIPS and enter into formal partnerships with those industries that it will support for their strategic and international competitiveness. Medium and long-term forward agreements could then be entered into to enable adequate investment in research and development, plant and equipment and human capital for these strategic industries. Such formal statements could describe priorities using the existing SICs and PICs or a revised set of SICs and PICs should these be realigned by the Commonwealth.

In summary, the Commonwealth should:

- Make a firm commitment to supporting local industry;
- Leverage the opportunities arising through major offshore purchases;
- Establish effective pathways to allow local firms to access potential opportunities;
- Maintain assistance and business development programs to strengthen the ability of SMEs to participate in local and international supply chains; and
- Encourage and support local innovation where it is sensible to do so, and make early commitments to an equipment solution allowing Australian industry to be involved during the design and development phase of international programs.
Q: What is the future of existing industry support programs provided by Government?

There is a significant variety of defence industry support programs on offer from the Commonwealth and state governments. There is an opportunity to efficiently coordinate or rationalise these programs into a more effective model for delivery to industry. All existing industry support programs have a legitimate purpose, which should be preserved in any new arrangement. Skills development, industry improvement and those programs that encourage and support innovation are vital for Australian industry.

Victoria possesses industries which support Defence’s efforts in every ADF capability domain. These industries flourish strongest when the Commonwealth’s strategic planning is coordinated with or communicated to Victoria (and other states and territories) in a timely way, to enable the Victorian Government to support its local industries in line with the Commonwealth’s strategic intentions.

The Victorian Government will welcome an increased industry and strategic planning approach from the Commonwealth that maximises Victoria’s existing industry strengths and helps grow Victorian-based industries for greater national and Victorian outcomes.

2. Defence bases and personnel

Personnel training. Victoria’s status as Defence’s enabling State extends beyond the strength of its industries. While other States and Territories are operational centres for the ADF, Victoria is, and should remain, the nation’s home for the training of ADF personnel, covering all three domains — Army, Navy and Air Force. Victoria is home to:

- Wodonga Military Area – home of Army logistics training, Army apprentice training and Defence medical and health training;
- Puckapunyal Military Area – home to the Combined Arms Training Centre and the Transport Wing of the Army Logistic Training Centre;
- HMAS Cerberus – the Royal Australian Navy’s primary training school for its sailors, and Navy’s largest training establishment for its personnel;
- Swan Island Special Operations Training Centre;
- RAAF Williams – home to the Air Force Training Group; and
- RAAF Base East Sale – the primary training centre for RAAF pilots and strong candidate for the establishment of the AIR 5428 Pilot Training System capability with considerable support from the Victorian Government.

As such, Victoria is responsible for the preparation of key cadre of ADF personnel at key points in their development of combat and professional expertise.
Victoria therefore considers that the White Paper should place an emphasis on the critical nature of ADF training, its infrastructure support, and its enabling industry sectors. Victoria’s ability to deliver ADF training is enhanced through the location of many of Australia’s leading technical education institutions in Victoria.

This enables the ADF to deliver its training through outsourced and industry-supported arrangements. Commonwealth recognition of the interconnection between broader skills and training and the delivery of ADF capabilities will help Victoria remain a foundation training State for ADF personnel.

**Equipment test, evaluation and logistics support.** Victoria houses several other key bases critical to the preparation and facilitation of Australian Defence activity.

The munitions proving grounds at Graytown and the test and evaluation facilities at Monegeetta prepare ADF capabilities for effectiveness and lethality on operations. The Joint Logistics Unit at Bandiana and the Army Logistic Training Centre at Puckapunyal form part of Defence’s nationwide logistics infrastructure. Bases such as these substantiate the case that Victoria’s strength is in the preparation and enabling of the ADF’s core activities.

Victoria will welcome the White Paper’s recognition of the vitality of the key Defence and ADF enabling facilities housed in Victoria.

**Defence services and support.** In reinforcing the State’s role in enabling Defence, Victoria is home to 20 per cent of the national Australian Public Service defence workforce, the largest grouping outside the Australian Capital Territory. Victoria’s services industries are exceptionally well placed to support the evolving needs of Defence and the ADF now and into the future.

Victoria Barracks is home to the Defence Materiel Organisation’s Land Systems Division, as well as elements of Joint Logistics Command and the Defence Service Group.

The State’s services sector is vast and diverse, employing 2.5 million Victorians in a range of industries from freight and logistics, ICT and data services, design and engineering to management — all critical enabling functions for Defence and ADF operations and activities.

Underpinning Victoria’s strengths in this sector is the state’s highly educated and skilled labour force. As of May 2013, 42 per cent of Victorians aged 25 to 34 possessed a degree qualification or higher, the highest of any state and above the Australian average of 35 per cent.

As the Commonwealth considers the rationalisation and decentralisation of its defence services and support functions, Victoria stands ready to serve as the mainstay of these capabilities.
3. Science and technology

The Victorian Government recognises that while world-beating capability is the end-game of Defence procurement, Defence science and research is vital to the delivery of a leading edge to Australian and allied troops in training and combat. For this reason, Victoria’s emphasis on defence science, research and development has been strong.

Victoria is home to the Defence Science Institute at the University of Melbourne and the Defence Materiel Technology Centre. These two vital institutions explore innovative ideas on industry’s leading edge, and commercialise these ideas into effective market products that enhance Australian troops’ capabilities in battle. They also increase Australia’s export capacity and generate a launching point for Australian defence science and technology overseas.

Victoria is also home to the Defence Science and Technology Organisation’s laboratories at Fisherman’s Bend. The laboratories undertake critical research which is not replicated overseas to enhance existing Australian and allied capabilities.

Victoria’s universities are Australia’s leaders and in many cases global leaders. Defence research and development is therefore enabled by Victoria. For Australian defence science to flourish, Victoria’s rich base of established research capacity should be utilized toward Defence’s research and strategic ends. This will be best achieved via a deliberate planning methodology that has a view to longer-term integration between Defence science and research and Australia’s university sector, a strong part of which is in Victoria.

Victoria’s strength in defence science and research will be further enhanced if the Commonwealth’s emphasis on science, research and development forms an integral part of a fully-costed White Paper and its attached planning cycle.

Such a costed approach to this critical edge of capability delivery will enable Victoria to structure its defence science investments in line with the Commonwealth’s strategic planning. Alongside generating efficiencies and optimising research, it will provide defence industries in allied countries with optimal access to Victoria and Australia’s wealth of defence scientific talent and expertise.

Finally, Defence research and innovation will be optimised if it seeks to follow strategic objectives such as those in the Commonwealth Department of Industry’s recently announced Industry Growth Centres:

- Improve collaboration between businesses, scientists and researchers, enabling the adoption of new processes and development of new products;
- Increase the commercialisation of new ideas;
• Identify ways to remove stifling regulation placing a burden on Australian businesses;
• Get more businesses identifying and participating in global supply chains and markets; and
• Implement skills strategies to future ready the nation’s workforce.

Defence research directed towards specific industry productivity goals will help build a viable Australian defence industry.

Conclusion

Victoria’s role as an enabling State for Defence’s activities is generated by the industries and capabilities residing in its borders, but relies on the Commonwealth’s facilitation of these industries. However, Commonwealth policy to support industries residing in Victoria will greatly assist Defence’s achievement of the costed efficiencies it seeks in the White Paper.

These industries include SMEs delivering innovative technologies and cutting-edge equipment at below market rates as well as locally based primes who can tap into the innovative and creative strengths of Australian SMEs for their global success.

The successes of Victorian companies in global supply chain programs such as the JSF demonstrate the ability of Australian companies to deliver leading-edge military technology when given the opportunity to do so. That Victorian SMEs were awarded a significant proportion of these contracts demonstrates the local industry’s ability to compete internationally when provided with the conditions for their success.

Consequently, Victoria believes that the key to the goal of a fully-costed and deliverable White Paper will be the delivery of a companion industry policy statement that views industry as an asset for the delivery of Australian Defence capability.

Victoria believes that the Commonwealth should see Australian industry as integral to Australian defence capability – an enabler that Australian defence capability cannot be without to fulfil its mission.

The Victorian Government awaits the White Paper’s conclusions and looks for a positive emphasis on Australia’s defence industries. It further looks for policy settings that will create and encourage the conditions for success in Australian industry – SMEs and locally based primes – as a vital contributor to Australia’s Defence capability. Victoria also looks forward to the opportunity to contribute to the development of the companion DIPS and ten-year Defence Capability Plan.
Point of Contact

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