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Department of Defence

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MS19-000494

Senator the Hon Eric Abetz
Chair
Senate Standing Committee on Foreign Affairs, Defence and Trade (Legislation)
Parliament House
CANBERRA ACT 2600

Dear Senator Abetz

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 2019-20 Budget Estimates in April 2019.

Since the release of the Defence Industry Policy Statement on 25 February 2016, Defence continues to progress the integration of Australian industry as a Fundamental Input to Capability, particularly through the Force Design and Capability Life Cycles.

A summary of Defence's progress to date is enclosed for the Committee's information. For further information about this matter, my departmental contact is:

Mr Tom Hamilton
Acting Deputy Secretary, Strategic Policy and Intelligence

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

Yours sincerely

Greg Moriarty
Secretary

13 March 2019

Enclosure:

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

Defence Industry Skilling and Science, Technology, Engineering and Mathematics (STEM) Strategy

- On 28 February 2019, Defence launched its first Defence Industry Skilling and Science, Technology, Engineering and Mathematics (STEM) Strategy. The aim of the STEM Strategy is to support Australian defence industry's efforts to develop a robust and resilient workforce, which has the knowledge and skills to support Defence's capability requirements. The STEM Strategy targets gaps and opportunities within the broader defence industry policy environment and the education and workforce development pipeline.

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 support 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.
- Defence continues to implement initiatives outlined in the Defence Export Strategy, with key achievements since February 2019 as follows:
 - In partnership with Austrade and CSIRO - launch of a Landing Pad, to be conducted using Austrade's San Francisco landing pad, focussed on the Defence sector. The Landing Pad will run for three months from May to July 2019.
 - As part of the Defence-Austrade partnership in support of Australian defence industry an additional four positions have been advertised to recruit in-country Business Development Managers to further guide consideration and support of responsible defence industry exports opportunities.
 - The first round of the Defence Global Competitiveness Grant Program has closed and is being evaluated.
 - Delivery of an expanded and targeted Australian defence industry presence at international trade shows. The Australian Defence Export Office (ADEO), under the Team Defence Australia initiative, has taken delegations to the International Defence Exhibition and Langkawi International Maritime Exhibition. In addition, Austrade and the ADEO have partnered to support a trade mission to Oman.

- The ADEO has worked with Joint Operations Command to support the inclusion of an industry component to Exercise Indo-Pacific Endeavour 2019. This will include industry showcases as part of port visits and related engagement activities with foreign government officials supported by Defence personnel.
- Implementation of the Defence Industrial Capability Plan (the Plan) is continuing. The Plan provides the Government's vision and objectives for the development of Australia's defence industry over the next decade and includes the initial list of ten Sovereign Industrial Capability Priorities.
 - The Sovereign Industrial Capability Priorities are being incorporated into the Capability Life Cycle alongside Australian industry as a Fundamental Input to Capability. The Capability Life Cycle ensures industry engagement is undertaken before a major capability project or program is approved.
 - Implementation Plans are being developed for each Sovereign Industrial Capability Priority, which will be released from mid-2019, as well as Australian Industrial Strategies for each Integrated Investment Program Capability Stream; these will be released from quarter 4, 2019.
 - The Plan established the Sovereign Industrial Capability Priority Grant program to ensure that Australian small to medium enterprises have the capacity and resilience to deliver the Sovereign Industrial Capability Priorities.
 - Then Minister for Defence Industry, the Hon Steven Ciobo MP, launched the Sovereign Industrial Capability Priority Grant program on 21 November 2018. The annual grant program of up to \$17 million will be based on the prioritisation of investment against Defence's capability needs.
 - The first round of applications closed on 18 January 2019. Seven applications were received which now have been assessed by the grants' assessment panel. Funding recommendations are with the grants' delegate for approval. No grants have been funded yet.
 - Defence expects to announce the first grants funded by no later than end of March. Applicants are yet to be notified.
 - Round two, which opened on 17 January, closes on 13 March 2019. Defence expects to conclude assessment of applications by end of April 2019.
- Defence is developing a Defence Policy for Industry Participation 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 early 2019 and will ensure opportunities for Australian businesses to contribute to Defence projects are maximised.
 - It will assist in addressing the Commonwealth Procurement Rule requirement for economic benefit assessment for all procurements of \$4 million and above.

- The Naval Shipbuilding College is playing an important role in ensuring that workers with the right skills are in place at the right time to deliver the \$90 billion continuous naval shipbuilding program.
 - The College is a critical interface between industry and education. It is working with shipbuilding firms to understand and gather data about their workforce needs, and working with skilling and training partners to incorporate the latest industry-practices for naval shipbuilding into their course offerings.
 - The College is working to enhance courses currently offered in Australia to better reflect the specialised requirements of naval shipbuilding, with TAFE SA and TAFE Queensland's structural welding courses being the first provisionally endorsed course.
 - The College operates a workforce Register to refer interested applicants to relevant employment and training opportunities in shipbuilding.

Integrated business process

- Defence policies continue to advance industry as a Fundamental Input to Capability. This includes raising awareness across Defence as an organisation of the importance of industry and ensuring industry is being considered earlier and more regularly throughout the Capability Life Cycle.
- The Australian Industry Capability Program continues to play a critical role in driving Australian industry as a Fundamental Input to Capability.
 - The Australian Industry Capability Program requirements apply to all major capital investment projects of \$20 million and above, including the *Hunter Class Frigates*, *Attack Class Submarines*, *Offshore Patrol Vessels* and *Combat Reconnaissance Vehicles*.
 - The Program also supports 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.
- 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.
- Rheinmetall, the successful tenderer for LAND 400 Phase 2 (Combat Reconnaissance Vehicle), has signed 24 teaming arrangements across Australia and is now establishing contracts with major Australian sub-contractors. Independent analysis suggests that over 40 Australian lead suppliers will be involved in key acquisition and sustainment activities, creating a peak of 1,1450 jobs annually.
- The LAND 400 Phase 3 (Mounted Close Combat Capability) Request for tender (RFT) was released to industry on 24 August 2018 and closed on 1 March 2019.
 - Defence held industry briefings at the Land Forces Conference on 5-6 September 2018 in Adelaide, which were attended by 82 companies including a range of primes and Australian small to medium sized enterprises.

- During the evaluation process, Defence will work with shortlisted tenderers to maximise Australian Industry Capability participation in LAND 400 Phase 3.
- Shortlisted tenderers will be required to participate with the Commonwealth in a national Australian Industry Capability roadshow in 2020. This will showcase opportunities for Australian industry participation in the tenderers' acquisition and support supply chains, and identify opportunities to enhance understanding and build organisational capability through placements within the tenderer's organisations.
- For the Future Submarine Program, Naval Group and Lockheed Martin Australia have already commenced engagement with Australian Industry, through the Commonwealth's Industry Capability Network at which companies can register their interest in the Future Submarine Program and also receive information about opportunities within the Program.
 - 1,100 unique Australian companies have registered interest with Naval Group via the Integrated Capability Network.
 - 105 separate Naval Group work packages have been listed on the Integrated Capability Network.
 - 1,455 expressions of interest from Australian companies have been registered against these work packages; and
 - 991 requests for information to Australian companies have been issued by Naval Group.
 - 311 unique Australian companies have registered interest with Lockheed Martin Australia via the Integrated Capability Network;
 - 10 separate Lockheed Martin Australia work packages have been listed on the Integrated Capability Network;
 - 528 expressions of interest from Australian companies have been registered against these work packages; and
 - Lockheed Martin has issued 33 requests for information to Australian companies.
- The *Hunter* Class Frigate Program and BAE Systems have already commenced their engagement with Australian industry. BAE Systems most recently held a supplier engagement event in Adelaide on 3-4 December 2018 which attracted more than 300 attendees from approximately 100 small to medium enterprises (SMEs) and 30 Original Equipment Manufacturers (OEMs). Industry roadshows have been held since October 2016, with 15 being held across the country in 2017. In total more than 1,800 individuals and 1,300 companies attended the SEA 5000 Industry briefings.
 - BAE Systems had also developed an Australian Industry Capability Strategy that outlines how BAE Systems intends to maximise opportunities for small to medium Australian suppliers in both the build and sustainment phases. It includes plans to transition existing supply chains to Australian suppliers and to explore opportunities to integrate Australian suppliers into global supply chains.
 - BAE Systems has stated that 1,000 apprentices and graduate roles will be created throughout the program's life; job opportunities will include engineers and project managers, specialists in steel work, mechanical, electrical and technical trades and many other professions.

- BAE Systems also reports they have pre-qualified more than 700 companies across Australia for work on the *Hunter* class frigate program.
- There are currently 19 Australian suppliers that will participate in the *Arafura* Class Offshore Patrol Vessel program throughout the acquisition phase, with more expected over the project's life. The Request for Tender for the Through Life Support Contract, which will be based on an in-country sustainment strategy, is expected to be released in 2019.
- Industry participation in the global F-35 Joint Strike Program is managed on a competitive best-value basis under the Memorandum of Understanding agreed between Partners in 2006. Agreements between F-35 prime contractors (Lockheed Martin and Pratt & Whitney) and the Commonwealth of Australia are expected to generate 5,000 Australian industry jobs and \$2 billion in production contracts by 2023. More than 50 Australian companies have directly shared in over \$1.3 billion in global F-35 production contracts to date.
 - As part of the F-35 Global Support Solution, Australia is positioning to become the maintenance and support hub for the Asia-Pacific region. Australia has already received US Government assignments including air vehicle depot maintenance for the Asia-Pacific region; engine depot maintenance for the Asia-Pacific region; 64 of 65 Tier 1 components for depot maintenance; and the Asia-Pacific Regional Warehouse. Australia is expected to receive a significant share of the 388 Tier 2 component assignments expected to be announced in early 2019.
 - In December 2018, Defence formalised agreements with Lockheed Martin Australia (LMA) and Lockheed Martin Corporation (LMC), which establish the Intellectual Property, Technical Data and software arrangements for Australia's direct sovereign sustainment contracts with LMA and LMC until the Australian F-35A fleet is withdrawn from service.
- Through the 2016 Defence Industry Policy Statement, the Government announced investment of \$1.6 billion across three initiatives, the Centre for Defence Industry Capability, the Next Generation Technologies Fund and the Defence Innovation Hub.

Centre for Defence Industry Capability

- Since its launch on 5 December 2016, the Centre for Defence Industry Capability has supported Australian industry outcomes by supporting defence industry development and export initiatives for small to medium enterprises.
 - As at 28 February 2019, the Centre for Defence Industry Capability has approved 550 advisory service applications, provided 80 Capability Improvement Grants worth over \$3 million (including GST) and held stakeholder outreach events for more than 5,000 participants.
 - Under the Defence and Industry Skilling and STEM Strategy released on 28 February 2019, the Centre for Defence Industry Capability is working with Defence to develop a new skills support grant to target the greatest training needs linked to defence capability. The grant is expected to launch in financial year 2019-20.
 - The Centre for Defence Industry Capability has recommended seven applications for the Sovereign Industrial Capability Priority Grants be funded from the first round of applications. These grants provide eligible small to medium enterprises with matched funding grants of up to \$1 million to invest in projects that build capabilities aligned with Defence's Sovereign Industrial Capability Priorities.

- The first round of Defence Global Competitiveness Grant is currently being assessed against the merit criteria. Eight applications were received and have met the eligibility criteria. These grants provide small to medium enterprises with matched funding grants of up to \$150,000 to invest in projects that build defence export capability to build a stronger, more sustainable and globally competitive defence industry.

Defence Innovation Hub

- The Defence Innovation Hub delivers a program that enhances Defence capability through innovation and, in doing so, builds the capability and capacity of the Australian defence industry and innovation sector. The Defence Innovation Hub will invest around \$640 million over the decade to 2025-26 and is managing a portfolio of innovation investments that is coherent and aligned with the Defence strategy.
- Since its launch in December 2016, the Defence Innovation Hub has received over 800 innovation proposals and awarded around \$100 million in contracts, and an additional 12 Special Notice contracts worth around \$10 million.
- As at March 2019, 85 per cent of proposals and 89 per cent of contracts awarded have aligned with Defence's top three priority capability streams (this excludes Special Notice contracts).
- 85 per cent of innovation contracts awarded to date have been with Australia's micro, small and medium sized enterprises.
- Defence Innovation Hub runs an open call for proposals against defined priority capability streams, with industry and research organisations to 'push' ideas and proposals to Defence. The Defence Innovation Hub also offers a Special Notice service with 'pulls' proposals from industry. A Special Notice is a novel challenge-based solicitation that seeks innovative solutions to specific Defence capability challenges.
- Defence Innovation Hub is currently rolling out another new service offering called 'Rapid Assessments' which will replace and enhance the Quick Looks service that was offered through the former Rapid Prototyping Development Evaluation (RPDE) program.
 - Rapid Assessments will benefit both industry and Defence by identifying market options and foreshadowing the need for specific technologies through investigation and analysis of Defence capability related challenges.
 - Rapid Assessments differ from Special Notices as the outcome is a report to mature Defence's understanding of a particular topic, rather than technology development.

Next Generation Technologies Fund

- Since its launch in March 2017, the Next Generation Technologies Fund has strengthened Defence research partnerships across Australia with major new programs established, including:
 - A national research network in Quantum Technologies; the Grand Challenge to Counter Improvised Threats; the Defence Cooperative Research Centre for Trusted Autonomous Systems; the Small Business Innovation Research for Defence initiative; the Australia-US Multidisciplinary University Research collaboration; a strategic cyber research program in collaboration with CSIRO's Data61; and a medical countermeasures research program in collaboration with the Defence Materials Technology Centre.
- The Next Generation Technologies Fund has now supported more than 130 research activities with industry, universities and publicly-funded research agency partners, with activities in train across all nine science and technology priorities identified in the Defence Industry Policy Statement 2016.

- The Defence Industry Policy Statement 2016 states that, where appropriate, research should be undertaken in collaboration with Australia's allies.
 - In line with this guidance, Defence has now invested \$9 million in three Australia-United States strategic research collaborations through the Next Generation Technologies Fund. As a result, five Australian universities are now partnering with a total of 15 US academic institutions, addressing the priority technology areas of advanced sensing, quantum technologies and material sciences.
 - Defence has launched an initiative under the Small Business Innovation Research for Defence program as a joint effort with the UK. Through the program, Australia and the UK are funding development of novel methods for the integration of advanced materials onto military platforms.
- Defence is continuing to grow and mature the Next Generation Technologies Fund portfolio in topic areas aligned with agreed Defence science and technology priorities. Between November 2018 and February 2019, three public calls for collaboration have continued to expand the Next Generation Technologies Fund. These calls will enable Defence to establish a research network in the priority area of integrated intelligence, surveillance and reconnaissance; initiative research to drive advances in acoustic materials that will increase platform survivability and operational effectiveness; and external scientific research through the Human Performance Research Network. Through the two most recent calls for proposals in November and December 2018, Defence is standing up a research network in the priority area of integrated intelligence, surveillance and reconnaissance, and initiating research to drive advances in acoustic materials that will increase platform survivability and operational effectiveness.