



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

SEC/OUT/2018/329

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, the Department of 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 October 2018.

Since the release of the Defence Industry Policy Statement on 25 February 2016, Defence continues to progress this integration, 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  
Telephone: 02 6266 7211  
Email: [tom.hamilton@defence.gov.au](mailto:tom.hamilton@defence.gov.au)

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

Yours sincerely

Greg Moriarty  
Secretary  
8 October 2018

**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 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.
- Defence is continuing to implement initiatives outlined in the Defence Export Strategy, with key achievements since May 2018 as follows:
  - The inaugural meeting of the Defence Export Forum was held in Canberra on 17 May 2018, with representation from Commonwealth agencies, state and territory government and industry peak bodies. The second Defence Export Forum was held on 3 September 2018 in Adelaide.
  - Defence and Austrade signed a Memorandum of Understanding on 17 May 2018, covering strengthening partnership and collaboration to deliver the Defence Export Strategy.
  - The Minister for Defence, the Hon Christopher Pyne MP, announced on 3 September 2018 that applications for inclusion in the 2019 iteration of the Australian Military Sales Catalogue were open.
- Implementation of the first ever Defence Industrial Capability Plan is continuing. This 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 will be incorporated in the Force Design and Capability Life Cycles 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 will be developed for each Sovereign Industrial Capability Priority as well as Australian Industrial Strategies for each Integrated Investment Program Capability Stream, with the aim for both to commence delivery from mid-2019.

- The Plan establishes 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 Capabilities Priorities. The Grant program will have funding of up to \$17 million per year and will be based on the prioritisation of investment against Defence's capability needs and will be in place by the end of 2018.
- Defence is developing an Industry Participation for Defence 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 late-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) Strategy for release in late-2018. This Strategy will coordinate support for our defence industry workforce and skills base to meet anticipated workforce demand over the next decade.
- 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's welding courses being the first College endorsed course.

### **Integrated business processes**

- 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 equipment projects of \$20 million and above, including those subject to recent announcements such as the *Hunter* class frigates, 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.

- 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.
- 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 to provide industry with information about opportunities within the program. As at 1 September 2018:
  - Australian companies have registered interest in 1,456 Naval Group work packages and 452 Lockheed Martin Australia work packages (noting a company can express interest in more than one work package).
  - Naval Group has issued 2,008 Requests for Information (RFI) and Lockheed Martin Australia has issued 79 RFIs to Australian companies (noting more than one RFI can be issued to one company).
- Involvement of Australian industry in the *Hunter* class frigate program has been mandated from the outset. By folding ASC Shipbuilding into BAE Systems to design and deliver the nine *Hunter* class frigates, the Australian Government is leveraging the existing Australian shipbuilding capability in South Australia and ensuring the transition of the existing workforce occurs with the least disruption to both workers and programs.
  - BAE Systems has 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.
  - More than 500 companies across Australia have pre-qualified for work on the *Hunter* class frigate program.
- There are currently 19 Australian suppliers that will participate in the 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 mid-2019.

### **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.
  - Since its launch on 5 December 2016 and as at 31 August 2018, the Centre for Defence Industry Capability has approved 446 advisory services, provided 55 Capability Improvement Grants worth over \$2 million (including GST) and held stakeholder outreach events for more than 5,000 participants.

- The Centre delivered a series of ‘Introduction to the Defence Market’ seminars across regional centres and state and territory capital cities nationwide between March and 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 and as at 19 September 2018, the Hub has received over 500 innovation proposals, and awarded 53 innovation contracts with a total investment of more than \$67 million. Clarity and transparency on Defence’s strategy led priorities for investment has seen 85% of proposals and 91% of Hub investments aligned with the top three priorities for investment. The Hub also manages a portfolio of legacy innovation projects worth approximately \$49.2 million.
- Since launch, the primary market interface for the Defence Innovation Hub has been through open solicitations against defined priority capability streams, with industry and research organisations encouraged to ‘push’ ideas and proposals to Defence. The Defence Innovation Hub is now offering a new ‘Special Notice’ service, which ‘pulls’ proposals from industry. A Special Notice is a novel challenge-based solicitation that seeks innovative solutions to specific Defence capability challenges. As at 19 September 2018, the Defence Innovation Hub has executed seven Special Notice contracts worth \$4.3 million.
- The Defence Innovation Hub is currently piloting 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 are designed to connect industry, academic and research institutions collaboratively to analyse and answer specific questions about capability availability or maturity in markets to inform Defence’s capability requirements.
  - Rapid Assessments benefit Industry and Defence by identifying market options and fore sighting the need for specific technologies, through investigation and analysis of ADF capability related problems.

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

- Since 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, Small Business Innovation Research for Defence and the Australia-US Multidisciplinary University Research Initiative.
- The Next Generation Technologies Fund has received more than 900 proposals, entered into agreements with more than 40 companies, universities and publicly-funded research organisations, and committed more than \$130 million to research programs in the coming years.
- 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, 80 proposals were 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: one in three of more than 200 submissions to the Grand Challenge program came from applicants without existing Defence collaborations.
- The first Defence Cooperative Research Centre for Trusted Autonomous Systems (TAS-DCRC) was registered as a company in February 2018 and has commenced operation. The Commonwealth grant agreement committing \$50 million over a 7-year period was signed in March. The TAS-DCRC board has been formed, with all members appointed.
  - With its headquarters in Brisbane, TAS-DCRC will research and develop world-leading trusted autonomous technology for Defence and transition this to industry.
- 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 under the Multidisciplinary University Research Initiative (MURI) and the Australia-United States Multidisciplinary University Research Initiative (AUSMURI), through the Next Generation Technologies Fund.
  - As a result, five Australian Universities are now partnering with a total of 15 United States academic institutions, addressing the priority technology areas of advanced sensing, quantum technologies and material sciences.
- Through the first Grand Challenge to counter improvised threats, \$19 million has been invested with eight industry partners (including primes and small to medium enterprises), 12 university partners and CSIRO.
- Defence is continuing to grow and mature the Next Generation Technologies Fund portfolio in the coming year, in topic areas aligned with agreed Defence science and technology priorities.