



Australian Government
**Department of Industry,
Science and Resources**

Inquiry into the performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry

Department of Industry, Science and Resources
Submission

21 July 2023

Introduction

The Department of Industry, Science and Resources (DISR) welcomes the opportunity to make a submission to the Senate Foreign Affairs, Defence and Trade Legislation Committee inquiry into the *Performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry*.

DISR's purpose is to build a better future for all Australians by enabling a productive, resilient and sustainable economy, enriched by science and technology. The programs and initiatives delivered by DISR support the growth of innovative and competitive Australian businesses across the economy, including within Australia's defence industry. The Department of Defence (Defence) leads on matters of defence industry development and co-operation. Through collaboration and partnership, DISR also supports Defence in understanding, using and growing Australia's defence industry.

This submission outlines how DISR works alongside Defence to support defence industry.

Supporting Australian defence industry

Defence has primary carriage for administering programs directly targeted at growing Australian defence industry. However, DISR administers a range of initiatives that support defence industry capability across manufacturing, small-medium businesses, government procurement and space projects.

The \$15 billion **National Reconstruction Fund (NRF)** will facilitate increased flows of finance into seven priority areas of the Australian economy, through targeted investments to diversify and transform Australian industry, create secure, well-paying jobs and boost sovereign capability. Defence capability is one of the NRF's priorities and includes delivering key inputs to defence capability, such as those involved in the development, manufacturing and sustainment of relevant products. Investment decisions will be made by an independent board, consistent with the Government's strategic direction and priorities, as set out in the legislative framework. Complementing the NRF by driving early-stage investment, the \$392 million **Industry Growth Program** will support innovative small and medium enterprises (SMEs), including in defence industry, to develop new products and services to grow their operations.

The Government is also committed to leveraging its significant purchasing power to build more resilient, innovative and sustainable domestic industry capabilities through the 10 point **Buy Australian Plan** (the Plan). DISR and Defence are responsible for delivering complementary points under the Plan which will leverage government procurement to build domestic industry capability, including in defence industries.

DISR works with Defence to enhance Australia's defence industrial base by pursuing advanced scientific, technological and industrial cooperation under **AUKUS** and other partnerships. DISR supports Defence's **Nuclear-Powered Submarine** program through advice on industry policy, national security, waste management and nuclear regulation. DISR is also working closely with Defence on **AUKUS Pillar II** advanced capabilities to understand how industry can engage on critical technologies such as quantum, artificial intelligence (AI) and autonomous systems.

The **Australian Space Agency** has supported over 50 space sector projects to develop dual use innovations and capabilities from which defence industry is able to benefit – including payloads, platforms, ground stations and optical communications, AI, robotics and remote operations. This has

the potential to increase the resilience of fledgling industries, increase local industry supply to Defence's advanced capability needs and reduce reliance on inputs from abroad. Furthermore, the rapidly growing civil space sector is also a source of innovative, sustainable technologies critical to meeting the current and future needs of the Australian Defence Force (ADF).

Support for Australian industry broadly

DISR also manages a range of initiatives aimed at supporting the growth of Australian industry more broadly, including Australia's defence industry.

The **R&D Tax Incentive**, jointly administered by DISR and the Australian Tax Office, is the Government's primary mechanism for encouraging additional business investment in R&D and has potential to support defence industry to supply ADF needs. The incentive is available to companies conducting eligible R&D in all industry sectors, including R&D that helps to build capability and capacity in Australia's defence industry.

DISR plays a role in supporting whole-of-Government efforts that encourage the broader **data, digital and technological transformation** of the economy, including the growth of Australia's digital workforce. The digital capability and capacity within the broader Australian community has the potential for use in the defence context. Exploring these interactions, such as how the digital workforce could be utilised in defence applications, could lead to additional opportunities for Australian industry.

The **National Quantum Strategy** sets out a whole-of-government long-term vision of how Australia can take advantage of the opportunities presented by quantum technologies. It captures the key elements needed to support the growth of Australia's quantum industry and to make it one of the best in the world. Quantum technologies have a range of defence applications across quantum sensing, computing and communications. The **National Robotics Strategy** is being developed to promote the responsible production and adoption of robotics and automation technologies. There is immense potential for Australian industries to benefit from robotics technologies, including the potential benefits for robotics and automation technologies in defence industry and to support the ADF. To date, Australia's strengths in field robotics have been applied in defence applications, particularly in niche robotic systems for small and mid-sized applications in land, sea, air and space including in harsh environments.

DISR has a range of initiatives aimed at increasing Australian industry participation in subcontracting opportunities for government procurement and major private sector projects. The **Australian Industry Participation (AIP)** policy aims to ensure a full, fair and reasonable opportunity for Australian entities to participate in procurements. Analogous to AIP policy, Defence implements the Australian Industry Capability (AIC) policy. Where Defence determines that the AIC program is not an appropriate mechanism, AIP policy can be used to support Australian industry participation in defence procurements. DISR funds the **Industry Capability Network Limited (ICN Limited)** which delivers national coordination and IT support for the state- and territory-based Industry Capability Network. The ICN Limited supports AIP policy by managing a national database of industry capability and project opportunities known as ICN Gateway. ICN Gateway is used by many Defence primes to promote sub-contracting opportunities. ICN Limited also delivers a range of industry information and communication services to Defence.

The **Office of Supply Chain Resilience (OSCR)** provides cross-cutting advice on critical supply chain vulnerabilities that pose a substantial risk to Australia's national interest, including health and safety,

economic stability and national security. OSCR's primary objective is to ensure Australians have ongoing access to essential goods and services. OSCR works across the Government, including Defence, to identify supply chain-specific risks. This includes assessing vulnerabilities such as import concentration and dependency for goods, and their criticality to Australia's national interest. National security and defence industry needs are key considerations in this assessment.

Conclusion

Leveraging the range of industry support initiatives across DISR and Defence increases the opportunities for Australian industry to participate in Defence procurements and meet ADF needs. Defence procurement can be beneficial in promoting critical and dual-use technologies. This can have important spill-over benefits for defence-adjacent sectors such as the civil space industry.

DISR is committed to continuing to work alongside Defence to grow the capability and capacity of Australia's defence industry through a variety of policy, initiatives and programs.