



Submission

Senate Foreign Affairs Defence and Trade Committee Inquiry

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

From

The Australian Sovereign Capability Alliance

General

The Australian Sovereign Capability alliance (ASCA) is a new industry grouping, which has come together to make the case for greater Australian sovereign industry capability. This submission draws attention to Australia's dependence on overseas industry and foreign governments for our vital defence manufactures and essential needs and provides new data to support the case for Australian manufacturing. The submission notes that Australia is presently the lowest producer in the OECD of the manufacturing products it consumes, and that our dependency on imports is therefore the highest of OECD nations.

The COVID-19 pandemic has highlighted this dependence on foreign enterprises and governments for PPE, respirators and essential vaccines and pharmaceuticals during this crisis. This submission establishes that the problem extends to other key industry domains including Defence Industries and concludes that Australia's lack of manufacturing resilience leaves the nation dangerously exposed to other crises such as war, grey zone conflict, trade disputes, cyber-attack, natural disasters, future pandemics, and other events.

To argue the case for greater Australian sovereign capability is therefore to make the case for Australian manufacturing reform. The evidence in this submission related directly to each of the seven terms of reference given to the committee listed below. Capability and capacity within defence industry cannot be addressed in isolation from the nations broader economic policy settings.

Committee Terms of Reference

Terms of reference

The committee will inquire into the performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry, with particular reference to the department's:

- a) support to Australia's defence industry in meeting the current and future needs of the Australian Defence Force;
- b) role providing and supporting opportunities for adjacent industries to contribute to the sustainability and viability of Australia's defence industrial capability;
- c) work to address the reliance of Australia's defence industry on inputs, be they tangible or intangible, from abroad and key capabilities that could form the basis of targeted exports.
- d) assessment and response to the risks that interruptions to supply chains may present to the ready access to such inputs and the benefits of producing defence industry outputs in Australia.
- e) role in enhancing Australia's defence industrial base by pursuing greater advanced scientific, technological and industrial cooperation through AUKUS and other defence partnerships.
- f) design and implementation of programmes and initiatives that seek to improve the Australian defence industry's capability and capacity; and
- g) any other related matters.

Research

The Australian Sovereign Capability Alliance provides industry funded tertiary research by leading Australian universities to inform public policy debate and government decision making. The first academic research report by Flinders University's 'Australian Industrial Transformation Institute' (attached) which overviews the challenge ahead is attached. The ASCA report findings which are both revealing and of concern to the nation, were widely reported in the national press (AFR, New Daily, ABC, Newscorp daily papers, Commercial radio) on that day and subsequently. Articles covering the report are now emerging in industry publications. ASCA has passed the report to the Prime Minister, Leader of the Opposition and State Premiers for a response.

A key recommendation in this first report is that further detailed sector research is commissioned to examine the supply chains in five interrelated key industry sectors (health, defence and space, energy resources and infrastructure, science communications and technology and advanced manufacturing). Independent research is needed to identify what must be made or controlled within Australia if we are to remain sovereign. ASCA is engaged with industry about funding and commencing that subsequent research, though it would be better if government took up the task.

ASCA Findings and Recommendations

Definitions. The report reveals that there are no nationally agreed definitions of terms such as 'Australian Work', 'Australian Industry content' and 'Sovereign Capability' and there exist an array of interpretations over what is, and what is not, a genuinely Australian owned company or enterprise. Consequently, governments, industry and academia are all talking about the challenge of manufacturing reform in different and disconnected conversations. It is difficult to solve a problem if the definition of the problem has not been agreed by stakeholders. Parliament must insist on an agreed set of whole of government definitions.

Sovereign Operational Capability and Sovereign Industry Capability. The operational defence capabilities the nation requires need to be determined before launching into conversation

about manufacturing capability. For example, before deciding what specific PPE, medical equipment's or devices or pharma must be manufactured locally it is important for government to decide with stakeholders exactly what operational capabilities the health system needs to do its job independently from foreign suppliers in a crisis. Similarly, before determining which component parts or systems in a warship, military vehicle or aircraft must be built or controlled within Australia it must be decided what we want the warship, vehicle, or aircraft to be able to do independently, where, for how long and under what operational conditions. The industrial 'cart' has been at times placed in front of the operational 'horse'.

The Role of Government. Government at the political and administrative level is divided over whether to commit to defence industry at a premium cost to the Defence budget or save federal government money by importing our defence needs. There has been a chronic failure to fully cost the national economic benefits of investment in building a defence industry. Individual ministers and departments, through successive governments over many years, appear to have been working in silos on Australian manufacturing policy. Defence and HQADF appear uninterested in industry capability and at times have actively favoured imports as a fast track to operational capability without considering the strategic benefits of industry capability. The research has not found an overarching 'whole of government' strategy or plan of action for investment in manufacturing. The research makes clear that federal and state government spending and investment behaviour has encouraged imports of essential items to reduce federal government outlays rather than to deliver the broader economic benefits of local manufacture.

Sovereign Capability. In some cases, multinational companies and overseas owned industry primes have outmanoeuvred both governments and local industry to dominate local markets, marginalising genuinely Australian owned businesses and their workers. There are too few genuinely Australian primes and little insistence from Canberra on mandated local industry content in contracts. The Commonwealth the ADF and Service Chiefs appear to be easily seduced by major overseas prime manufacturers. Instead of requiring continuous builds of ships, combat vehicles and other equipment's, the Commonwealth and the ADF has accepted 'stop start' builds and production runs. The result has been that factories have been built, equipment manufactured then factories closed followed by gaps, before the whole cycle is repeated. Governance of defence manufacturing and sustainment by successive governments has been incoherent over decades.

Federal Government Commitment to Defence Procurement. The Australian Government should legislate local defence industry content to make its budget intentions clear. The example to follow is US Government Berry Amendment which is a statutory requirement that restricts the Department of Defense (DoD) from using funds appropriated or otherwise available to DoD for procurement of food, clothing, fabrics, fibres, yarns, other made-up textiles, and hand or measuring tools that are not grown, reprocessed, reused, or produced in the United States. The Berry Amendment has been critical to maintaining the safety and security of our armed forces, by requiring covered items to be produced in the United States. With respect to textiles and clothing, the Berry Amendment has been critical to the viability of the textile and clothing production base in the United States. By contrast the ADF cannot at present fully clothe its soldiers, sailors and airmen without dependence on overseas suppliers, mostly linked to China, in the process leaving local Australian textile

manufacturers inadequately engaged in supply chains. The Berry legislative concept could be applied more broadly to other areas of defence procurement and sustainment.

Defence Disfunction. Defence is by Australian government design inherently bureaucratic and dysfunctional. The Tange reforms emanating from the 1960's and 1970's created a diarchy which sees the ADF's capability and capacity jointly governed by a CDF and a Secretary. The result has been an overly bureaucratic and process driven approach to capability and defence industry. An Australian or international corporate entity with like budget and manpower to the ADF would characteristically hold a corporate HQ of around 500 to 600 people. Instead, the ADF and service HQ's operate with thousands more people, generals and equivalents requiring multiple committees and cross communication structures. Bureaucracy to survive needs complexity but to defend the nation defence capability and industry needs decisiveness, prompt action and simplicity. We have designed a system for peacetime, doomed to fail in a crisis.

Accountability. Despite numerous defence procurement failures senior officers and public servants are rarely sacked or held to account. The posting cycle moves people on too frequently thus sustaining the denial of accountability. Major procurements are managed in silos i.e., submarines and frigates, and construction is handled in isolation from sustainment even where like workforces and infrastructure is to be used concurrently.

Professionalisation of Defence Procurement and Sustainability. The existing process of using serving or retired senior service officers to manage defence procurement and sustainability has failed. In naval shipbuilding and in other areas it is past time to hand projects over to businesspeople. ADF officers should do the war fighting and set capability requirements, but industry capability should be handled by people who know what they are doing and who have the requisite skill sets. An ASCA article published in ASPI 'The Strategist' on this subject is enclosed [here](#).

Request of the Senate Committee. Defence industry does not operate in a silo but is part of Australia's manufacturing ecosystem. Lifting levels of Australian sovereign capability in key domains can form the basis of a revitalised national manufacturing strategy which flows through to defence. ASCA asks that this Senate Committee to consider the following recommendations contained in this submission for inclusion in its inquiry and report to parliament.

1. That federal government appoint a senior minister for sovereign capability supported by a dedicated agency to determine, implement a plan of action, and that a separate agency under a different minister be tasked with independently reporting performance.
2. That cabinet form a dedicated committee for sovereign capability, chaired by the minister for sovereign capability which brings together all relevant portfolios including Defence.
3. That government conduct a President Biden style (Executive Order 14017) 100-day top-down review of Australia's sectoral supply chain resilience that is underpinned by nomination of key operational capabilities for independent sovereign control and ownership.

4. That the government introduces legislation akin to the US Governments Berry Amendment which mandates local defence industry content, thereby making its intentions clear to industry and Australian taxpayers.
5. That government acts to review the diarchy, significantly reduce the size of the defence bureaucracy and improve the culture, accountability and functioning of Defence to deliver greater combat capability and less talk and process.
6. That government resets its industry policy which evolved from the March 2023 passage of the \$15Bn National Reconstruction Fund Bill the \$800m Australian Research Council Grants programme and other related industry innovation and a manufacturing investment around ensuring Australia's essential manufacturing requirements are under sovereign control. That the alternative government consider a similar bi partisan manufacturing policy position.

ASCA notes that the government has already acted on many of the challenges noted in this research but that much remains to be done, requiring new approaches and a concerted effort. We would welcome an opportunity to give evidence and we look forward to seeing the committee's report and thank you for considering this submission.

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