



Department of
**State Development, Infrastructure,
Local Government and Planning**

Our ref: MC23/3333

14 July 2023

Mr Sean Turner
A/Committee Secretary
The Senate Foreign Affairs, Defence and
Trade Legislation Committee
fadt.sen@aph.gov.au

Dear Mr Turner

RE: Submission to the inquiry into the performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry

I refer to your letter of 23 June 2023 to the Honourable Anastacia Palaszczuk MP, Premier and Minister for the Olympic and Paralympic Games, inviting the Premier to make a submission to the inquiry into the performance of the Department of Defence (DoD) in supporting the capability and capacity of Australia's defence industry. The Premier has asked me to respond on her behalf on this occasion.

Queensland is home to the largest concentration of Australian Defence Force (ADF) personnel along with key training ranges, bases and infrastructure that support Australia's military training and operations.

The Queensland Government is supporting national endeavours to build Australia's defence and sovereign capability. Queensland's well-established industry sector, highly skilled workforce and world-class research organisations are renowned for their agility, innovation, and depth of capability in supporting the ADF and its allies.

Queensland's priority industry growth strategies, including the Queensland Defence Industries and Queensland Aerospace 10-Year Roadmaps and Action Plans, (www.statedevelopment.qld.gov.au/industry/critical-industry-support/industry-roadmaps) have developed a mature industrial foundation of sovereign industry capabilities in sectors where Queensland excels and which are often part of our defence industries, including aerospace, advanced manufacturing, space, biomedical and biofutures.

As an example, these growth strategies have led to Queensland being a leader in aircraft and engine maintenance, repair and overhaul and in the production and support of heavy vehicles, as well as a national leader in emerging technologies such as alternative fuels, hydrogen and battery industry development.

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The industry growth strategies are complemented by support to research and innovation that has encouraged the development of leading-edge technology, leveraging expertise that delivers across domains such as trusted autonomous systems and space systems. With a deliberate focus on providing opportunities for industry to test and prove new technologies and capabilities, Queensland has also developed sovereign test and evaluation infrastructure that caters for multi-domain (sea, land, air and space) autonomous systems such as a maritime test range in Townsville.

The Queensland Government is also investing in building capability in Queensland's small-to-medium enterprises through activities such as the Department of State Development, Infrastructure, Local Government and Planning's Defence Industry Hubs, program of capability workshops and the Defence and Aerospace Industry Development Fund which supports businesses to achieve the internationally recognised certifications required to compete in global supply chains.

More broadly, decarbonisation is a significant focus of the Queensland Government and a growing focus for all our industries. The Queensland New Industry Development Strategy (the strategy) (www.statedevelopment.qld.gov.au/industry/queensland-new-industry-development-strategy) was released on 19 May 2023.

The strategy will grow industries critical to the global shift to a net zero economy (renewable energy manufacturing and infrastructure; critical minerals processing, manufacturing, and product development; battery industry development; green hydrogen; the circular economy, including resource recovery; and the bioeconomy including biofuels and sustainable aviation fuel). Many of these industries will be crucial to the future of the defence sector in this country.

I commend this submission to you, providing feedback on Department of Defence's engagement in the capability and capacity of Australia's defence industry. The Queensland Government invites further engagement to discuss future opportunities to support the further growth of the capability and capacity of Australia's defence industry.

I have asked Ms Denise Johnston, Executive Director, Defence Jobs Queensland in the Department of State Development, Infrastructure, Local Government and Planning to assist you with any further queries. You may wish to contact Ms Johnston

Yours sincerely

Mike Kaiser
Director-General

Department of State Development, Infrastructure, Local Government and Planning

Response by Queensland Department of State Development, Infrastructure, Local Government and Planning to the Terms of Reference for the Senate Foreign Affairs, Defence and Trade Legislation Committee inquiry into the performance of the Department of Defence (DoD) in supporting the capability and capacity of Australia's defence industry:

a. Support to Australia's defence industry in meeting the current and future needs of the Australian Defence Force.

- The Defence Strategic Review (DSR) promise of acquisition and procurement reform is positive.
- Consistent with the Defence Industrial Capability Plan, small-to-medium enterprises (SMEs) are better positioned when they are not solely reliant on the DoD for their success. If the DoD is only a small part of an SME's business, the DoD will not be the focus of that business if work does not flow. This means last minute requests from the DoD do not permit industry the time to bring their supply chain back into production or to scale production.
- There is a significant focus on 'just in time' acquisition (which does not align with the message that SMEs that are not solely reliant on the DoD are better positioned). If the preferred approach is 'just in time' acquisition, then consideration could be given to industry being compensated to remain ready and available to respond to the immediate demands of the DoD. This approach may also be necessary when considering strategic material stocks, particularly where shelf life becomes challenging.
- There is good work being undertaken by the Office of Defence Industry Support (ODIS) Advisors at the 'coalface' in engaging with industry, and the Queensland Government has an effective and valued relationship with the Queensland Advisors. However, ODIS seems inadequately resourced to fully engage effectively with the states and territories, and with industry. There may also be opportunities for greater harmonisation between ODIS and other parts of the DoD (Capability, Acquisition and Sustainment Group) which may provide increased guidance, clearer direction, and messaging in relation to project planning and/or priorities to assist the ODIS Advisors.
- Industry is reliant on a market signal to retain or ramp up dedicated capability. The Capability Managers and ODIS could be better engaged to forecast and deliver timely information to the market. Without dedicated messaging, the sovereign industrial base will struggle and the work the DoD has undertaken to develop the industrial base to date, will not continue to be optimised.
- The states and territories provide industry capability development activities to SMEs, improving their business practice to become defence ready.
 - There is a genuine collaboration opportunity with the states and territories in relation to industry capability development which may provide ODIS the opportunity to transcend the 'new to defence' SMEs and close a gap in the market, by uplifting and strengthening the industry already deeply embedded in defence supply chains and building Australia's medium businesses (above 200 full time equivalents (FTE)). This is an area that offers tremendous opportunities to truly grow the industrial capability in Australia by growing those businesses which have the potential to become large or prime businesses.
 - The Queensland Government's Defence Jobs Queensland would welcome the opportunity to be engaged on a collaborative, balanced and complementary industry capability development program.
- Consistency and clarity of the priorities is needed for capability planning if industry is to develop and support the Sovereign Industrial Capability Priorities (SICP).
 - After the establishment of SICP, regular and consistent engagement with industry by way of early information and future market intent may improve industry confidence for investment.
 - Co-investment in infrastructure between the DoD and industry, (including state governments) has worked well and resulted in rapid development of capability and is producing very good outcomes for both industry and the DoD e.g., Rheinmetall NIOA munitions based in Maryborough, Queensland.
 - Better alignment of Defence grant programs with SICP may assist industry.

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b. Role providing and supporting opportunities for adjacent industries to contribute to the sustainability and viability of Australia's defence industrial capability.

- It is not clear whether the DoD has considered opportunities for adjacent industries to contribute to the sustainability and viability of Australia's defence industrial capability.
- Leveraging innovation in adjacent industry sectors has the potential to transform or incrementally improve existing technologies and products and solve complex problems.
- There may be benefits in identifying novel technologies in other sectors with potential applications in the DoD. State governments have information that may assist. The Queensland Government would welcome the opportunity to assist the DoD to identify adjacent industries that could contribute to capability and support mobilisation initiatives including materiel reserves and skilled workforce.

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

- Collaboration with the states and territories can contribute to achieving national industrial mobilisation to deliver defence capability and ensure inputs for targeted exports.
- Leveraging the industrial strengths of each state and territory may maximise capability.
 - This collaboration may influence greater effects, prevent duplication, increase industry support to major projects and strengthen or build precincts of capability within existing industry for the purposes of export outcomes.
 - Precincts bring together production capability, examples include Australia Singapore Military Training Initiative, Cairns (Regional Maintenance Centre North East - NORSTA), Maryborough (155mm shell forging facility), Redbank (Military Vehicle Centre of Excellence), and potentially Toowoomba Wellcamp (Ghost Bat facility subject to DoD orders) while providing exports to the international market.
- Recent initiatives between Australia and the United States (US) such as the introduction of legislation Truncating Onerous Regulations for Partners and Enhancing Deterrence Operations (TORPEDO) Act and the proposed changes to the US Defence Production Act, to enable cooperation with Australia on advanced defence and controlled technologies and listing Australia as a US domestic source is positive for Australian industry. These changes provide Australian industry access to a USD \$1 billion market that is currently only open to American and Canadian produced and manufactured goods and services.
- The development of AUKUS Pillar II capabilities may provide opportunities for Australian industry. The development of AUKUS Pillar II capabilities has been prioritised by the DSR, however, it is not yet clear how this will progress.

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

- The DSR messaging regarding the acceleration and speed to delivery of capability over sovereign capability could be a concern for de-risking supply chain interruptions.
- Supply chain interruptions experienced during COVID-19 were evidence of Australia's reliance upon international supply chains.
- To decrease the reliance upon imports, increased clarity on SICP and identification of the components that can be manufactured in Australia may assist Australian defence industry outputs.
 - Additionally, appropriate market demand signals may improve industry confidence and encourage investment.
 - Federal investment may also support industry confidence and subsequent development of sovereign supply chains. Strategic materiel reserves, stock holding levels and the utilisation of Australia's industrial capability and capacity to deliver and maintain the reserves also requires careful consideration and a clear signal to industry.
- There may also be value in greater collaboration with external agencies, states and territories, and companies to quickly solve problems or issues that engages / occupies Defence business units etc. Evidence to support this approach can be observed throughout COVID-19 and actions undertaken to solve supply chain interruptions.

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e. Role in enhancing Australia's defence industrial base by pursuing greater advanced scientific, technological, and industrial cooperation through AUKUS and other defence partnerships

- The Queensland Government welcomes the innovation initiative - Advanced Strategic Capabilities Accelerator (ASCA) – which is expected to have an unencumbered reach to work with Australian industry (beyond the primes) to develop innovative asymmetric capability solutions.
 - Previously many companies expended time and funds with the Defence Innovation Hub program, however, this did not often lead to DoD capability acceptance.
 - A greater pull-through to deliver capability will encourage industry to invest and innovate.
- The Queensland Government encourages ASCA to liaise with state and territory governments when they are pursuing priority projects, to assist in identifying Australian SMEs who may possess niche capabilities.

f. Design and implementation of programmes and initiatives that seek to improve the Australian defence industry's capability and capacity

- In 2018, the Defence Capability Plan advised: 'The Government's goal by 2028 is to achieve an Australian defence industry that has the capability, posture and resilience to help meet Australia's defence needs.' To achieve the goal, five strategic objectives were identified, these included:
 - A broader and deeper defence industrial base where agile small-to-medium enterprises (SMEs) are better placed to interact with Defence and global defence companies.
 - A strategic approach to defence industry investment to ensure Australian Government investment in critical defence capabilities is prioritised and Australian businesses are provided the maximum opportunity to be involved.
- Growing medium sized industry is essential to broadening and deepening the defence industrial base. Current industry development programs and strategies often focus on new entrants, with very little follow-on development.
 - There are now 1000s of small businesses that are defence ready, however, they are unlikely to invest without a strong demand signal.
 - Industry development should include programs and strategies that support industry growth along the maturity/lifecycle.
 - Growing the industry base means having industry, other than primes, that can absorb risk, which are prepared to invest in skills and R&D etc. This includes growing the big mediums (beyond 200 FTE) - those who can deal directly with DoD. It is these larger mediums that are generally ineligible for many of the current programs of support across government.
- Australian Industry Capability (AIC) is a successful program which has ensured Australian industry is engaged and is provided the opportunity to compete for supply chain and technology transfer opportunities. AIC has delivered on the strategic approach ensuring Australian businesses are provided the maximum opportunity to be involved. The DoD has done a credible job at driving the AIC program with the primes.
- The current acquisition and sustainment approach relies on the primes and AIC to develop companies, however, this appears to be focused on the smaller end of industry.
- The DSR's adoption of a more efficient acquisition process is welcomed, however, it should not be at the risk of excluding Australian industry content.
 - DSR messaging implies AIC is no longer a priority for the acquisition of capability and this focus is generally concerning for sovereign capability and Australian industry.
 - The proposed acquisition approach emphasises acquisition speed to capability delivery including off-the-shelf (commercial and military) should continue to consider Australian industry capability to build Australia's sovereign capability. If not, investment in Australian supply chains may reduce and the great effort to develop Australian industry in recent years will be lost as the focus shifts to international supply chains.
- Identification of the critical components and products that need to be Australian, particularly in times of crisis, may prevent supply chain interruptions, with Australian industry able to support mature capabilities. This relies on a commitment to Australian industry.
- Stronger consideration could be given to fostering and working with consortiums to create medium sized or larger entities as system component/subcomponent providers, who are capable of meeting acquisition speed through the extended industrial base.

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- Defence Cooperative Research Centre program. The Trusted Autonomous Systems Defence Cooperative Research Centre (TAS DCRC) program has created a community of collaboration between universities, Defence and industry through industry-led projects and centre-led activities. Co-investment and engaged stakeholders provide strong evidence of the TAS DCRC's success.
 - The TAS DCRC has achieved strong participation from Defence primes and SMEs, and from academia and DST, which generates significant intellectual and technical outcomes through collaborative effort.
 - The TAS DCRC is producing an enduring capacity in autonomous systems expertise across industry and academia and continues to be instrumental in translation to commercialisation.
 - Recognition of programs where investment and development has been successful, is essential to ensure these programs have a future. Review of the TAS DCRC's success may provide valuable insights for capability development.

g. Any other related matters.

- The DoD has been effective in outlining the needs, capabilities, challenges, etc., in various policy documents from the White Paper 2016 onwards, however, the number of policies is now creating some confusion, particularly for small enterprises.
 - Streamlining policies to be clear and succinct may assist industry understanding.
 - Greater involvement with the states and territories in the development of Defence industry policy may assist in providing continuity and consistency over the long term, building Australian industry and recognising industry and training centres of excellence.
- Regular and active DoD engagement and communication with industry, the states and territories is welcomed and encouraged.
- The Queensland Government has two Strategic Defence Advisors based in Canberra, who are available to meet with the Committee to discuss any points raised in this submission.