

NSW Standing Committee on State Development

Defence Industry in New South Wales – Wednesday, 4 April 2018

ANSWER TO QUESTION ON NOTICE

Department of Defence

Topic: Industry capability mapping

Question reference number: -

Senator/Member (delete which one isn't applicable): Committee

Type of question: asked on Wednesday, 4 April 2018, Hansard page 12 Written/Spoken

Date set by the committee for the return of answer: Thursday, 3 May 2018

Question: Professor WILLIAMS: The Centre for Defence Industry Capability [CDIC] has done a significant amount of work. A lot of capability mapping has been done by industry associations like the Australian Defence Industry Network [ADIN]. The market has a number of primes who are asset managers. They manage a ship or a type of tank, or what have you. Then there are thousands of little companies around Australia that do one thing. They might do a brake manifold on an armed vehicle. What we do not have in Australia is the middle-tier companies that are system integrators. They bring three or four parts together and integrate them into a drive train for a tank. We do not have that middle tier and that is the part the CDIC is trying establish through its programs at a Federal level. It is federally recognised.

How do we get those little companies together to get to the system integration level? That is probably the key part of the marketplace. For example, with our exchange into the primes for the LAND 400, and as the managing director of H. I. Fraser, when the French, German and United States companies come to Australia they look around and ask where our drive frame system integrator is. We do not have one. Why not? They want our hydraulic system integrator to help design the elements of the submarine hydraulic system. We do not have one. We have a parts supplier, but we do not have that middle tier. There is a lot of science, technology, engineering and mathematics [STEM] and capability improvement involved in that middle tier. None of the programs that CDIC is trying to roll out are helping companies to move from bits to being system integrators.

The Hon. MICK VEITCH: I would love to hear about that. Where we are up to and how are we making it happen?

Mr GOLDSACK: I am not directly involved in that area. If the Committee wants more information, I will take the question on notice.

The Hon. MICK VEITCH: Please do so.

Answer:

The Australian Government is investing \$200 billion in strengthening Australia's defence capability over the next decade. The Government is investing in a deeper Australian sovereign defence industry base to support the acquisition, operation, and sustainment of defence capability.

On 23 April 2018, the Minister for Defence Industry released the first Australian Defence Industrial Capability Plan. The Plan provides the Government's vision for the development of defence industry to 2028. One of the strategic objectives of the Plan is 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. Australia's medium-sized enterprises traditionally exhibit strong capabilities in system integration, software development, program management, and supporting specialist engineering and manufacturing skills. The Government's investment in defence industry will see an industry with more medium-sized Australian defence businesses pulling through SME-enabled supply chains across a geographically dispersed national industrial base.

Achieving a greater number of medium-sized businesses in Australia is a long-term undertaking, and requires a number of initiatives to support the growth of small businesses. The Plan outlines a range of new and existing initiatives that will be managed systematically to deliver the defence industry required to support Australia's defence.

The Plan also announced ten initial Sovereign Industrial Capability Priorities and how they will be managed across Defence planning. An important element will be ensuring the resilience and sustainability of the companies and supply chains that are critical to the delivery of the Australian Defence Force's mission. The Priorities include elements related to systems integration as this is a very important element in optimising the introduction into service and maximum benefit from new and existing Defence capability. The Priorities will be supported by a \$17 million Sovereign Industrial Capability Priority grant program from 2018-19 to be delivered by the Centre for Defence Industry Capability (CDIC).

The Australian Industry Capability (AIC) Program applies to major capital equipment procurements of \$20 million and above has been strengthened with tenderers now required to more explicitly demonstrate how they have maximised consideration of Australian industry as part of their proposed capability solution and what value add work is proposed to be undertaken in Australia. The AIC Program is the most significant lever for promoting Australian industry capability development, employment, innovation, and upskilling.

The Government released the Defence Export Strategy on 29 January 2018. The Strategy recognises that "a strong, resilient and internationally competitive Australian defence industry is essential to our national security". Through the Strategy, the Government is putting in place a comprehensive system for identifying, facilitating, and supporting the realisation of defence export opportunities. Australian defence industry has welcomed the release of the Defence Export Strategy and the additional support it offers, including:

- an additional \$4.1 million per year from 2018-19 to expand the CDIC's grant programs and help build Australian businesses to increase their export competitiveness;
- \$6.3 million per year from 2018-19 to the Australian Defence Export Office to develop strategic multi-year campaigns for priority defence markets and capabilities; and
- an additional \$3.2 million per year from 2018-19 to the existing Global Supply Chain program to help more Australian SMEs to access the supply chains of global primes.

The remaining additional \$6.4 million per year to support the Strategy will be used to: establish local industry experts in key markets to provide advice and support for Australian defence exports; mechanisms to deliver enhanced and integrated support for defence exports with Austrade, and supporting the Australian Defence Export Advocate to undertake senior-level advocacy and stakeholder engagement to support defence exports.

The CDIC was established in December 2016 to provide a focal point and single front door to Australian industry, particularly SMEs, into Defence. The CDIC provides advice, assistance, and grants

to eligible businesses to be better positioned to support Defence. In delivering these services, the CDIC is supporting the growth of the Australian defence industry and assisting the development of medium-sized businesses. The CDIC is a \$230 million initiative over the decade to 2025-26 that businesses across Australia can access.

As described in the Defence Industrial Capability Plan, the CDIC will support further work to understand Australia's defence industry and its supply chains, including gaps. In particular, this will be done through Industrial Strategies for each of the six Integrated Investment Program Capability Stream and Implementation Plans for each of the ten Sovereign Industrial Capability Priorities, announced in the Plan. This work will be led by Defence Industry Branch in Defence and supported by the CDIC.

In order to support the emergence of more medium-sized Australian defence businesses, a stronger understanding is required of Australia's industrial base and the ability to track its development. To do this, the CDIC will also now be conducting annual surveys of Australian defence industry to baseline it and chart its growth. The first survey will be undertaken in the second half of 2018.

The CDIC continues to work to consolidate industrial capability information to support the identification of capability gaps and the development of supply chains for Defence major capital equipment projects. Businesses can currently register basic information with the CDIC to express interest in joining naval shipbuilding supply chains. Further work is underway to build on that data collection through the development of a Defence Industry Capability Register.

The CDIC is also a key stakeholder in the development of a new Industry Capability Platform (ICP) by the Department of Industry, Innovation and Science (DIIS), which seeks to consolidate industrial capability information across industries on a national scale. The ICP is seeking to secure a national solution to the long standing challenge of collating, analysing and verifying Australian industrial capability information, of which Defence draws across all industry sectors.

The ICP team from DIIS's Industry Growth Division is consulting with Defence through the CDIC to understand how the platform might support better defence industrial capability information. The ICP has the benefit of being developed in close consultation with state and territory governments and their respective local participation organisations, and therefore data in the ICP will be populated through a national whole of government team. The ICP will consolidate access to information, both capability and opportunity, providing a single entry point through which SMEs can manage their profile and promote their capabilities, and significantly simplifying the day-to-day business promotion and development activities of SMEs and other users.

The consolidated national platform will simplify the matching of capability to opportunity. It will allow Defence and Defence prime contractors to explore industry capability when considering sub-contracting options, including for major shipbuilding projects. It will also allow companies to identify potential collaboration partners to take advantage of opportunities in the defence market.