

INQUIRY INTO DEFENCE INDUSTRY IN NEW SOUTH WALES

Organisation: Defence NSW, NSW Department of Industry

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NSW Department of Industry Submission to the NSW Parliamentary Inquiry into the Defence Industry

Introduction

The NSW Department of Industry welcomes the opportunity to make this submission to the Parliamentary Inquiry into the Defence Industry in NSW.

With the Australian Government's Defence White Paper outlining programs and acquisitions worth more than \$195 billion over the coming decade, it is vital that NSW positions itself to take advantage of the significant opportunities for growth.

The *NSW Defence and Industry Strategy 2017: Strong, Smart and Connected* (the Defence and Industry Strategy) is the mechanism through which the NSW Government will drive growth across the NSW defence industry, provide a major boost to regional NSW, strengthen the economy and further support Australia's defence needs. Accordingly, the Defence and Industry Strategy, supplemented by remarks and recommendations herein, is offered as the NSW Department of Industry's submission to the Inquiry.

1. Background

Why this is important to NSW: Defence's economic contribution

NSW is home to over 80 Defence bases and facilities—more than any other state—and Defence invests \$5.5 billion annually in its operational expenditure in NSW. Defence and supporting industry currently directly employ over 26,500 people in NSW, with an additional 29,500 employed in businesses that indirectly support the sector.

This State has the highest number of workers with skills relevant to Defence and the defence industry of any state. These are closely align with key areas of future Defence growth and investment. NSW is also home to world-class universities and other research and development institutions. These institutions are also able to access the defence research and development funding available through the Commonwealth Government's \$1.5 billion commitment to developing new capability.

Every \$1 billion in Commonwealth defence spending we can attract to NSW will boost our Gross State Product by \$1.4 billion and support up to 10,000 jobs across the economy.

Defence investment is one of the key drivers of employment and economic growth in many regional areas. Defence's contribution to employment has significant impact in regional NSW. This is most evident in areas such as the Hunter Valley (including Newcastle), the Riverina, Southern Highlands and Shoalhaven. In the Shoalhaven, for example, the defence sector represents over 9.1% of regional employment.

The Role of the Department of Industry

The Department of Industry leads the State government's contribution to making NSW a prosperous state recognised as a place of opportunity - a place where people want to live, have good jobs and businesses choose to invest and grow. The Department specifically:

- invests in skills and education;
- promotes and encourages innovation, research and development;
- works with employers to ensure we know their needs in terms of skills and support; and
- manages the sustainable use of and access to our natural resources.

The NSW Government is committed to attracting and growing business, creating jobs and improving the ease of doing business in NSW. The defence industry is a priority sector.

The NSW Defence and Industry Strategy 2017: Strong, Smart and Connected

The Minister for Trade and Industry, the Hon Niall Blair MLC, launched the NSW Defence and Industry Strategy 2017 (**Attachment D**) on 22 February 2017.

The Defence and Industry Strategy represents the NSW Government's vision for supporting Defence and growing defence industries and related jobs, investment and innovation across the state. The Defence and Industry Strategy, which contains specific initiatives to drive these outcomes, forms the substantive part of the NSW Government submission to the Inquiry.

The Strategy was developed through consultation with Defence, industry, associations, research institutions and across the NSW Government. The Strategy recognises the geographically dispersed nature of the industry and its significance to regional NSW. For this reason, consultation sessions were held across regions in NSW, including in the Hunter, Illawarra/Shoalhaven, Greater Sydney and Queanbeyan/Capital regions. The draft strategy was also presented to industry leaders in a workshop held at Parliament House in August 2016.

The purpose of the Defence and Industry Strategy is to provide a centralised platform to support more effective leadership, advocacy, and engagement with Defence and collaboration with the industry that supports it. The Defence and Industry Strategy supports the Government's dual objectives of supporting Defence and driving investment and innovation.

Objectives captured within the Defence and Industry Strategy include:

- support Defence in delivering its objectives;
- assist Defence in the delivery of the investment program;
- maximise the economic opportunity for NSW; and
- collaborate with other states and territories to achieve national outcomes.

The Defence and Industry Strategy recognised the economic connection between NSW and the ACT and the benefit of collaborating to promote and develop the industry generally in the region, regardless of state/territory boundaries.

The Defence and Industry Strategy is structured along five strategic themes, with the implementation of each to be accomplished through a number of associated initiatives. The initiatives were formed having aggregated the actions and projects identified in the consultations with regional representatives and industry groups.

Recommendation: that the Committee endorse the continued execution of *NSW Defence and Industry Strategy 2017: Strong, Smart and Connected* as the principal vehicle for supporting Defence and growing defence industries and related jobs, investment and innovation across the state.

Defence NSW

Defence NSW is a dedicated unit within the NSW Department of Industry established to execute the Defence and Industry Strategy. The Defence NSW team is led by the Director Defence NSW (Commodore Peter Scott, CSC, RANR). Defence NSW is supported by the NSW Defence Advocate (Air Marshall (Ret'd) John Harvey, AM).

Through Defence NSW, the NSW Government will work with the Commonwealth and other states and territories to move towards a more national approach to meeting Australia's Defence needs. Defence NSW will support the Australian Defence Forces and wider Defence by enabling globally competitive and sustainable Defence Industry across the State of NSW.

Defence NSW achieves this through:

- advocating and promoting globally competitive and sustainable Defence Industry;
- building industry skills and critical capabilities;
- connecting governments, Defence, industry and research institutions;
- delivering strategic projects; and
- building the Defence NSW reputation for turning strategy into reality.

Further detail on the model for Defence NSW appears in *NSW Defence and Industry Strategy 2017: Strong, Smart and Connected*

Recommendation: that the Committee endorse the continued support of Defence NSW as the unit responsible for execution of the *NSW Defence and Industry Strategy 2017: Strong, Smart and Connected*.

2. Response to the Terms of Reference

A central tenet of the Defence and Industry Strategy is that Defence is important for NSW and NSW is also important for Defence, being critical to the delivery of national defence capability. The Defence and Industry Strategy is structured around five strategic themes that are directly relevant to the Terms of Reference. The strategic themes are as follows:

- Strategy 1. Foster stronger relationships - recognises that the retention and growth of Defence and Defence Industry activity relies on deep relationships with Defence at the political, departmental and regional level.
- Strategy 2. Leverage critical capability areas - recognises that NSW's contribution to the major platforms should focus on its strengths, including complex systems integration and sustainment, to ensure the successful delivering of Defence's investment program.
- Strategy 3. Provide Defence and Industry their future workforce - recognises that NSW is a leading provider of skills to the Defence and Defence Industry, and that significant training and recruitment is vital to deliver the investment program.
- Strategy 4. Sustain and Grow across regional NSW - recognises the broader economic development activities required to attract and grow regional defence industry activity.
- Strategy 5. Increase opportunities for innovation, commercialisation and research - recognises the NSW strengths in innovation and research institutions which are critical to developing new capability.

An analysis of the alignment between the Defence and Industry Strategy and the Terms of Reference is attached (**Attachment C**). This analysis also articulates current and planned projects that give context to the initiatives. These projects represent a mix of:

- current services provided by the NSW Government activities and enhanced with a specialist sector emphasis;

- new activities to be developed where gaps have been identified by stakeholders;
- collaborative activities in progress or to be delivered in partnership with stakeholders; and
- activities being delivered by other parties which the NSW Government recognises are contributing to the development of the industry.

Recommendation: that the Committee notes the economic development activities being executed by Defence NSW through the *NSW Defence and Industry Strategy 2017: Strong, Smart and Connected* and the strong alignment of these efforts with the objectives of the Inquiry.

3. Key opportunities and challenges in implementation

a. Whole of Government Approach

A key function of Defence NSW is to ensure that relevant NSW Government agencies are aware of their impact on Defence and Defence Industry, and to act as a point of contact for the industry on defence matters relating to the NSW Government. Agencies that impact the sector include but are not limited to:

- Department of Premier and Cabinet – overall coordination role for the NSW Government;
- Department of Planning and Environment – planning processes impacting economic development;
- Transport for NSW – major projects which can impact access and logistics;
- Department of Education– role in the preparation of the future workforce; and
- Government funding sources – for example Jobs for NSW and Infrastructure NSW which might provide financial incentives for job creation or the development of economic infrastructure.

A whole of government approach to the Defence sector is particularly important in regional NSW, where it can represent a significant proportion of Gross Regional Product. Economic development in regional NSW requires special consideration of local issues that require support from multipole government agencies, such as:

- Factors affecting business costs, such as the development and retention of a skilled workforce, transport and logistics, and economic infrastructure; and
- Factor impacting amenity such as proximity to metropolitan centres, health and education facilities, and employment opportunities for the partners of where relocation is involved.

Recommendation: that the Committee notes priority placed on whole of government leadership, advocacy and engagement with the sector, particularly in regional NSW, in order to successfully execute the Defence and Industry Strategy.

b. Sustained Commitment with Bipartisan Support

Industry development is a long term endeavour. The importance of a consistent NSW Government approach to the Commonwealth Government is particularly critical in the area of Defence. A consistent NSW Government approach and attitude toward Defence, enabled by bi-partisan support for the Defence and Industry Strategy, will most effectively build Defence's confidence in state level support for the sector. This in turn can result in favourable outcomes, such as decisions by the Australian Defence Force on force disposition or investment decisions by industry.

The attainment of bi-partisan support for the execution of the Defence and Industry Strategy will enable the opportunity to maximise the impact of the Defence and Industry Strategy. Initiatives such as the conduct of the Parliamentary Inquiry and the recently formed *NSW Parliamentary Friends of Defence* are very effective in demonstrating political will and support for Defence. There is a further opportunity to demonstrate ongoing support of the sector by committing to multi-year funding to enable long-term planning and ensure the delivery of initiatives and projects.

Recommendation: that the Committee notes the benefits of activities that build bipartisan understanding of, and commitment to, the defence sector.

c. Regional co-ordination

The NSW Government has a significant presence in regional NSW. Regional industry networks and chambers of commerce are a valuable source of project ideas and delivery capacity in partnership with state and local government efforts.

Recommendation: that the Committee recommends that the NSW Government recognises the special circumstances of the regional defence industry, and supports regional partnerships to develop opportunities in regional areas.

d. High level advocacy

The Defence sector in NSW exists in an environment of intense inter-state competition. Recognising this and the requirement for strong collaboration across states to achieve national Defence outcomes, the first strategic theme in the Defence and Industry Strategy is to foster stronger relationships with Defence and Defence Industry. Pivotal to the effective execution of this strategic theme is that the NSW Government will develop and maintain deep relationships at all levels, but especially through high level political engagement.

These relationships and active advocacy are critical to gaining a strategic level understanding of Defence's capability requirements and the opportunities presented to Defence Industry. They are also critical to understanding the nature and value of the value proposition presented by other states' and the associated incentives offered to attract or retain Defence investment.

Parliamentary Inquiry	NSW Defence and Industry Strategy 2017 Strategies and Supporting Initiatives		
Specific TOR	Strategic Theme	Supporting Initiative	Example Projects
<p>Maximise opportunities for NSW-based companies from Defence's growing exports and investment in defence capability – in both acquisition and sustainment</p>	<p>Strategy 2: Leverage NSW strengths in critical capability areas to grow existing work and win new Defence and defence industry activity.</p>	<p>Initiative 2A – ensure NSW remains Australia's leader in complex systems integration and sustainment.</p> <p>Initiative 2C – Target major defence projects through coordinated campaigns including; Joint Strike Fighter (AIR6000), Air Force's Future Battle Management System (AIR6500), Combat Reconnaissance Vehicles (LAND400) and Future Submarines (SEA1000), Offshore Patrol Vessels, (SEA1180), and Future Frigate (SEA5000).</p>	<p>The NSW Government has supported the Port of Newcastle and Thales Australia to upgrade the slipway at Carrington that will enable small ship sustainment. This will create 70 direct jobs and significantly more in the supply chain as the business grows.</p> <p>The NSW Government provided an incentive package for the bidders for the Land400 Phase 2 project to build armoured reconnaissance vehicles.</p> <p>The NSW Department of Industry regularly supports the promotion of supply chain opportunities relating to the maritime acquisitions platforms. This may be in the form of industry briefings followed by individual meetings between SMEs and prime contractors or their major suppliers.</p> <p>Holding of Pacific 2017 and enabling NSW Defence SMEs to co-exhibit.</p> <p>Industry roadshows of these major projects enabling access for NSW SMEs to the project proponents and the opportunity to participate in their supply chains.</p>
<p>Encourage defence industry innovation, research and education including developing the future workforce</p>	<p>Strategy 3: Provide Defence and defence industry with their future workforce.</p> <p>Strategy 5: Increase opportunities for innovation, commercialisation and research within Defence and the defence industry</p>	<p>Initiative 3A – Promote interest and accessibility of STEM in NSW's secondary and tertiary institutions, and promote careers paths in defence industry and technology through industry partnerships.</p> <p>Initiative 5A – Enhance the Defence Science and Technology Group presence in State through a NSW defence science network and attract local and international technology research investment</p> <p>Initiative 5B – Support collaboration between primes, SMEs and research institutions to develop defence capability.</p>	<p>Pitch@Parliament, connecting STEM graduates with Defence businesses and developing a sustained skills renewal in the defence industry.</p> <p>The ME Program in the Hunter run by Regional Development Australia is a program that links industry with STEM students in secondary school. This engagement builds the student awareness of careers in advanced manufacturing and the defence industry and has a track record in inspiring in order to make curriculum and learning aligned with industry. There is potential to expand this program to other regions in the state.</p> <p>The NSW Government intends to establish a network of its leading research institutions to collaborate on project with industry, and position this to link to other research funding mechanisms such as the Next Generation Technology Fund.</p> <p>Build research-prime-SME relationships. Funding to 12 research insititions to support them in linking researchers and SMEs to commercialise and develop industry solutions. This includes the highly successful techvouchers. Defence ASMEs and businesses are also able to access funding through Jobs for NSW in business growth initiatives and in research and development projects.</p>
<p>Identify targets, programs and projects for defence spending in New South Wales</p>	<p>Strategy 2: Leverage NSW strengths in critical capability areas to grow existing work and win new Defence and defence industry activity.</p>	<p>Initiative 2C – Target major defence projects through coordinated campaigns including; Joint Strike Fighter (AIR6000), Air Force's Future Battle Management System (AIR6500), Combat Reconnaissance Vehicles (LAND400) and Future Submarines (SEA1000), Offshore Patrol Vessels, (SEA1180), and Future Frigate (SEA5000).</p>	<p>As per TOR 1.</p>

<p>Maximise the economic benefits of locating defence force bases and defence industry in the regions</p>	<p>Strategy 1: Foster stronger relationships with Defence and across the NSW defence industry at a State and regional level.</p> <p>Strategy 4: Sustain and grow existing and new Defence and defence industry activity across regional NSW.</p>	<p>Initiative 1B – Support existing Defence establishments to prosper in NSW through closer engagement at regional level to build defence supportive communities</p> <p>Initiative 3B – work with Defence and industry to build on the training and education strengths of the Riverina, Hunter, Sydney and Capital Regions</p> <p>Initiative 4C – Work with local Industry, Defence, research organisations and educators to build and connect regional networks for defence Industry and innovation.</p> <p>Initiative 4D – assist specialist SMEs to better access local and international supply chains</p>	<p>Base engagement – maximising linkages with wider industry through development of business parks and opportunities for example the Albatross Aviation Technology Park (AATP)</p> <p>Collaboration with key networks in regions; including Hunternet, Sydney Aerospace and Defence Interest Group (SADIG), Australian Industry Defence Network (AIDN), Illawarra Innovation and Industry Network (i3net), Defence Murray Riverina Alliance (DMRA), Shoalhaven Defence Industry Group (SDIG), and Industry Mid-north Coast.</p> <p>Investment attraction and business growth services, project opportunities supported by business development managers in metropolitan Sydney and 12 offices across the state.</p> <p>Facilitation of access by SMEs to working capital.</p>
<p>How to establish and sustain defence supportive communities</p>	<p>Strategy 1: Foster stronger relationships with Defence and across the NSW defence industry at a State and regional level.</p>	<p>Initiative 1B – Support existing Defence establishments to prosper in NSW through closer engagement at regional level to build defence supportive communities</p>	<p>Support regional initiatives such as the Hunter Defence Support Network in building stakeholder relationships.</p>
<p>Further enhance collaboration between the NSW Government and Commonwealth agencies</p>	<p>Strategy 1: Foster stronger relationships with Defence and across the NSW defence industry at a State and regional level.</p>	<p>Initiative 1C – Collaborate with the Commonwealth, State/Territory and local government to provide integrated services which encourage growth and innovation within Defence and Industry.</p>	<p>Collaboration forums – a Defence Advocate forum and state officials working group is driving regular interaction between states and territories. These provide opportunities to leverage complementary activities and initiatives. NSW has been working closely with ACT in jointly developing and advancing specific initiatives.</p> <p>The Department has close working relationships with Commonwealth agencies like the Centre for Defence Industry Capability, Austrade, EFIC and Ausindustry to grow the Defence sector in NSW.</p> <p>Commonwealth/NSW consultation forum to overcome issues and align initiatives.</p>
<p>Any other related matter</p>			