

CDAF MEETING BRIEF

DEFENCE INDUSTRY POLICY REVIEW

Talking Points

- Following on from the Defence Industry Roundtable held in Sydney on 17 May, 2006, the *Defence Industry Policy Review 2006 Discussion Paper* was released at the Defence and Industry Conference on 20 June, 2006.
- The Discussion Paper covers a broad range of issues and asks a number of questions focussing on (but not limited to):
 - priority areas for Australian defence industry;
 - Australian industry participation in Defence industry projects;
 - The role of competition and regulation in Defence procurement;
 - managing the contribution of SMEs;
 - overcoming skill shortages; and
 - examining how exports can support the goals of Defence industry.
- It has been five years since the previous comprehensive review of Defence industry. Since then, there have been changes in our strategic circumstances, changes in the structure of defence industry, and our Defence Forces have gained much more operational experience.
- It is therefore timely to revisit our industry policy. We need to get our policy settings right to ensure that funding delivers value for money outcome.
- The Government has clearly signalled its long term commitment to Defence and Australian defence industry by continuing to increase defence spending by 3% per annum in real terms through to 2015-2016. On top of this, extra funding for a range of new projects will also be provided. This caps an unprecedented fifteen year period of strong Budget support for the defence sector.
- Formulation of a policy to guide the evolution of defence industry in Australia is an unusually complex task for several reasons:
 - the national security issues and very considerable Government outlays involved;
 - the obvious significance of Defence expenditure to the welfare of many companies and their employees, including SMEs and businesses in regional localities; and

- the complexity of not only the military equipment and other items Defence purchases but the structure of the industry from which it emerges.
- The history of defence industry policy in Australia since the early 1970s is that many or even most of the fundamental policy principles involved are well established and broadly accepted, including:
 - Australia being willing to pay for maintaining an indigenous industrial base capable of supporting strategically important items of military equipment; and
 - these aspects of Defence procurement being pursued on the basis of the Commonwealth achieving value for money.
- Less well defined are the key issues of what kind of industrial structure we need to achieve both objectives and how we should approach the task of deciding what that structure might be.
- Extensive consultation is being undertaken with Defence industry. Roundtable discussions are being held in all the major capital cities, as well as some regional areas including Townsville and Newcastle.
- I encourage industry to provide formal submissions addressing the issues that are raised in the Discussion Paper.
- Details on how to provide submissions are available at the following website:

www.defenceindustrypolicyreview.com.au

BACKGROUND

The last comprehensive review of defence industry policy was conducted in 2001. Changes in Australia's strategic circumstances and the structure of defence industry, along with the ADF's greater operational experience makes a review of defence industry policy timely.

An initial roundtable was held in Sydney on 17 May 2006, aimed at ascertaining industry's views on current defence industry policy settings and implementation issues, particularly concerning sustaining key industry capabilities in Australia.

The roundtable brought together senior executives of 9 large defence companies, 5 small to medium enterprises, 9 industry associations and research institutes, 9 officials from Defence and other government departments and 5 Parliamentarians (including the Minister for Defence, Minister Assisting the Minister for Defence and Parliamentary Secretary).

A policy review team has been appointed under the guidance of the Minister Assisting, the Hon Bruce Billson MP. The team assisting Minister Billson consists of:

- Mr Kerry Clarke (Head Industry Division, DMO)
- Mr Henry Ergas (Asia Pacific Regional Head and Vice President CRA International);
- Dr Mark Thomson (Program Director Budget and Management, ASPI); and
- Mr Lucio Di Bartolomeo (previous Managing Director ADI).

A Discussion Paper was released by the Minister on 20 June at the Defence + Industry Conference. The Paper provides a basis for Australia-wide industry consultations during July and August 2006, following which the Policy Review Team will report back to Government by the end of October 2006 proposing a way forward.

As part of the consultation process, Minister Billson is holding a series of roundtables around Australia. Details of these roundtables are as follows:

10 July 2006	Adelaide
17 July 2006	Darwin
18 July 2006	Townsville
19 July 2006	Brisbane
25 July 2006	Sydney
26 July 2006	Newcastle
02 August 2006	Melbourne
7 Aug 2006	Canberra

21 Aug 2006

Hobart

25 Aug 2006

Perth

Stakeholders are also invited to provide submissions to the Policy Review Team by 30 September 2006. Details on how to provide submissions are available at the following website:

www.defenceindustrypolicyreview.com.au