Defence and Industry
Policy Statement 2007

Foreword

The Government is committed to ensuring the men and women of the Australian Defence Force (ADF) are equipped and supported through an efficient and capable industrial base. Australia has a technologically advanced Defence Force that ranks amongst the most capable in the world. We must ensure this edge is continued into the future.

At the same time, we face a number of challenges to achieving our goal of ensuring the cost-effective delivery of equipment and support to the ADF in line with Australia’s strategic circumstances. The very technology that we rely upon is increasing in complexity and cost. The global suppliers of this technology are consolidating. Our geographic location can make supply and support of this technology difficult, particularly in times of high operational tempo. We must be self-reliant, yet at the same time be realistic about how we can achieve this.

A sustainable and capable domestic industry focussed on supporting the key military capabilities of the ADF is central to overcoming these challenges. We must have a local industry base that can maintain, repair and modify the equipment we purchase from overseas, and design, manufacture and adapt equipment to meet the unique requirements of the ADF. This requires a corresponding and clearly enunciated policy commitment so that industry is in no doubt as to what the Government’s priorities are for the local defence sector.

The 1998 *Defence and Industry Strategic Policy Statement*, authored by the then Minister for Defence Industry Science and Personnel, The Hon Bronwyn Bishop MP, created a solid foundation for the Government’s defence industry policy, and the policy initiatives contained in this document continue to build upon that important earlier work.

Despite the direction and momentum set through the 1998 *Defence and Industry Strategic Policy Statement*, it must be acknowledged that defence industry policy has lacked robust implementation. It has been assumed that defence industry would always be there to follow the commercial imperatives of Defence spending. To some extent this is true, but the challenges facing industry to support a technologically advanced ADF are such that we cannot afford to run the risk of simply assuming that industry will be able to deliver the goods and services upon which Australia’s national security depends.

This policy will make clear how a partnership between Defence and industry will determine Australia’s priority industry capabilities, the expectations of industry, and the operating environment to be shaped. Furthermore, the Government plans to identify those areas where Defence and industry need to work together to provide the level of support the ADF requires.

This new policy statement will achieve our goal through nine key strategies. Collectively, these strategies will deliver a policy that explains where the flags lie in terms of procurement policy.

Firstly, the policy sets out a strategic approach to identifying and sustaining the priority areas of local industry capability that Australia’s strategic circumstances demand. These capabilities will be set out in future Defence Capability Plans so that industry has a clear understanding of the Government’s priorities for local defence industry.

Secondly, the policy outlines the rules within which Defence will procure the full spectrum of goods and services from industry. The policy further sets out how Defence will ensure it delivers value for money through best commercial practice in procurement while maintaining a clear preference for competition. At the same time, Defence will hone its ability both to manage risk and engage in partnerships with industry to deliver sustained productivity gains. In addition, the policy sets out the Government’s firm expectations of suppliers to utilise Australian companies, including small to medium enterprises, in their domestic and overseas supply chains whenever they are cost-effective. The Government will also encourage those companies who invest in Australia to develop and maintain a local presence, and the transfer of necessary technology and intellectual property will be assessed favourably when competing to provide goods and services necessary for Australia’s essential security.

Finally, the policy identifies a series of initiatives through which the Government will work with industry to develop and sustain capabilities. This includes leveraging Defence purchases of foreign equipment to open up export opportunities for Australian companies through global supply chains, assisting local industry to grow skills and capabilities, and encouraging investment in research and development of innovative technologies. These initiatives will ensure we have an industry base that has the capability and capacity to support the ADF into the future.

The Government is committed to delivering on these commitments. I and my colleagues will be personally involved with the implementation of this policy and have set key performance indicators and accountabilities for the delivery of its outcomes. To do any less would be neglecting our responsibility to the men and women of the ADF, upon whom the broader Australian community is reliant to protect Australia, its people, interests and values.

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Contents

1. Defence, industry and Australia's security

Australia's defence industry is a cornerstone of our national security. Without effective supply and support from industry, the military capabilities of the Australian Defence Force (ADF) are incomplete and unsustainable.

For this reason, the Government issued a *Defence and Industry Strategic Policy Statement* in 1998 that set out a vision for a sustainable in-country defence industry that could support a technologically advanced Defence Force. While this vision remains as appropriate today as it was then, developments in the intervening eight years require us to refine and refocus our efforts to achieve that vision.

It is imperative that the necessary changes are made. The men and women of the ADF deserve the best possible advantage we can give them when they go into harm's way – and that demands a capable, responsive and sustainable local defence industry.

The Government's policy for defence and industry does not stand in isolation. It is a component of the Government's broader approach to Australian industry that seeks to create sustainable prosperity for the nation.

Rapid change and new challenges

The underlying reasons for Australia to maintain a capable in-country defence industry have not changed. The ADF needs ready access to repair and maintenance services that, for practical reasons, can only be delivered by in-country providers. The ADF also needs in-country industry to adapt, modify and, where necessary, manufacture equipment that is suited to Australia's unique operating environment and military doctrine. More generally, Defence relies heavily on the private sector not just for military equipment but for a range of goods and services across the portfolio – from catering and base support to medical services, information technology and building construction. And in time of war, the ADF needs reliable provisioning, responsive technical support and deployed logistics from the private sector.

But while these fundamental imperatives have endured, several developments over the past eight years impact significantly on Australian defence industry and its role in our defence. In particular:

- new demands have emerged for industry due to the ADF's high operational tempo
- the Government has decided to expand the ADF, and defence investment has been increased substantially as a result
- a new approach to Defence procurement has been adopted, one element of which is to engage industry earlier in the procurement process
- globalisation and new technologies are reshaping defence industry world-wide and changing the way equipment and services are delivered to the ADF.

The ADF is operationally active

Beginning with East Timor in 1999, followed by Afghanistan in 2001, Iraq in 2003, Solomon Islands in 2003 and ongoing involvement in all four locations, the ADF's high operational tempo has placed continuing heavy demands on industry. To begin with, the diversity of locations and conditions faced by the ADF in recent deployments has meant that new equipment has often had to be acquired, and existing equipment adapted or enhanced, at short notice. Then there has been the challenge of deploying and supporting the ADF in demanding operational environments far from Australia – an area where industry has been playing an increasing role. Fortunately, Australian industry has proven itself to be highly flexible and responsive to these challenges, and close cooperation between Defence and industry has resulted in timely and effective solutions for the ADF in the field.

The Government's strategic guidance suggests that the ADF is likely to remain operationally active for some time yet, but the strategic uncertainty of the present era gives us little guidance as to where the next challenge might arise. As a consequence, we need to ensure that defence industry is able to supply and support the ADF across a wider range of circumstances than was previously the case.

The ADF is expanding

The 2000 White Paper *Defence 2000 – Our Future Defence Force* detailed the Government's plans to expand the ADF and equip it with additional and upgraded equipment. Backing up this plan was an unprecedented decade-long commitment to increase Defence funding by 3 per cent in real terms every year until 2010, a commitment that the Government has since extended out to 2016. In total, more than $39 billion in extra funding has been committed including for the extensive program of capital investment contained in the *Defence Capability Plan*.

The ongoing expansion of the ADF will see many new capabilities enter service in the coming years, including armed reconnaissance helicopters, airborne early warning and control aircraft, and a host of new command and control systems. While much of the new equipment to be introduced into the ADF will come from overseas, some major acquisitions like the air warfare destroyers will be built in Australia, and all the new equipment will require in-country support. Local industry will have to meet the challenge of maintaining an ADF that is growing in size, diversity and complexity.

In normal circumstances, an expansion of industry capacity of this scope would be difficult – specialist defence industry capabilities cannot be developed overnight. Australia's strong economic growth, however, has placed demands on the skills sets in defence industry. Finding ways to remedy the skills shortfall in the defence sector is one of the key challenges to be surmounted in the years ahead.

Procurement reform

The Government's 2003 *Defence Procurement Review* resulted in a series of reforms to defence procurement that are ongoing. Designed to improve the efficiency and effectiveness of Defence procurement, the reforms have already shown their worth through the improved performance of recent projects.

A central plank of the procurement reforms is the close involvement of industry prior to project approval to assist in refining costs, identifying risks and clarifying capability requirements. Effectively engaging industry early in project development has important implications for the sort of relationship needed between Defence and industry.

Globalisation, changing technology and new commercial realities

Military technology and the economics of arms production are changing. The most visible change has been to the commercial structure of defence industry internationally. In response to rising costs and falling defence spending following the end of the Cold War, defence industry in the US underwent a wholesale consolidation that saw the number of large manufacturers fall dramatically. A similar trend has been occurring in Europe, albeit somewhat more slowly.

As the cost of military equipment continues to grow, the number of weapons systems acquired by countries will fall. As a consequence, global industry consolidation will continue, resulting in fewer potential sources of military equipment and technology for Australia. While this will result in a smaller number of suppliers and therefore reduced competition, it will have the compensating benefit of creating larger more sustainable international firms.

At the same time, the economics of defence production will force the development of a greater number of multinational programs like the Joint Strike Fighter (JSF), and also increase the use of Commercial Off The Shelf (COTS) technology in military applications. More generally, the increasing globalisation of defence production means that Australia's military capability will often depend on large multinational defence firms. Global companies will continue to provide an important role in supplying and supporting the full range of Defence needs. These trends bring a mixture of opportunities and challenges that demand a response if the ADF is to continue to get the equipment and support it needs.

Australian Defence and Industry in the 21st Century

This Policy Statement sets out the Government's response to the challenges outlined above. The framework is not a radical departure from the 1998 *Defence and Industry Strategic Policy Statement*, but rather an evolution that builds on the success of that policy – success that is evident in the diverse and vibrant defence industry sector Australia enjoys today

The Government's primary goal for defence industry policy is to ensure ***the cost-effective delivery of equipment and support to the ADF in line with Australia's strategic circumstances.***

This goal will be achieved through nine strategies:

- A strategic approach to equipping and sustaining the ADF
- Maintaining priority local industry capabilities
- Securing value for money through best-practice procurement
- Creating opportunities for Australian firms
- Encouraging small and medium enterprises
- Supporting the development of skills in defence industry
- Facilitating defence exports
- Driving innovation in defence technology
- Defence and industry working together

A strategic approach to equipping and sustaining the ADF

Australian defence industry is not an end in itself but rather a component of the broader support base for our defence force – a support base which includes both local and overseas suppliers and the stockpiles maintained in-country. Deciding which elements of this support base need to be resident locally, and which can be delivered by overseas suppliers or through stockpiling, is a strategic choice.

To ensure that a coherent strategic approach is taken to planning support for the ADF, a classified *Defence Industry Self-Reliance Plan* will be developed by Defence every two years based on the Government's strategic guidance. The Plan will outline the role of industry in equipping and sustaining the ADF in peacetime and in the event of credible contingencies. As such, the *Defence Industry Self-Reliance Plan* will underpin the delivery of the both the *Defence Capability Plan* and the broader preparedness posture of the ADF.

A necessary element of the *Defence Industry Self-Reliance Plan* will be the identification of those industry capabilities that confer an essential national security and strategic advantage by being resident in-country; that is, priority local industry capabilities. These priority local industry capabilities will then be articulated in the public version of the *Defence Capability Plan* in terms of both individual projects and a summary that includes the support demands of existing ADF capabilities.

Maintaining priority local industry capabilities

Having identified the areas of priority local industry capability, Defence will monitor the health and sustainability of these areas and respond where necessary by tailoring its procurement of equipment, sustainment activities and other services from industry. For example, if routine demand proves inadequate to sustain a particular industry capability, Defence might reschedule demand, bundle projects, or use restricted or sole-source tendering. In other instances, Defence might even directly contract for a priority industry capability, as with ammunition production and submarine maintenance. Of course, to avoid building costly overcapacity, Defence would only take these sorts of action to the extent necessary to sustain the baseline level of priority industry capability required strategically.

The Government expects the suppliers of foreign-sourced technology deemed essential for Australia's security to ensure that it can be supported in-country. Companies investing in Australia through a local presence and the transfer of necessary technology and intellectual property will be assessed favourably when competing to provide goods and services necessary for Australia's essential security.

Defence will report to Government on the health and sustainability of priority industry capabilities through a *Priority Local Industry Capabilities Report* every year.

Securing value for money through best-practice procurement

One of the Government's key objectives is to secure the best possible value-for-money from the more than $12 billion of taxpayer's money spent with suppliers by Defence each year. To a large extent, this hinges on choosing the right procurement strategy in each case and implementing that strategy properly.

Where practical, competition between potential suppliers offers many benefits including strong incentives to innovate, improve performance and reduce costs. For this reason, competition will remain the underpinning approach to achieving value-for-money in Defence procurement. In some instances, however, a partnering or alliance approach may deliver benefits. Even when competition is used in the initial stages of procurement, a partnering approach with firms that have demonstrated continuous improvement offers the opportunity of generating productivity gains through the life of contracts.

While partnering and alliance arrangements offer many benefits, they also create new challenges. Defence will further develop the skills and processes necessary to work with industry in line with commercial best practice for long-term partnering, including the capability to monitor and improve productivity and to benchmark costs.

An important part of securing value for money is the management of risk. Equipping the ADF with a decisive capability edge, demands that risks be taken when developing and acquiring equipment. To do otherwise would be to settle for second best. As a general principle, when working with industry Defence will seek to allocate risk to the party best able to mange that risk. Defence will also continue to develop its ability to manage risks using commercial best practice and ensure that all parties integrate effective identification and management of risk in their day to day management processes.

In addition, to avoid being risk averse in our procurement decisions, and to increase public understanding, the risks entailed in major defence projects will be made clear as part of routine reporting.

Creating opportunities for Australian firms

The Government is committed to creating opportunities for Australian industry[1] participation in every aspect of supplying and supporting the ADF – irrespective of whether the work falls into a priority industry capability area or not.

All other things being equal, and cognizant of Australia's international commitments, the Government's objective is to ensure that Australian industry has a fair opportunity to compete, and compete on its merits, across the full range of goods and services Defence acquires. This will be achieved through three initiatives:

1. A new Australian Industry Capability program will be created that systematically identifies opportunities for local industry in the bidding process. Specifically, prospective suppliers for large acquisition projects or sustainment contracts will be required to fully examine the scope for involvement by Australian firms when bidding for work. The Government's clear expectation is that suppliers will use Australian sub-contractors where it is cost-effective to do so.

2. Every opportunity will be taken to secure the right for Australian firms to bid into global supply chains when we buy from overseas. Australia's involvement in the US JSF program provides a model for how this can be done. The goal will be to secure enforceable commitments to provide Australian firms with the opportunity to

[1] Consistent with the longstanding Closer Economic Relationship between New Zealand and Australia, this includes New Zealand firms consistent with national security considerations.

compete on their merits to supply multinational programs that Australia is involved in.

3. Changes will be made to ensure wider dissemination of information about upcoming procurement opportunities and the capabilities and capacities of local firms to supply defence-relevant goods and services.

Encouraging small and medium enterprises

Small and Medium Enterprises (SME) play a critical role in equipping and supporting the ADF. Not only do SME account for around a third of Defence procurement and sustainment spending, but they are often the sources of innovation that allow the ADF to maintain its capability edge. Just as importantly, SME underpin industry's capacity to respond to changes in Defence demand because they tend to be more agile than larger firms. For these reasons, a competitive and sustainable SME sector is an essential feature of Australia's defence industrial base, and the Government has as an objective the creation of an environment where capable SME can prosper as defence suppliers.

In practice, many SME provide goods and services to Defence indirectly as sub-contractors to larger prime contractors. Thus, to ensure the health of SME working in the defence arena, Defence will have to work in close cooperation with its prime contractors. Some good progress has been made recently including the development with industry of a Code of Conduct for prime contractors dealing with suppliers and sub-contractors.

As a next and more concrete step, prime contractors for large projects will be required to provide a supply chain management plan that sets out how they will engage SME and other sub-contractors in a sustainable manner. Not only will these plans be taken into account in awarding contracts, but they will be auditable and enforceable.

Supporting the development of skills in defence industry

Historically low unemployment and a rising volume of defence work in Australia have created acute shortages in many critical defence-relevant skill categories.

While the Government's broader whole-of-nation approach to the skills shortfall provides the primary means of enlarging Australia's skills pool, the unique character of many defence-relevant skills demands a defence-specific response. For this reason, since 2005, the Government has been helping firms in the defence sector to improve the skills of their workforces through the Skilling Australia's Defence Industry (SADI) program, and also why the Government has decided to broaden access to the program.

With the objective of further addressing skills shortages, a joint Defence-industry task force will explore the possibility of pooled and joint apprenticeship and graduate training in areas where there is significant overlap between industry and ADF skill requirements. In many cases, Defence and industry are facing shortfalls in exactly the same areas so there is every reason for them to work together to find solutions, with the added benefit of reducing duplication of training effort and enhancing understanding between Defence and industry at the working level.

Facilitating defence exports

In addition to delivering direct economic benefits to the nation, where approved, defence exports have the potential to improve the sustainability of local industry by creating economies of scale, defraying development and overhead costs, sustaining product development and improving skills.

Because the international defence market is skewed by many non-commercial factors, Defence needs to play active role in facilitating exports by local firms if success is to be achieved. With this in mind, the Government created the senior military post of *Defence Materiel Advocate* in 2005 to assist local firms to win exports in the defence sector. Given the early success of that initiative, a dedicated Defence Export Unit will be established in Defence with the objective of further boosting defence exports by Australian firms.

Driving innovation in defence technology

With the objective of ensuring that the ADF maintains a clear margin of superiority against any credible adversary, the Government makes a substantial investment in defence-related Research and Development (R&D) and underpinning Science and Technology. In 2006, more than $300 million was spent directly through the Defence Science and Technology Organisation (DSTO) of which some 10 per cent went to collaborative work with industry. Additional R&D is performed through the various tailored programs linked to Defence’s capital investment program.

To further nurture the innovation needed to maintain the ADF’s capability edge, the Government intends to promote a closer working relationship between DSTO, universities and industry by clustering research along the lines of Cooperative Research Centres. In addition, the Capability Technology Demonstrator (CTD) program will be extended to improve the transfer of technology to the ADF.

Defence and industry working together

Cost-effective and timely delivery of equipment and support to the ADF is best achieved by Defence and industry working together. The many recent successes achieved jointly by Defence and industry in rapidly equipping and supporting the ADF on overseas deployments attests to the fundamental health of the relationship. To ensure that the relationship remains healthy, the Government is committed to continue the procurement reform program it commenced in 2004 so as to ensure that Defence can play its part as an effective partner with industry.

In addition, with the objective of ensuring that communication between Defence and Industry is unhindered and constructive, an annual series of Defence-industry roundtable discussions will be held involving both large and small firms. Moreover, to inform the ongoing procurement reform process, a confidential feedback mechanism to Defence will be established for industry. Industry will also get improved access to end-users through Defence-led focus groups that should help suppliers improve the effectiveness of their products.

2. A strategic approach to equipping and sustaining the ADF

Total defence self-sufficiency is impractical for a country Australia's size. We cannot possibly aspire to design, manufacture and maintain every piece of military equipment the ADF requires. Even for a single advanced weapons system like the JSF, the development cost alone is many times our annual defence budget. As a result, we have no choice but to rely on foreign sources for items like aircraft, artillery, tanks and precision munitions.

The Government's strategic policy explicitly recognises this reality. At the core of the 2000 Defence White Paper, *Defence 2000 – Our Future Defence Force*, is the concept of *defence self-reliance,* the ability to defend Australia without relying on the combat forces of other countries. But defence self-reliance comes with the caveat that we will plan on a significant degree of overseas support in non-combat areas including re-supply and logistics.

Irrespective of the type of support – be it acquisition, through-life maintenance or operational support – we have to make strategic choices about when it is prudent to rely on foreign sources and when it is necessary to maintain in-country capabilities essential for our national security. As the cost and technical complexity of weapons systems rises, it will become more challenging and expensive to maintain industry capabilities in-country. This demands setting realistic targets for local support and making prudent investments to achieve those targets; investments that balance the long-term costs and benefits of in-country industry capabilities against the alternatives. In practice, this means setting priorities among the competing options for in-country support.

Identifying priority industry capabilities

Having clear priorities for in-country industry capabilities serves two purposes. First, it is an essential input into designing procurement strategies for the supply and support of the ADF. Unless it is clear which industry capabilities are strategically valuable, it is impossible to design procurement strategies to support them. Second, clear priorities provide Australian industry with a guide to its own investment and business planning. It is in everyone's interest that industry focuses its resources on the areas of highest priority to the ADF.

Defence 2000 – Our Future Defence Force identified the Government's highest priority areas for Australian defence industry as:

- combat and systems software and support
- data management and signal processing, including for information gathering and surveillance
- command control and communications systems
- systems integration
- repair, maintenance and upgrades of major weapons and surveillance platforms
- provision of services to support the peacetime and operational requirements of the ADF.

In broad terms, these remain priority areas. But the rising cost and complexity of military equipment is making it increasingly difficult to maintain the full range of in-country industry capabilities in each and every case. For example, while Australian industry delivered successful major combat system upgrades for both the F-111 bomber and F/A-18 Hornet fighter in the 1990s, it will be very difficult to do the same for a tightly integrated next-generation platform like the JSF.

It follows that more refined priorities are necessary so that our resources can be directed towards the most strategically important areas. This demands that the identification of priority Australian industry be put on a more rigorous footing. Henceforth, the priority areas for Australian industry will be identified through a strategic approach that embeds Australian industry within the broader context of supporting the ADF.

A strategic approach

A strategic approach to defence industry begins by identifying what is required to:

- provision and re-supply ADF activities and operational deployments
- operate, maintain, upgrade or modify existing equipment
- develop or otherwise secure new equipment
- more broadly provide goods and services to Defence.

The next step is to compare the options for providing each of the products or services so identified, taking account of their cost, effectiveness and the risk of being denied access in both peace and war and Australia's essential security needs. On a case-by-case basis, options could include procurement from overseas, in-country production and stock-piling of equipment, spares and munitions. In some cases, establishing multiple sources will be appropriate as a hedge against disruption of supply.

Viewed this way, defence industry policy is a critical component in establishing adequately assured and cost-effective lines of supply and support for the ADF.

In many cases, the best way to provide a product or service will be clear. For example, the tyranny of distance means that many services, like equipment repair and maintenance, will usually need to reside onshore. In other instances, local supply will be necessary because foreign suppliers are unable – or unwilling – to deliver what the ADF needs at reasonable cost and reliability. For some capabilities, however, such as the ability to design and manufacture many advanced weapons systems, it may be more realistic to expect overseas supply, albeit with a requirement for some level of local support through-life.

In other cases, however, the best course of action will be far from clear and will need to balance the costs, advantages and risks entailed. An important consideration will always be that Australia's unique strategic geography makes our external lines of communication vulnerable to disruption. Sometimes, other less tangible factors will need to be taken into account, like the increased commitment and responsiveness afforded by local suppliers, or the risk that a foreign supplier might limit or withhold support in a contingency for political reasons.

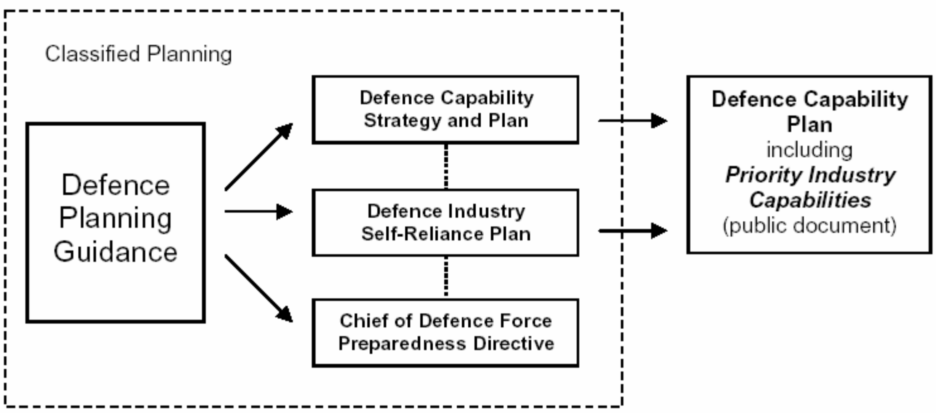
Ultimately, decisions about how to supply and support the ADF form an essential component of strategic planning and, as such, must take account of the full range of credible contingencies that the ADF might be called upon to deal with. It is only by considering such possibilities that the risk of being denied access to overseas support can be properly assessed and the level of resources reasonably committed to preventing or mitigating that risk determined. Consequently, Defence will better understand and more clearly define the role of industry in supporting defence self-reliance, especially in light of emerging technologies.

The strategic guidance for Defence capability development, acquisition and domestic industry capacities is set out in the annual classified *Defence Planning Guidance* process. In order to ensure that this higher level of guidance is clear and able to be used for the purpose of detailed capability planning and to inform industry business planning, the Government intends to introduce a new document to complement the existing *Defence Capability Plan*, to be known as the *Defence Industry Self-Reliance Plan*.

The *Defence Industry Self-Reliance Plan* will be a classified document that clearly defines the boundaries of Australia's industrial self-reliance and identifies the risks entailed. Like other key strategic planning documents, the *Defence Industry Self-Reliance Plan* will be updated and submitted to Government for approval periodically.

Based on the *Defence Planning Guidance*, the *Defence Industry Self-Reliance Plan* will be developed by surveying existing and planned ADF capabilities to determine the industry supply and support required for those essential security capabilities, including the demands and disruptions that credible contingencies might impose. Then, consulting with industry as necessary, a strategy will be developed to secure the requisite industry supply and support now and into the future. As such, the *Defence Industry Self-Reliance Plan* will both complement and underpin the *Chief of Defence Force Preparedness Directive* and *Defence Capability Plan*.

Including industry in strategic planning



The priority local industry capabilities identified in the *Defence Industry Self-Reliance Plan* will be detailed in the public *Defence Capability Plan* in terms of both individual projects and a summary that includes the support demands of the force-in-being. Graduated levels of priority will be assigned to guide decision making and planning.

Key point 1

To ensure that plans for industrial support for the ADF are robust and strategically driven, a *Defence Industry Self-Reliance Plan* will be developed that outlines the essential security role of industry in equipping, re-supplying and maintaining the ADF in peacetime and across a credible range of contingencies.

Key point 2

With the objective of making clear to Australian firms the Government's priorities for local industry support, priority local industry capabilities identified as necessary for Australia's essential security, will be detailed in the public version of the *Defence Capability Plan*.

3. Maintaining priority local industry capabilities

Having identified priority areas for local industry capabilities, the next step is to ensure that these are maintained.

Many priority local industry capabilities will be readily available in-country. For example, most of the ADF's demand for medical supplies can usually be met by Australian suppliers. In a number of cases, however, inadequate Defence demand or insufficient in-country presence of foreign suppliers can result in local support being far from assured for a number of defence-unique products and services.

For this reason Defence will take account of sustaining priority local industry capabilities in its procurement program. In the final analysis, Defence's procurement program is the only concrete tool available to shape Australia's defence industrial base.

Most directly, this can be done by specifying that a particular activity will occur in-country, be it manufacture of new equipment or support of existing equipment. The vast bulk of platform maintenance, for example, already falls into this category on largely practical grounds. At other times, where the long-term benefit of doing so outweighs the short-term cost, Defence might act indirectly by having non-priority work performed in-country in order to sustain local firms that possess priority industry capabilities needed for the future.

The Government will expect the suppliers of foreign-sourced technology deemed essential for Australia's security to ensure that it can be supported in-country, by the transfer of appropriate intellectual property and the establishment of a robust local presence. Potential suppliers will be expected to outline in their tender documentation how they intend to achieve this. Companies investing in Australia through a local presence and the transfer of necessary technology and intellectual property will be assessed favourably when competing to provide goods and services necessary for Australia's essential security.

When it is readily apparent that there is no appreciable cost penalty attached to having work done locally, Defence might simply restrict the tender to local suppliers having regard to Australia's international commitments. In most cases the relative cost of procuring an item or service locally will be sufficiently well understood to allow an early judgment. But when the additional cost and risk of local sourcing is unclear and potentially substantial, Defence will need to solicit local and foreign options so that the benefit of maintaining a priority local capability can be balanced against its cost.

There is no guarantee that the volume or flow of work coming from Defence will be adequate to sustain all the priority local industry capabilities that might be needed in the future. Consequently, Defence will monitor the health and sustainability of priority local industry capabilities to guard against their unanticipated loss or deterioration in the troughs of Defence demand.

Given the importance of maintaining priority industry capabilities to Australia's defence self-reliance, Defence will report to Government on the health and sustainability of priority industry capabilities through a *Priority Local Industry Capabilities Report* every year.

Where routine demand proves inadequate to sustain a priority local industry capability, Defence can respond by:

- rescheduling demand
- bundling projects
- using restricted or sole-source tendering.

In some instances, Defence might even directly contract for an industry capability, as with some ammunition production and submarine maintenance. Of course, where Defence enters into long-term contracts with a single firm, appropriate measures will be needed to ensure that value-for-money is delivered and that measurable and ongoing productivity gains are delivered in the absence of competitive pressures.

The specific measures that Defence might need to take from time to time to maintain priority local industry capabilities will run concurrent with the broader initiatives detailed in Chapters 5 and 6 to create opportunities for Australian firms and encourage SME participation in the defence sector. While these latter initiatives have a broader focus, they nonetheless contribute to the overall health and vitality of the local defence industry sector and thereby underpin priority industry capabilities.

The approach outlined above will replace the system of defence industry sector strategic plans. While some of the mechanisms outlined in the sector plans, like the use of the Capability Maturity Model Integration (CMMI) methodology in software projects, will remain, the task of identifying priority local industry capabilities and developing strategies to maintain them will now be pursued through the new approach.

Key point 3

Defence will monitor the health and sustainability of priority local industry capabilities and formulate responses where necessary to ensure that those capabilities are maintained.

Key point 4

Defence will report to Government on the health and sustainability of priority industry capabilities through a *Priority Local Industry Capabilities Report* every year.

4. Securing value-for-money through best-practice procurement

With more than $12 billion of taxpayers' money spent each year with industry supplying and supporting the ADF, it's essential that the best possible value-for-money is delivered. The rising real cost of military capability, both at acquisition and in terms of sustainment, will create a continuing challenge for Australia's Defence budget – a challenge that can only be met through disciplined decision-making both in terms of what is acquired and of how it is acquired and sustained.

This does not mean that Defence should buy from the cheapest source available in every instance – far from it. Choosing the best value-for-money option entails balancing what is being offered against the price being asked. In many cases, better value for money can be achieved by paying more to get a more suitable product or service or achieving earlier delivery. More, generally, there are a number of factors that go to determining whether a proposal provides value-for-money including:

- the capability of the supplier to deliver to the agreed terms, where possible assessed on the basis of past contractual performance
- the extent to which the product on offer meets the specifications sought
- the flexibility to adapt to possible change over the lifecycle of the product or service including the extent to which it can be evolved to meet future capability needs
- financial considerations including all relevant direct and indirect benefits and costs and risks over the whole procurement cycle
- an evaluation of the risks associated with the alternative choices
- if an accelerated delivery schedule is practicable and cost effective.

All of these factors are relevant to determining the source that is best placed to meet the ADF's needs on time, within budget and at an acceptable level of risk.

In practice, there is a lot more to securing value-for-money than taking a comprehensive approach to comparing the options. Every bit as important is choosing the right method to engage with potential suppliers to create the options and ultimately see them delivered. On this count the Government's preference is to use competition.

The role of competition

Experience shows that, where feasible, competition between potential suppliers is the best way to achieve cost-effective delivery of goods and services. Competition provides suppliers with strong incentives to innovate and improve their performance. Just as importantly, competition allows Defence to benchmark supplier performance, giving it the basis to reduce costs, improve delivery and improve quality across the industry as a whole and demonstrate value-for-money for the taxpayer.

The availability of a competitive market cannot be taken for granted. Following the end of the Cold War, the number of defence suppliers and weapons systems under development fell precipitously. Fortunately, this global contraction was in part at least compensated for by an increased willingness to export – which has allowed Australia to continue to have multiple suppliers compete for its purchases. The Government remains committed to cost-effectively equipping the ADF with the best technology that the global market can deliver by maintaining good relations with international suppliers.

The benefits of competition are no less important for the areas identified as priority local industry capabilities. Indeed, if an industry capability is of high strategic importance to Australia, there is an advantage to having more than one domestic supplier in that area.

It is an inescapable fact that effective competition is impeded by barriers to entry. While there are some barriers that we can do little about (for example, the high fixed cost of system development), it's important to remove unnecessary impediments to participation in the defence sector. One important area is access to the intellectual property needed to cost-effectively support foreign equipment in-country. For example, there are real benefits from having licensing agreements that allow Australian firms to compete to manufacture spare parts rather than having to acquire components from the original equipment manufacturer. For this reason, Defence will continue to actively seek appropriate intellectual property arrangements within contracts.

The Government is also committed to ensuring that Defence's own procurement processes do not constitute an unnecessary barrier to new entrants by being more costly or complex than necessary. This issue is examined more fully in Chapter 10.

Best-practice procurement

Competition cannot, and should not, be employed at each and every opportunity. For one thing, the effective use of competition demands skilful packaging of work. Equipment maintenance contracts, for example, need to carefully balance the benefits of periodic competition against the cost and disruption of re-tendering. In some cases, a properly managed contract for the life of the equipment will offer the best value-for-money especially if there can be effective productivity gains through the whole-of-life contract.

Sometimes it will simply be impractical to secure effective competition. Either because of the unique nature of the item or services being sought, or alternatively, because the acquisition is needed to meet an urgent requirement and there is not enough time for a competitive process. In other cases, for example where projects have a substantial developmental component, procurement may best be done through an evolutionary approach that closely engages Defence in the product development cycle, perhaps by means of an alliance contract. And once an initial contract has been let, it will often represent better value-for-money to simply award cost-investigated follow-on work to the same firm – especially when setting up a second line of supply would incur high set-up costs. In such cases, firms are expected to deliver ongoing productivity improvement to Defence.

In many cases, however, there will be opportunities to harness some form of competition. For example, in projects that are developmental, funded studies can be used to mitigate risk and clarify specifications and likely costs, while still allowing competitive bidding at the final stage. Equally, when proceeding to a sole-source contract, any options for effective competitive sourcing at the sub-contract level should be fully exploited, including careful evaluation of vertical integration arbitrage by large prime Contractors.

It is impossible to set out a generic set of rules concerning how and when different sorts of acquisition strategy should be employed. In each case it is matter of understanding the commercial situation and making a judgment about the best way to proceed. Given the wide range of different procurements that Defence undertakes, a range of procurement strategies is needed. These will include everything from open competition to sole-source arrangements, and from traditional fixed-price contracts to incentive based open-book alliances. In choosing between these many options, the Government expects Defence to make decisions, and provide advice, based on commercial best practice in procurement, while maintaining an overall preference for competition where it is possible and effective.

Partnering for flexibility and productivity

Many Defence procurements are extended exercises that can last for a decade or more. In such circumstances, there are significant strategic and essential security benefits from an approach that allows changes to be made as technology evolves, specifications are refined and opportunities for productivity gains emerge. This sort of flexibility can be achieved through a variety of contractual mechanisms – ranging from incentive-based alliances through to fixed-price contracts – provided that a ‘partnership’ approach is taken to managing changes.

There is no doubt that better outcomes are possible for both Defence and its suppliers by taking a partnering approach to procurement. It is only by working together that innovation and productivity increases can be harnessed through the life of a contract. In part, this requires that both parties adopt a cooperative and non-adversarial approach to each other. In equal measure, partnering requires that both sides have the skills and commercial acumen to work together and, importantly, to protect their own interests.

Specifically, for Defence to play its role as an effective partner in such arrangements, it needs the ability to monitor and benchmark costs, profits and productivity. This is especially the case when employing non-competitive or variable-cost contracts, but it’s also true for fixed-price contracts where there is a material risk of cost growth, schedule delay or quality slippage. Defence will continue to develop its capability for best-commercial practice in managing partnerships including those required for non-competitive and variable-cost arrangements. Where partnering fails to deliver sustained productivity gains, Defence will re-introduce competition to ensure value for money for the taxpayer.

Setting clear goals

Within a procurement exercise, the options tendered by industry are unlikely to result in value-for-money if potential suppliers are unsure of the criteria that will be used to assess their proposals. The risk is that one supplier may be preferred to another not because of superior underlying capabilities, but because it better guesses matters on which some weight would be placed.

For this reason and others, Defence makes clear its technical and other specifications during procurements. One area where the goals have sometimes been less clear in the past is where the wider economic implications of a project are relevant to a procurement decision. While the Government does not routinely use Defence projects to pursue economic outcomes, the potential economic impact of projects is sometimes an important consideration. In the future, when wider goals are relevant and consistent with our international obligations, their nature and importance will be made clear to potential suppliers.

Actively managing risk

An important part of securing value-for-money in a defence context is the management of risk. Equipping the ADF with a decisive capability edge demands that risks be taken when developing and acquiring equipment. To do otherwise would be to settle for second best.

As a general principle, risk should be assigned to the party best able to manage it. Sometimes, that will be Defence, either because the risks are under Defence's control or because Defence can pool them more effectively than can individual suppliers. In such circumstances value-for-money is best secured by Defence bearing the risk and implementing appropriate risk management techniques.

To this end, Defence will further develop its approaches to risk management along commercial lines. Those enhanced risk management practises will be integrated into Defence's routine business processes. This includes using risk valuation (and recognition of the resulting contingent liability), risk prevention (which reduces the likelihood of the risk occurring, up to the point where the cost of further reducing that likelihood outweighs the benefit) and risk mitigation (including through redundancy, hedging and back-up arrangements).

Even with best-practice risk management in place, there is still potential for adverse outcomes. This has to be accepted. The efficient management of complex programs is impeded by a culture that shows little tolerance for risk. For this reason, a better public understanding of defence projects and the risks they entail is needed. In the future, Defence will clearly set out the level of risk in projects in routine reporting and explain why that risk is necessary.

Key point 5

With the objective of getting the best possible value-for-money for taxpayers, Defence will use the most appropriate acquisition method in each instance while maintaining a preference for competition where practical.

Key point 6

To ensure that Defence can take advantage of productivity gains and the opportunities afforded by emerging technologies, Defence will continue to develop its capability for best-commercial practice in managing partnerships with industry including when non-competitive and variable-cost arrangements are employed.

Key point 7

With the objective of creating a fully-informed market, the relevance of the broader economic impact of Defence procurements will be made clear to potential suppliers where appropriate and in line with Australian international obligations.

Key point 8

Defence will further develop its ability to manage risk and will also clearly set out the risk in projects through routine reporting and explain why that risk is necessary.

5. Creating opportunities for Australian firms

Quite apart from the strategy for sustaining priority local industry capabilities outlined in Chapter 3, the Government is strongly committed to promoting Australian[2] industry participation in every aspect of supplying and supporting the ADF. All other things being equal, and recognising Australia's international commitments, the Government would prefer to see work go to Australian firms with the aim of long-term sustainable growth in the defence industry sector.

In the 1960s and 1970s Australian participation in defence projects was achieved through a regime of rigid targets and offset provisions that forced suppliers to direct work locally irrespective of the additional cost or risk involved. Over the last two decades, however, successive Australian Governments have taken a progressively less mechanical approach, and by the mid-1990s the more targeted *Australian Industry Involvement* (AII) program had emerged. Although the AII program set targets for Australian participation, it did so, on the basis of individual projects and also had a qualitative dimension that identified activities in priority industry areas.

As a general rule, however, local content targets risk burdening the Defence budget with higher prices than would otherwise be necessary. On the other hand, some degree of intervention is warranted because of the highly protected and artificial nature of the international defence market. The reality is that many countries tightly protect their own defence industries, while others impose offsets or other counter-trade obligations on their external defence suppliers. Unavoidably, these factors discourage foreign suppliers from using Australian sub-contractors – even when they are more efficient.

Countering these market-distorting barriers and obligations is at the heart of the Government's approach to promoting Australian industry participation in the defence sector. The objective is to ensure that Australian industry has a fair opportunity to compete, and compete on its merits, across the full range of goods and services Defence acquires.

Cost-effective participation

In the future, prospective suppliers for large acquisition and sustainment contracts will be required to fully examine the scope for involvement by Australian firms when bidding for work. The Government's clear expectation is that suppliers will use Australian sub-contractors where it is cost-effective to do so and offers value for money. This is especially the case when adapting existing products to meet Australian unique requirements since local firms will ultimately have to provide through-life support. Specifically, to promote Australian industry participation in defence work, bidders for large contracts will be required to:

- detail how they examined and assessed opportunities for cost-effective Australian industry participation

[2] Consistent with the longstanding Closer Economic Relationship between New Zealand and Australia, this includes providing equal opportunities for New Zealand firms consistent with national security considerations.

- provide a proposed *Australian Industry Capability* (AIC) plan and identify any additional costs that the plan involves as well as a mechanism for independent audit of compliance with the AIC plan.

Any specific actions necessary to sustain priority Australian industry areas will be spelt out in tender documentation. Nonetheless, in assessing AIC plans, particular attention will be paid to initiatives that might further enhance Australian industry capabilities in priority areas.

Creating opportunities in global supply chains

In addition to promoting Australian industry participation in our own projects, Defence will also take every opportunity to secure the right for Australian firms to bid into global supply chains when we buy from overseas. Australia's involvement in the US JSF program provides a model for how this can be done. In exchange for an early commitment to the program, Australian firms won the right to bid on their merits in the international program. In future, rather than wait for opportunities like this to be offered, the Government will actively seek to leverage its buying power to create opportunities for Australian firms in international programs.

Specifically, the Defence will seek, as a condition of participation in global or multinational supply projects, enforceable commitments that provide Australian firms with the opportunity to compete on their merits in the supply of the goods and services required for those projects.

Better information management

It is important that Defence does as much as it can to facilitate the flow of information regarding Australian industry capabilities and opportunities. Defence needs to know what is available from Australian industry and, conversely, industry needs to be aware of upcoming opportunities. Accordingly, Defence will host a web-accessible database catalogue of Australian industry capabilities relevant to defence work. The database will build on information provided by defence companies and will be publicly available so that it can be used by Defence and industry alike, as well as a tool for export promotion. At the same time, Defence will communicate upcoming opportunities more extensively, again though web technology. Equally importantly, Defence will give as much forewarning as it reasonably can to industry of the contracting mechanisms to be employed in upcoming projects.

Finally, to ensure that Government's approach to Australian industry participation is clearly understood, an *Australian Industry Capability* manual will be published by the Defence during 2007 that details the approach outlined above.

Key point 9

All bids for large defence procurement and sustainment projects necessary for Australia's essential security will need to show that the potential for cost-effective Australian industry participation has been fully explored and that an AIC plan has been produced.

Key point 10

With the objective on helping local firms break into global defence supply chains, Defence will actively leverage its foreign purchases to create opportunities for Australian firms in multinational defence programs.

Key point 11

Defence will take steps to improve the flow of information on opportunities for local firms and their capabilities, and will publish an *Australian Industry Capability* manual during 2007.

6. Encouraging small and medium enterprises

Around one-third of all Defence acquisition and sustainment spending finds its way to local Small and Medium Enterprises[3] (SME). While a significant share of this expenditure goes directly from Defence to SME, more than half of it occurs via sub-contracts with prime contractors. Prime contractors tend to be large companies; either Australian-owned defence firms or the Australian subsidiaries of a foreign-owned defence firms. In contrast, although many SME have valuable defence-specific capabilities, most are diversified into non-defence markets. Currently, around a dozen large firms focus on being defence prime contractors in Australia, while several hundred SME provide valuable goods and services to Defence in one way or another.

SME suppliers bring many benefits to Defence, not least of which is that they are a vital source of innovation and cutting edge technology. Just as importantly, SME provide the flexibility to Australia's defence industrial base that is essential to accommodate the ebb and flow of Defence demand. Indeed, almost all prime contractors depend on SME to augment their capacity and complement their technical capabilities. Another advantage of a healthy defence SME sector is that it allows robust competition which, in turn, promotes productivity, growth and efficiency. Finally, successful defence SME have the potential to become the prime contractors of the future – thereby keeping pressure on the incumbent firms to perform.

For these reasons, the Government is committed to creating an environment in which SME can prosper as defence suppliers. Doing so is complicated by a number of factors including:

- the trend to bundle work in Defence contracts resulting in a growing share of spending flowing to, or through, prime contractors
- the increasing complexity of Defence contracts due to a shift to service and outcome-driven specifications
- defence-specific security and compliance requirements such as the US International Traffic in Arms Regulations (ITARs) that are a significant impost on firms
- a long-term trend towards global programs, supply chains and markets.

To achieve its objective of an environment where competitive SME can prosper, the Government is active on a number of fronts.

At an international level, as already outlined in the previous chapter, every opportunity will be taken to involve Australian firms in global defence supply chains. Experience gained with the JSF program shows that Australian SME can compete successfully on cost and technical quality against international suppliers.

To date, more than 20 firms have won contracts through the JSF program including a number of SME. This did not, however, occur by accident. Australian involvement was facilitated through an industry and whole-of-government partnership involving a dedicated Industry Team and Advisory Council. Lessons being learnt through the JSF

[3] Small and Medium Enterprises (SME) are Australian and New Zealand firms with less than 200 employees.

program will be used to further refine the support provided to local firms, and SME in particular, in competing for work in global defence supply chains in the future.

Because defence SME are a source of valuable innovation and new technology, one of the best ways to encourage SME in the defence sector is to support their R&D programs. Defence, and its DSTO, do this in a number of ways including through the *Capability Technology Demonstrator* program. As far as is practical, this and other opportunities for collaborative R&D, are extended to firms irrespective of size.

Of course, the most straightforward way to encourage SME in the defence sector is to give them the opportunity to bid directly for work. Currently, around 15 per cent of Defence's acquisition and sustainment budget goes directly to SME. Defence will continue to offer opportunities of a scale and scope amenable to delivery by SME provided that it is consistent with achieving best value-for-money. Inevitably, however, many SME will continue to work as sub-contractors to larger defence firms. For this reason, Defence has an interest in influencing the interaction between prime contractors and SME.

To this end, a *Code of Conduct Between Defence Prime Contractors and Sub-contractors* has been developed by Defence and industry. The Code provides general principles that companies can use when formalising their business relationships. Intended as a framework for communication, the Code is neither legislative nor regulatory but instead sets out expected attitudes and standards of behaviour. The Code is to being revised and will be re-released in 2007.

As regards its own acquisition programs, Defence will henceforth pay greater attention to the impact of large defence projects on the SME sector. To achieve this, prospective contractors for major defence projects will be required to prepare a Supply Chain Management Plan paying particular attention to the role of local SME. The expectation is that prime contractors will take account of sustaining and developing the smaller firms that underpin their ability to deliver goods and services to Defence. Not only will these plans be taken into account in awarding contracts, but they will auditable and enforceable.

Key point 12

SME play a critical role in Australia's defence industrial base by driving innovation, improving productivity and bolstering competition. Because many SME work as sub-contractors to larger defence firms, a revised *Code of Conduct Between Defence Prime Contractors and Sub-contractors* will be released in 2007.

Key point 13

The Government is committed to creating an environment in which defence SME can prosper. To this end, contractors for major defence projects will be required to prepare a Supply Chain Management Plan paying particular attention to the role of local SME. The plans will be auditable and enforceable.

7. Supporting the development of skills in defence industry

In previous decades, defence industry was in the fortunate position of having access to a ready pool of skilled workers, many trained by Defence and with military experience. Coupled with unemployment levels higher than today and Defence demand for goods and services significantly lower, the availability of appropriately-qualified personnel was not a constraint on industry's capacity to deliver.

Today, the situation is very different. The Australian economy has experienced 15 years of continued economic growth and the unemployment rate has fallen to a 30-year low. In this context, it is not surprising that competition for labour is increasing, resulting in a reduced pool of employees with many of the technical skills sought by Defence Industry. In this situation, defence firms face stiff competition for skills that are in strong demand in highly profitable sectors like mining and energy.

The result is a shortage of professional, technical and trades skills in Australian defence industry. This shortage potentially puts at risk the successful delivery and sustainment of ADF capabilities. In some parts of Australia, competition for skills is so strong that defence firms are at risk of being capacity limited; in others, there is a real danger of labour costs increasing faster than those in the broader economy thereby resulting in higher costs being passed on to Defence.

The risks are exacerbated by rising demand due to the ongoing modernisation and expansion of the ADF through the *Defence Capability Plan*. Procurement of major capital equipment alone is planned to increase by almost 30 per cent over the next decade. Our best estimate is that in-country expenditure will be around $50 billion for the coming decade, split roughly between $20 billion for new acquisitions and $30 billion for sustainment.

This increased spending, together with continuing permanent departures from defence industry, translates into a need for around 12,000 new employees to enter the defence industry sector over the next decade. Of these, around 3,000 people are needed to meet planned additional workload, while around 9,000 others are required in anticipation of the attrition of workers retiring or moving to other sectors. In terms of skills, around 25 percent of new personnel need to be engineering or tertiary qualified project management personnel and around 75 per cent are required in trade areas.

Skilling Australia's Defence Industry (SADI) program

While the Government's broader whole-of-nation approach to the skills shortfall will continue to alleviate the problem, the unique character of many defence-relevant skills demands a defence-specific response. For this reason, since 2005, the Government has been helping firms in the defence sector to improve the skills of their workforces through the Skilling Australia's Defence Industry (SADI) program.

At a cost of $215 million over ten years, amounting to 0.5 per cent of planned spending on major Defence capital equipment projects, the SADI program aims to train additional skilled personnel, up-skill existing employees and improve the quality and increase the quantity of training in defence industry overall.

In its initial form, the SADI program selectively funded additional training by firms in the defence sector on the basis of proposals they put forward. Following feedback from industry, the Government has decided to broaden the scheme with the aim of better enabling firms, and particularly SME, to access the program. The increased scope will allow third parties, such as industry associations, collaborations of SME or education providers, to apply for SADI funding.

Defence-Industry training task force

In many cases, Defence and industry are facing shortfalls in exactly the same areas, in particular in skilled trades and the engineering/project management professions. In fact, in many cases Defence and industry are competing for a limited pool of available skilled personnel and prospective trainees. It follows that there is every reason for Defence and industry to work together to redress the problem of having too few appropriately skilled personnel in critical areas.

Accordingly, a joint Defence-industry training task force will be formed to explore the possibility of pooled and joint apprenticeship and graduate training in areas where there is significant overlap between industry and ADF skill requirements. Even in the absence of a skills shortage, there are likely to be benefits from a joint approach to training and apprenticeships by eliminating duplication and increasing economies of scale. In addition, pooled training of ADF and industry personnel has the potential to enhance understanding between the two parties at the working level.

In practice, there is unlikely to be a generic approach that will accommodate the needs of both Defence and industry across the diverse range of skills needed in the defence sector. Opportunities will instead arise in specific areas that will demand tailored solutions to joint and cooperative training. It will be the job of the task-force to make specific recommendations on where opportunities exist and how they can best be pursued. The task-force will report back in the second half of 2007.

Key point 14

With the objective of ensuring that defence industry can meet the challenge of rising investment levels in the face of a national shortage of skilled personnel, the SADI program provides financial assistance to help firms increase the number and qualifications of skilled workers in the defence industry sector. The Government has decided to broaden access to ensure full take up of the scheme.

Key point 15

A joint Defence-industry training task force will explore the possibility of pooled and joint apprenticeship and graduate training in areas where there is significant overlap between industry and ADF skill requirements.

8. Facilitating Exports

On average, Australian firms export around $600 million worth of defence and defence-related products each year. Australia's key defence export destinations are New Zealand, Europe, the United States, South East Asia and, increasingly, the Middle East.

Defence exports improve the sustainability of local industry by creating economies of scale, defraying development and overhead costs, funding product development and improving skills. Just as importantly, defence exports make local industry less susceptible to the inevitable fluctuations in ADF demand.

Defence exports can also expose Australian firms to a wider range of operating environments, thereby promoting innovation and creating a more diverse knowledge base. In some instances, defence exports can help strengthen Australia's defence relationships with strategic partners – particularly where Australian firms offer a unique or innovative product or service.

In recent years, Australian firms have made impressive progress in winning defence exports. Local firms are now exporting in highly-competitive areas including phased array radars, information technology security systems, rocket motors, infantry mobility vehicles, conventional naval vessels and high-speed vessel technology. In addition, a number of local firms are now involved in global supply chains for international programs including, but not limited to, the JSF project.

These achievements are impressive given the characteristics of our defence industry. With some important exceptions, local firms do not tend to independently develop new products or platforms. This means that the range of potential items for export is limited compared with the major international defence exporters.

Even if this were not the case, continued success in Australian defence exports should not be taken for granted. The international trade in defence equipment is highly skewed by non-market factors like offset programs and protectionist policies. Moreover, defence exports are often contingent on government-to-government and military-to-military links. Major defence exporters like the US, UK, France and Israel all provide significant government-level and military support to promote defence exports. In addition, exports of defence and dual-use goods and services are regulated under a legislative framework that implements Australia's international obligations and takes account of the possible impact an export may have on Australia's interests. The combination of international trade realities and some limitation in the types of exports that can be made in Australia makes the defence export environment complex and demanding.

Although the Australian Trade Commission (Austrade) is active in supporting local defence firms seeking to export, the unique nature and distorted market for defence products justifies additional specific measures in the defence sector. With this in mind, the Government created the senior military post of *Defence Materiel Advocate* in 2005 to assist local firms to win exports in the defence sector. This initiative was welcomed by industry and has helped secured a number of export opportunities for local firms that otherwise might not have eventuated.

Given the encouraging success of the *Defence Materiel Advocate* initiative, in 2007 the Government will establish a dedicated *Defence Export Unit* in Defence with the objective of further boosting defence exports by Australian firms. The *Defence Export Unit* will be a small highly-professional organisation that will achieve results by working with the ADF, local industry, Austrade and the Department of Industry, Tourism and Resources to formulate a whole-of-government approach to the facilitation of defence exports from Australia.

One of the roles for the *Defence Export Unit* will be to ensure that Defence becomes 'export aware' in its day-to-day business. For example, to take advantage of participation in global supply chains, Defence will look ahead to identify opportunities and, when appropriate, notify Government with a view to early engagement.

Key point 16

With the objective of further boosting defence exports by Australian firms a *Defence Export Unit* will be created within Defence to reinforce a whole-of-government approach to facilitating defence exports from Australia.

9. Driving innovation in defence technology

It is the Government's aim that the ADF will have a clear margin of superiority against any credible adversary. Maintaining such an advantage requires access to the best available military technology.

Often, military-off-the-shelf equipment is available that will deliver the capability edge that the ADF needs. In other cases, however, we have no alternative other than to develop or tailor a solution to meet our specific needs. It is for this reason that the Government invests in defence-related R&D and underpinning Science and Technology (S&T).

Defence supports R&D through the development of acquisition projects in the *Defence Capability Plan* and directly through the DSTO.

Most acquisition-related R&D is undertaken in conjunction with major acquisition projects. This includes up to $45 million per year through the *Project Development Fund* that clarifies costs and reduce risks prior to final project approval. The quantum of money spent prior to project approval can be expected to rise as the two-pass process of project approval matures through the ongoing Procurement Reform Program. R&D also occurs through the up to $20 million per year *Rapid Prototyping Development and Evaluation* (RPDE) program that shortens the traditional procurement processes to deliver innovative capability solutions within eighteen months through a cooperative partnering with around 83 defence companies.

Defence's in-house S&T organisation, DSTO, enables the ADF to be a smart buyer, user and adaptor of military technology. But DSTO does not work alone – around 10 per cent of its annual budget, or $30 million, is spent on collaborative work with industry. This makes good sense. By coupling DSTO corporate knowledge of ADF systems with the practical expertise of industry, innovative solutions to maintaining the ADF's capability edge can be found. DSTO also administers the collaborative *Capability and Technology Demonstrator* (CTD) program.

The CTD program provides Australian industry with the opportunity to demonstrate technology with an emphasis on providing military capability advantages to the ADF. To ensure that industry understands what the priority areas for the ADF are, these are outlined at the initial stages of the bidding process. Because innovation is also about creating new opportunities, however, as opposed to simply finding solutions to existing problems, industry is also encouraged to bring forward proposals for new products in other areas that have the potential to increase ADF capability.

Better leveraging defence R&D

The level of investment in R&D by Australian defence firms is in line with overall levels of R&D investment by Australian industry – although this tends to be somewhat below the Organisation for Economic Cooperation and Development (OECD) average. This reflects the fact that as a small country, Australia tends to be more of a user than a developer of technology, including in the defence arena.

Nonetheless, Australia does have a number of unique defence technology requirements – like that satisfied by the locally-developed over-the-horizon-radar system JORN. Australia's future success in leveraging defence R&D rests on focusing R&D on the needs of the ADF and ensuring that each dollar is spent efficiently.

Thus, with the objective of ensuring the greatest possible capability advantage from its defence R&D spending, the Government is going to extend the CTD program, and take steps to increase collaborative R&D between Defence, industry and universities.

An extended CTD program

Past experience has shown that only a limited number of successful CTD projects actually transition into operational capability for the ADF. To some extent, this is because there is a gap between the successful demonstration of a capability technology and the development of an actual product.

A follow-on phase of the CTD program will be created to support the transition of successful CTD projects into ADF service. The follow-on phase will extend selected CTD projects into an experimental framework to further develop the capability technology into a product while more closely examining suitability of the item for use by the ADF.

More R&D collaboration between DSTO, industry and universities

Given the size of Australia's R&D base, there is potential benefit to be gained by further pooling the expertise and resources of DSTO, industry, universities and other public research bodies to develop defence technology for the ADF. To achieve this objective, the Government will initiate a program of joint defence research ventures in 2008. Modelled on the Government's existing program of *Cooperative Research Centres* and the successful CSIRO *Flagship Collaboration Fund*, but adapted to the specific needs and constraints of the defence sector, the program will operate on a fully-competitive basis.

Key point 17

The *Capability and Technology Demonstrator* program will be extended to examine and facilitate the transfer of successful projects into ADF service.

Key point 18

To leverage the expertise and resources of DSTO, industry, universities and other public research bodies to develop defence technology for the ADF, the Government will initiate a program of joint defence research ventures in 2008.

10. Defence and industry working together

Cost-effective and timely delivery of equipment and support to the ADF is best achieved by Defence and industry working together. The many recent successes achieved jointly by Defence and industry in rapidly equipping and supporting the ADF on overseas deployments attests to the fundamental health of the relationship.

Preparing Defence to be an effective customer

Maintaining a healthy Defence-industry relationship requires individuals on both sides with the right attitudes and skills, as well as a full understanding of each other's perspectives and goals. For its part, the Government has taken steps to ensure that Defence, and in particular its acquisition and sustainment agency the *Defence Material Organisation* (DMO), is equipped to be an effective customer.

To this end, an initiative is underway in DMO to professionalise its workforce through the accreditation of individual staff by nationally-recognised bodies. This is part of a broader series of initiatives flowing from the recommendations of the 2003 *Defence Procurement Review*.

Another key initiative is the *Procurement Improvement Program* (PIP) that seeks to bring Defence procurement and contracting policy, procedures and templates into line with commercial best practice. The PIP is currently in a consultation phase and is seeking feedback from industry on draft tendering and contracting templates.

The Government's objective is that dealing with Defence will be no more protracted or complex than is necessary to protect taxpayers' interests and deliver the right equipment and support to the ADF. Unnecessary bureaucracy risks stifling innovation and impeding the entry of new suppliers into the defence sector. For these reasons, the Government will look closely at the industry response to the PIP consultation to ensure that whilst protecting the Government's interests as customers, Defence's procurement processes do not have unintended consequences and that they are as streamlined and efficient as practical.

Improved communication

Good communication is essential to an effective working relationship between Defence and industry. Aside from the day-to-day interactions between individual project offices and firms, there are a number of forums maintained to facilitate feedback. Some of the more important forums include:

- the *Defence + Industry Conference* that brings together more than 1,000 delegates from around Australia

- the *Capability Development Advisory Forum* (CDAF) that allows senior representatives from industry to consult with executives from Defence, the CDAF is augmented by sector-specific Environmental Working Groups that focus more closely on sectors of defence industry

- the *Defence Exporters Council* that provides advice to the Minister and Government agencies on defence export facilitation.

To improve communication and facilitate understanding between Defence and industry, the following additional avenues of communication will be instituted:

- Defence will engage with industry through an annual series of informal round-table meetings – Defence + Industry roundtables – much like those undertaken in the industry policy review consultation. This will usefully augment the more focused dialogue occurring through the CDAF and various Environmental Working Groups.

- A mechanism will be developed for industry to provide confidential feedback to Defence. The objective is to gather more general observations and practical suggestions than currently received through the project-specific 360-degree feedback mechanism.

- A two-way industry-Defence secondment program will be trialled with the aim of building mutual understanding and expertise on both sides. In Defence, the program will include individuals working in acquisition, procurement and capability planning.

Additionally, to improve communication and facilitate understanding between the Government and industry, a ministerial-level *Defence Industry Advisory Council* (DIAC) will meet annually.

Another area where communication is especially important is between Defence's end-users and industry. Without direct feedback from the ultimate consumers of defence goods and services, industry is unlikely to be able to provide equipment and support that is fully attuned to the needs of the ADF. In many areas, end-users are already closely involved in the product development cycle, but there is scope to widen the range of firms that can benefit from this kind of interaction. In the future, industry will be given the opportunity to access end-users through Defence-led focus groups so that suppliers can improve the effectiveness of the goods and services they provide the ADF.

Key point 19

The Defence Procurement Reform will continue the process of professionalising the *Defence Materiel Organisation* and streamlining the acquisition process. The Government will look closely at the outcome of the *Procurement Improvement Program* consultation to ensure that whilst protecting the Government's interests as a customer, Defence's procurement processes have no unintended consequences and are as streamlined and efficient as practical.

Key point 20

Communication between Defence and industry will be improved by an annual program of Defence + Industry roundtables and a new confidential channel for industry to express their views of dealing with Defence. In addition, a reconstituted ministerial-level *Defence Industry Advisory Council* (DIAC) will meet annually.

Key point 21

A Defence and industry secondment program will be trialled in the second half of 2007 with the objective of improving understanding between Defence and industry personnel.

Key point 22

Industry will have access to end-users through Defence-led focus groups so that they can receive the feedback necessary to improve the effectiveness of the goods and services they provide to the ADF.

11. Key points

Key point 1

To ensure that plans for industrial support for the ADF are robust and strategically driven, a *Defence Industry Self-Reliance Plan* will be developed that outlines the essential security role of industry in equipping, re-supplying and maintaining the ADF in peacetime and across a credible range of contingencies.

Key point 2

With the objective of making clear to Australian firms the Government's priorities for local industry support, priority local industry capabilities identified as necessary for Australia's essential security, will be detailed in the public version of the *Defence Capability Plan*.

Key point 3

Defence will monitor the health and sustainability of priority local industry capabilities and formulate responses where necessary to ensure that those capabilities are maintained.

Key point 4

Defence will report to Government on the health and sustainability of priority industry capabilities through a *Priority Local Industry Capabilities Report* every year.

Key point 5

With the objective of getting the best possible value-for-money for taxpayers, Defence will use the most appropriate acquisition method in each instance while maintaining a preference for competition where practical.

Key point 6

To ensure that Defence can take advantage of productivity gains and the opportunities afforded by emerging technologies, Defence will continue to develop its capability for best-commercial practice in managing partnerships with industry including when non-competitive and variable-cost arrangements are employed.

Key point 7

With the objective of creating a fully-informed market, the relevance of the broader economic impact of Defence procurements will be made clear to potential suppliers where appropriate and in line with Australian international obligations.

Key point 8

Defence will further develop its ability to manage risk and will also clearly set out the risk in projects through routine reporting and explain why that risk is necessary.

Key point 9

All bids for large defence procurement and sustainment projects necessary for Australia's essential security will need to show that the potential for cost-effective Australian industry participation has been fully explored and that an AIC plan has been produced.

Key point 10

With the objective on helping local firms break into global defence supply chains, Defence will actively leverage its foreign purchases to create opportunities for Australian firms in multinational defence programs.

Key point 11

Defence will take steps to improve the flow of information on opportunities for local firms and their capabilities, and will publish an *Australian Industry Capability* manual during 2007.

Key point 12

SME play a critical role in Australia's defence industrial base by driving innovation, improving productivity and bolstering competition. Because many SME work as sub-contractors to larger defence firms, a revised *Code of Conduct Between Defence Prime Contractors and Sub-contractors* will be released in 2007.

Key point 13

The Government is committed to creating an environment in which defence SME can prosper. To this end, contractors for major defence projects will be required to prepare a Supply Chain Management Plan paying particular attention to the role of local SME. The plans will be auditable and enforceable.

Key point 14

With the objective of ensuring that defence industry can meet the challenge of rising investment levels in the face of a national shortage of skilled personnel, the SADI program provides financial assistance to help firms increase the number and qualifications of skilled workers in the defence industry sector. The Government has decided to broaden access to ensure full take up of the scheme.

Key point 15

A joint Defence-industry training task force will explore the possibility of pooled and joint apprenticeship and graduate training in areas where there is significant overlap between industry and ADF skill requirements.

Key point 16

With the objective of further boosting defence exports by Australian firms a *Defence Export Unit* will be created within Defence to reinforce a whole-of-government approach to facilitating defence exports from Australia.

Key point 17

The *Capability and Technology Demonstrator* program will be extended to examine and facilitate the transfer of successful projects into ADF service.

Key point 18

To leverage the expertise and resources of DSTO, industry, universities and other public research bodies to develop defence technology for the ADF, the Government will initiate a program of joint defence research ventures in 2008.

Key point 19

The Defence Procurement Reform will continue the process of professionalising the *Defence Materiel Organisation* and streamlining the acquisition process. The Government will look closely at the outcome of the *Procurement Improvement Program* consultation to ensure that whilst protecting the Government's interests as customer, Defence's procurement processes have no unintended consequences and are as streamlined and efficient as practical.

Key point 20

Communication between Defence and industry will be improved by an annual program of Defence + Industry roundtables and a new confidential channel for industry to express their views of dealing with Defence. In addition, a reconstituted ministerial-level *Defence Industry Advisory Council* (DIAC) will meet annually.

Key point 21

A Defence and industry secondment program will be trialled in the second half of 2007 with the objective of improving understanding between Defence and industry personnel.

Key point 22

Industry will have access to end-users through Defence-led focus groups so that they can receive the feedback necessary to improve the effectiveness of the goods and services they provide to the ADF.

Defence and Industry
Policy Statement 2007

Implementation Plan

A STRATEGIC APPROACH TO EQUIPPING AND SUSTAINING THE AUSTRALIAN DEFENCE FORCE (ADF)

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Industry to self-align to deliver the priority local industry capabilities to provision and re-supply the ADF's activities and operational deployments across a range of credible contingencies.	To ensure that plans for industrial support for the ADF are robust and strategically driven, a *Defence Industry Self-Reliance Plan* will be developed that outlines the essential security role of industry in equipping, re-supplying and maintaining the ADF in peacetime and across a credible range of contingencies. With the objective of making clear to Australian firms the Government's priorities for local industry support, priority local industry capabilities identified as necessary for Australia's essential security, will be detailed in the public version of the *Defence Capability Plan.*	Develop a *Defence Industry Self-Reliance Plan* that outlines the essential security role of industry in supporting the ADF in contingency.	Complete the classified *Defence Industry Self-Reliance Plan* in fourth quarter of 2007.	Greater than 50 per cent of the identified priority local industry capabilities are providing support to the ADF by the end of 2009. Greater than 80 per cent of the identified priority local industry capabilities are providing support to the ADF by the end of 2010. Greater than 90 per cent of the identified priority local industry capabilities are providing support to the ADF by the end of 2011.
		Use the 2008-18 *Defence Capability Plan* to communicate priority local industry capabilities to industry.	Release unclassified *Defence Capability Plan* outlining local priority industry capabilities in third quarter of 2008.	

MAINTAINING PRIORITY LOCAL INDUSTRY CAPABILITIES

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Maintain identified priority local industry capabilities.	Defence will monitor the health and sustainability of priority local industry capabilities and formulate responses where necessary to ensure that those capabilities are maintained. Defence will report to Government on the health and sustainability of priority local industry capabilities through a *Priority Local Industry Capabilities Health Report* every year	Monitor the health and sustainability of priority local industry capabilities.	Analysis of all local priority industries for sustainable level of skills and infrastructure to be completed in the third quarter of 2008.	Existing priority local industry capabilities remain commercially viable, with open market competition, adequate return on sales, representative return on equity and with sufficient forward orders. Identified priority local industry capabilities shortfalls are resolved by 2009.
		Develop a toolbox of strategies to sustain priority local industry capabilities in circumstances where they fall below minimum levels.	Tools to monitor the health of priority local industry capabilities are developed by mid 2008.	
		Measure commercial health of companies with priority local industry capabilities.	Use existing research data to assess commercial health of priority local industry during the third quarter of 2008.	
		Report annually to Government on the health and sustainability of priority local industry capabilities through a *Priority Local Industry Capabilities Health Report*.	*Priority Local Industry Capabilities Health Report* in the fourth quarter of 2008.	

		Require that suppliers of foreign-sourced technology deemed essential for Australia's security ensure in-country support is available.	Amended procurement documentation in place by fourth quarter of 2007.	

SECURING VALUE FOR MONEY

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Secure best possible value for money in Defence procurement.	With the objective of getting the best possible value-for-money for taxpayers, Defence will use the most appropriate acquisition method in each instance while maintaining a preference for competition where practical. To ensure that Defence can take advantage of productivity gains and the opportunities afforded by emerging technologies, Defence will continue to develop its capability for best commercial practice in managing partnerships with industry including when non-competitive and variable-cost arrangements are employed. With the objective of creating a fully-informed	Defence will develop its capability for best commercial practice in managing partnerships including those required for non-competitive and variable cost arrangements by developing a range of contracting options for achieving ongoing efficiencies from sole source contracts drawing on commercial benchmarks in other sectors.	Amended procurement documentation in place by fourth quarter of 2007.	The top ten prime contractors direct Defence business Return on Sales and Return on Equity approach the international sector benchmark by 2009. Preparation of Defence contracts approaches international best practice. The industry impact of projects greater than $50m is considered at second pass. Project risk is addressed for the Top 30 Defence projects in the 2007 Defence Budget Portfolio Statement.
		Use Defence procurement documentation to inform potential suppliers on the relevance of the broader economic considerations when government directs.	Commence in fourth quarter 2007.	
		Develop Defence project risk management capability by developing metrics for ensuring that profit is linked to the level of risk accepted.	Project risk management capability to be established by mid 2008.	

	market, the relevance of the broader economic impact of Defence procurements will be made clear to potential suppliers where appropriate and in line with Australian international obligations. Defence will further develop its ability to manage risk and will also clearly set out the risk in projects through routine reporting and explain why that risk is necessary.	Set out and justify project risk through routine reporting.	Routine project risk reporting by mid 2007	

CREATING OPPORTUNITIES FOR AUSTRALIAN FIRMS

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Optimise participation of Australian industry in Defence procurement.	All bids for large Defence procurement and sustainment projects necessary for Australia's essential security will need to show that the potential for cost-effective Australian industry participation has been fully explored and that an *Australian Industry Capability Plan* has been produced. With the objective of helping local firms break into global supply chains, Defence will actively leverage its foreign purchases to create opportunities for Australian firms in multinational defence programs. Defence will take steps to improve the flow of information on opportunities for local firms and their capabilities, and will publish an *Australian Industry Capability Manual* during 2007.	Tender responses for all Defence procurement and sustainment contracts greater than $50m will be required to outline the potential for cost-effective Australian industry participation.	Publication of *Australian Industry Capability Manual* by fourth quarter 2007.	Satisfaction of local industry regarding ability to access Defence procurement opportunities improves to better than 80 per cent by the end of 2008. At least 55% of Defence acquisition and sustainment contracts flow to Australian industry by 2009.
		Leverage Defence foreign purchases to create opportunities for Australian firms in global supply chains.	Supply chain requirements included in contracting templates by fourth quarter 2007.	
		Improve the flow of information on Defence procurement opportunities for local industry.	E-portal established by the end of 2007.	
		Establish a public searchable database on local industry capability.	Database established by the end of 2007.	
		Provide advice to industry on the methods to achieve opportunities for Australian firms.	Publish methods in the AIC Manual by fourth quarter 2007.	
		Measure industry satisfaction with the opportunities provided to Australian firms.	Survey of industry satisfaction commenced by fourth quarter 2007.	

ENCOURAGING SMALL AND MEDIUM ENTERPRISES (SME)

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
A competitive and sustainable local defence SME sector.	SME play a critical role in Australia's defence industrial base by driving innovation, improving productivity and bolstering competition. Because many SME work as sub-contractors to larger defence firms, a revised *Code of Conduct between Defence Prime Contractors and Sub-contractors* will be released in 2007. The Government is committed to creating an environment in which defence SME can prosper. To this end, contractors for major Defence projects will be required to prepare a *Supply Chain Management Plan* paying particular attention to the role of local SME. The plans will be auditable and enforceable.	Embed a revised *Code of Conduct between Defence Prime Contractors and Sub-contractors* into Defence tender documentation.	The revised code of conduct to guide SME engagement with prime contractors is agreed and implemented by fourth quarter 2007.	Satisfaction of local SME regarding ability to access Defence procurement opportunities increases to better than 80% by the end of 2008. Satisfaction of SME with prime/ sub-contractor relationships improves to at least 80 per cent by the end of 2008. At least 20% of Defence acquisition, sustainment and support budgets flow to Australian defence-related SME (excluding for example rent/utilities, accounting, or legal services) by 2009.
		Tender responses for Defence procurement and sustainment contracts greater than $50m will be required to outline their intended sub-contracting arrangements including the use of local SME.	Supply chain requirements included in contracting templates by fourth quarter 2007.	
		Conduct an annual survey of defence SME to determine their satisfaction with the prime / sub-contractor relationship and their satisfaction with the levels of work being provided to them by primes.	Conduct a survey of SME by the end of 2007.	

SUPPORTING THE DEVELOPMENT OF SKILLS IN DEFENCE INDUSTRY

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Development of sufficient skilled resources in defence industry to meet Defence requirements.	With the objective of ensuring that defence industry can meet the challenge of rising investment levels in the face of a national shortage of skilled personnel, the SADI program provides financial assistance to help firms increase the number and qualifications of skilled workers in the defence industry sector. The Government has decided to broaden access to the scheme. A joint Defence-industry training task force will explore the possibility of pooled and joint apprenticeship and graduate training in areas where there is significant overlap between industry and ADF skill requirements.	Broaden local industry access to the Skilling Australia's Defence Industry (SADI) program.		The funds committed by the SADI program approach the approved level by mid 2009. Skills to sustain priority local industry capabilities are at 100 per cent of the minimum requirement by the end of 2009.
		Ensure sufficient training is available to sustain priority local industry capabilities.	Survey priority local industries by the end of 2008 to determine sufficiency of skilled manpower.	
		Establish a joint Defence-industry training task force to explore apprenticeship and graduate training opportunities.	Training Task Force established in second quarter of 2007. The Task Force will coordinate ADF Recruitment and Retention goals with industry policy. Training Task Force to report in third quarter of 2007.	

FACILITATING DEFENCE EXPORTS

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Maximise opportunities for Australian defence industry exports.	With the objective of further boosting defence equipment exports by Australian firms a Defence Export Unit (DEU) will be created within Defence to coordinate a whole-of-government approach to facilitating defence equipment exports from Australia	Establish a DEU to coordinate a whole-of-government approach to defence exports from Australia.	Recruit commercial Head for DEU by mid 2007. Establish the DEU by fourth quarter of 2007.	The value of Australian defence exports attributable to the DEU is 10 times the cost of running the unit by the end of 2009.
		Develop and implement the DEU concept of operations to use the resources of the DEU and existing government agencies.	Identify defence export opportunities where Australian industry has the capability to provide equipment by the end of 2007.	
		Develop appropriate indicators to monitor the effectiveness of the DEU.	Approve the DEU concept of operations by the end of 2007.	

DRIVING INNOVATION IN DEFENCE TECHNOLOGY

<table>
<tr><th>Strategy Objective</th><th>Key Initiatives</th><th>Actions</th><th>Milestones</th><th>Benchmarks</th></tr>
<tr><td rowspan="2">Maximise the capability advantage from Defence research and development spending.</td><td rowspan="2">The Capability and Technology Demonstrator program will be extended to examine and facilitate the transfer of successful projects into ADF service.

To leverage the expertise and resources of DSTO, industry, universities and other public research bodies to develop defence technology for the ADF, the Government will initiate a program of joint defence research ventures in 2008.</td><td>Extend the Capability and Technology Demonstrator (CTD) program to facilitate the transfer of successful CTD into programs used by the ADF.</td><td>Identify capability gaps suitable for CTD targeting by mid 2007.

Establish a follow on phase for the CTD program by fourth quarter 2007.</td><td rowspan="2">More than 50 per cent of successful CTD projects transition to ADF service by the end of 2009.

More than 75 per cent of successful CTD projects transition to ADF service by the end of 2011.

Non-Defence spending on defence-related R&D in Australia increases as a proportion of turnover for top ten defence prime contractors.</td></tr>
<tr><td>Initiate a program of joint defence research ventures between DSTO, industry, universities and other public research bodies.</td><td>Establish a Defence research venture activity by the end of 2007.</td></tr>
</table>

DEFENCE AND INDUSTRY WORKING TOGETHER

Strategy Objective	Key Initiatives	Actions	Milestones	Benchmarks
Improved Defence and industry relationship.	The Defence Procurement Reform will continue the process of professionalising the Defence Materiel Organisation (DMO) and streamlining the acquisition process. The Government will look closely at the outcome of the *Procurement Improvement Program* (PIP) consultation to ensure that Defence's procurement processes have no unintended consequences and are as streamlined and efficient as practical. Communication between Defence and industry will be improved by an annual program of Defence and industry roundtables and a new confidential channel for industry to express their views of dealing with Defence. In addition, a reconstituted ministerial-level *Defence Industry Advisory Council* (DIAC) will meet annually.	Establish ministerial level DIAC.	The membership and charter of the DIAC to be agreed by fourth quarter 2007.	Industry satisfaction with the Defence relationship is at least 60 per cent by the end of 2007. Industry satisfaction with the Defence relationship is at least 75 per cent by the end of 2009 The proportion of DMO personnel with recognised relevant qualifications increases each year.
		Continue the process of procurement reform.	DMO-Industry CEO / SME PIP roundtables during the second quarter of 2007.	
		Establish an annual program of Defence and industry roundtables with selected primes and SME. The roundtables will be in an informal setting and held in capitals and major regional centres	Defence and industry roundtables held annually, commencing in 2007.	
		Establish Defence product-specific focus groups between industry and Defence users, so suppliers can improve the effectiveness of the goods and services they provide to the ADF.	Hold Defence-led focus groups with contractors in two product-specific areas by the end of 2007.	
		Establish a confidential channel for industry to express its views on Defence.	Confidential feedback mechanism established by third quarter 2007.	

	A Defence and industry secondment program will be trialled in the second half of 2007 with the objective of improving understanding between Defence and industry personnel. Industry will have access to end-users through Defence-led focus groups so that they can receive the feedback necessary to improve the effectiveness of the goods and services they provide to the ADF.	Trial a Defence/industry exchange program.	Arrangements for the first Defence and industry staff exchange to be in place by third quarter 2007.	
		Seek industry nominations to attend the Defence Business Acumen courses.		
		Continue the Professionalisation of the DMO work force.		