Election 2025:

Defence Industry Policy

March 2025

Key recommendations

Defence industry funding levels

Ensure secure and sustainable funding programs for Australian defence industry that are aligned to the requirements identified in the National Defence Strategy (NDS) and Integrated Investment Program (IIP).

Critical workforce issues

Develop a national workforce development strategy aligned to the future needs of the ADF, Defence and defence industry.

Development of the defence industrial base

A comprehensive approach to build the defence industrial base to support the NDS, the capabilities outlined in the IIP and the surge capacity required in times of conflict.

Procurement reform initiatives

Continue existing procurement reforms to deliver simplified and more efficient outcomes for both Defence and defence industry.

Ambiguities in implementation of the legislation

Clearer legislation, enhanced oversight, and a cost-benefit analysis to address regulatory burden and prevent increased costs and delays.

The challenge

Australia's defence industry is crucial to the nation's security and prosperity, with every Australian having a stake in the capability Australian Defence Force (ADF). Australia finds itself at a critical strategic juncture, navigating a rapidly evolving global security environment.

As generally acknowledged, Australia is facing the most challenging strategic outlook since the Second World War. In this environment, the defence industry's role becomes more pivotal than ever before.

The AUKUS partnership represents a key shift in our defence posture. It necessitates a substantial expansion in capability, infrastructure, workforce, and industrial capacity. The demands of AUKUS Pillar 2 technologies require rapid innovation and acquisition at an unprecedented pace, putting pressure on Australia's defence industry to adapt and deliver.

A robust defence industrial base is critical for Australia's security. It ensures the swift mobilisation of resources and supports the seamless operation and sustainment of defence capabilities. The challenge is clear: Australia must rapidly strengthen its defence industry to meet both the immediate and long-term needs of the ADF, ensuring our nation's security in an increasingly volatile world.

Priority areas for action

Defence industry funding levels

The recently announced National Defence Strategy (NDS) and the Integrated Investment Plan (IIP) lay out a pathway for the defence and defence industry capabilities which Australia needs over the next decade. The success of these strategies relies on appropriate, sustainable and reliable funding pathways that provide a foundation for investment in current and new defence capabilities.

While there is much focus on aggregate levels of defence spending, of particular importance is the resourcing dedicated to defence industry. It is the funding for defence acquisitions and sustainment activities which supports Australia's current defence industry capabilities and provides the foundation for investment in the new capabilities identified in the NDS and IIP.

In recent years, needed capability uplifts in defence workforce, security, and estate have required an increase in the funding dedicated to these activities. While these uplifts are critical, it is important that they do not come at the expense of secure and sustainable funding pathways for the acquisition and sustainment activities which support defence industry.

The funding allocated to nuclear-powered submarines and associated infrastructure represented under the AUKUS partnership is a significant budgetary commitment. This is an important and transformative project for Australia's industrial capabilities and strategic posture.

However, it is equally important that funding levels for other branches of defence industry are maintained at appropriate levels to support the ADF's broader capability requirements.

Critical workforce issues

Workforce challenges remain one of the most critical issues facing Australia's defence industry. These include the need to establish a strong pipeline of skilled and experienced personnel, pressures from rising wages, and intense competition for talent across other sectors. Tackling these challenges is essential to equipping the defence industry with the human capabilities required to navigate an increasingly complex strategic environment.

A sustainable talent pipeline from the education system into Defence and the broader defence industry will be key to addressing workforce gaps. Initiatives focused on attracting, training, and retaining skilled personnel are vital for ensuring the long-term strength of Australia's defence and national security capabilities.

The establishment of the Maritime Workforce and Skills Council is a commendable step forward. This initiative has demonstrated promise in addressing the maritime sector's workforce needs, and its approach provides a valuable framework. Expanding this model to encompass a national workforce development strategy for the broader Defence capability ecosystem, underpinned by strong industry leadership, could deliver a coordinated, unified approach to workforce planning. Such a strategy would help ensure a steady flow of skilled professionals into critical roles. It is important that any such model is closely integrated with existing national skills and workforce architecture through Jobs and Skills Australia and Jobs and Skills Councils.

Building and sustaining the right workforce is fundamental not only to the effectiveness of Defence operations but also to the resilience of Australia's defence industry. With the strategic environment continuing to evolve, addressing workforce challenges must remain a priority.

Development of the defence industrial base

A comprehensive, long-term approach is essential to building the defence industrial base required to support the National Defence Strategy, the Integrated Investment Plan (IIP), and the surge capacity needed in times of conflict.

The Defence Industrial Development Strategy (DIDS) has provided a degree of certainty, particularly with the introduction of new Sovereign Defence Industrial Priorities. However, it reflects a continuing reliance on piecemeal defence industry policy. Without an overarching strategy, it remains dependent on short-term initiatives, such as grant programs, rather than establishing structured, long-term acquisition pathways.

In December 2023, Ai Group, in partnership with the Australian National University, released the report *Defence Industry in National Defence: Rethinking the Future of Australian Defence Industry Policy*. The report offers key recommendations to transform Australia's defence industrial landscape and enhance its ability to support the ADF and national security:

i. Recognise the Australian defence industry as a capability in its own right, rather than as a mere input to Defence operations.

ii. Integrate the defence industry into Australia's broader national industrial structure and policy.

iii. Strategically prioritise and support defence industries to achieve both scale and surge capacity.

iv. Leverage the full range of government policy tools to shape defence industry outcomes.

v. Establish a Defence Industry Capability Manager to define and develop the capabilities and capacity needed to meet government-determined preparedness levels.

Greater industry engagement and consultation would strengthen the development of defence industry policy and enhance the implementation of the DIDS. Such collaboration would help ensure policies are informed, well-rounded, and capable of addressing the sector's long-term requirements.

One of the strengths of the DIDS is its emphasis on supporting defence exports, particularly through initiatives like Team Defence Australia and AUSTRADE. However, further efforts are needed to enhance Government-to-Government advocacy and support for Australian defence exports. A cohesive export strategy, paired with consistent and effective advocacy from the government, will enabling investment decisions that align with government priorities.

Procurement reform initiatives

Recent Defence's steps in procurement reform are welcome in industry. Efforts to reduce procurement documentation, introduce minimum viable capability concepts, and the ongoing development of 'CASG 2.0' have all improved procurement processes for both Defence and industry.

Nonetheless, further procurement reform is essential for impactful improvements. Key recommendations include simplifying tender processes by focusing on core information, as well as ensuring reductions in initial documentation doesn't simply push the requirements into subsequent contract negotiations. Early engagement with industry will help clarify requirements without causing delays.

The transformation to CASG 2.0 is an essential step toward a more effective acquisition and sustainment process. We believe that industry can play a crucial role in shaping key aspects, including the professionalisation of CASG, the review of ASDEFCON templates, and the implementation of the Defence Digital Engineering Strategy. It would also be helpful to have published timeframes and milestones for the changes.

The DIDS' focus on Minimum Viable Capability (MVC) and Minimum Viable Product (MVP) is a positive step, but progress must be accelerated to meet the scale of the challenges ahead. We recommend an independent review which should analyse MVC requirements to ensure uniformity and speed of implementation.

Regulatory reform

Reform of the US ITAR system and development of a 'licence-free environment' in the AUKUS context is a positive step for industry. The previous ITAR system has been long held as a roadblock for Australian industry to engage with US partners and showed little prospect of reform.

However, there are still issues that defence industry is working through to ensure compliance with the amendments to the *Defence Trade Controls Act*.

There has also been an overall uptick in regulation of the industry – through the *Securing Australia's Military Secrets Act*, additional security and exports legislation, as well as changes to contracting arrangements. Despite the need for these additional regulatory changes, the combined is a mounting body of regulatory burden on industry. This increases compliance costs, and ultimately results in slower and higher-cost delivery of capability into service.

It is therefore essential that there is strategic oversight of the overall level of regulatory burden imposed on defence industry, and that a full accounting of costs and benefits are undertaken when new regulatory changes are introduced.

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About the Australian Industry Group

Ai Group and partner organisations represent the interests of more than 60,000 businesses employing more than 1 million staff. Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the broader economy through national and international supply chains.

Our purpose is to create a better Australia by empowering industry success. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international), we have the resources and expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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