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## **Defence Industry in National Defence: Rethinking the future of Australian defence industry policy**

**Speech by Innes Willox, Chief Executive, Ai Group**

**Monday, 18 December 2023 Auditorium, Research School of Social Sciences, The Australian National University**

Good Morning Ladies and Gentlemen,

Today, it is with great pleasure that we officially launch the Report – *Defence Industry in National Defence: Rethinking the future of Australian defence industry policy*.

I am delighted to be here alongside our co-authors and colleagues from the Australian National University, including Professor Brian Schmidt and the ANU report lead, Professor Stephan Fruehling.

This, I know, is Brian's final week of a stellar term as the vice chancellor of the ANU. Thank you so much for your contribution to Australian learning – something we know will continue into the years ahead with your new role at this august institution. And thank you for making Australia your home.

I would like to thank all of those involved in the development of this Report, including the Ai Group and ANU teams, and all those who provided their expertise, skill and knowledge to informing the Report.

I would especially like to recognise Ai Group's head of defence and national security, Kate Louis, and Jeff Wilson, Ai Group's head of research and economics, as well as other members of the Ai Group team who contributed to this important work.

Australia stands at a critical strategic juncture.

We are navigating the complexities of the Australian defence landscape, threats of a major conflict, the challenge of shifting and volatile geopolitics and the urgent task of equipping and sustaining them our Australian Defence Force to fight and win.

If and when we engage in conflict we want and need our war fighters to win. That is the bottom line.

The Indo-Pacific presents us with significant strategic challenges, and the very real risk of a major conflict. The evolving defence environment, as highlighted in a range of recent defence policy statements, underscores the urgency for strategic re-evaluation.

The 2023 Defence Strategic Review declared that our current defence structure is 'not fit for purpose,' signalling a return to fundamentals and a first-principles approach. That was a sobering conclusion. Not fit for purpose.

According to the review, the end of a prolonged warning time for a major attack now "necessitates an urgent call to action, including higher levels of military preparedness and accelerated capability development".

We no longer, if we ever had, have the luxury of time to prepare our defence. Time is not on our side. It is not our friend.

We think this is recognised. The AUKUS trilateral security partnership hit another major milestone last week when legislation to enable the AUKUS agreement passed the US House of Representatives.

This is a major achievement. It was not easy to get this done. We need to recognise this effort and thank those who negotiated our way through the complexities of the House.

The legislation enables the sale of a minimum of three Virginia-class submarines to Australia, eases export controls, and allows Australian defence contractors to undergo training in the United States.

The AUKUS partnership further propels us into a new era, demanding a substantial boost in capability, infrastructure, workforce and industrial capacity to support nuclear-powered submarines. AUKUS Pillar 2 technologies require rapid adaptation, innovation, and acquisition at an unprecedented pace.

In times of potential conflict, a robust industrial sector becomes increasingly critical, ensuring the swift mobilisation of resources and the smooth operation and support of defence capabilities. In this context, the launch of today's report comes at a very important time for Defence and the Australian defence industry.

The Australian Government has adopted the concept of 'National Defence' as a new approach to Australia's defence planning and strategy. As the Report notes, while many reforms will be required to implement this concept, building and maintaining Australia's defence industry capability is one of the most important.

The Defence Strategic Review calls for building enhanced sovereign defence industrial capacity in key areas, but it is largely silent on what kind of defence industry this requires, or how these requirements can be met.

The Report we are launching today focusses on these key questions. Industry must be a fundamental element of National Defence, deeply embedded in that concept and the underpinning defence planning and strategy. We have no option and no alternative.

To inform the role of industry as a fundamental part of National Defence, the Report draws on observations from five peer countries: Canada, France, Israel, Sweden and the United Kingdom. The case studies identify how other governments think about the role of industry in defence, and how industry capabilities are built to meet government requirements.

Kate will shortly provide us detail on the Report's findings and recommendations, however I wanted to highlight some aspects of the Report, particularly from my perspective as Chief Executive of the Australian Industry Group.

A key recommendation of the Report is that the Australian defence industry should be considered a capability in its own right, and an important underpinning of National Defence.

Rather than being seen as a resource that can be captured separately in a stand-alone policy, industry should be considered a capability that supports the force-in-being, but whose strategic value also lies in the ability to expand and rapidly scale to meet operational needs in times of conflict.

Secondly, Defence industry should be embedded within and managed as part of Australia's broader national industry structure and policy.

Since 2022, a suite of new industry policies has been announced by the Commonwealth Government, including the \$15 billion National Reconstruction fund, which correctly and pleasingly identifies Defence as one of its priorities.

However, our defence industry should not be considered as 'just another sector to be targeted by industry policy'. Previous major conflicts have shown that integration with broader civilian industry is required if production at scale is to be achieved.

In a time of conflict, or looming or potential conflict that is what we want and need. Scale. Scale is essential if we are to be able to quickly develop the capability we need to meet the challenges we face.

Embedding Defence industry in this way into the broader civilian industry capability Australia has is crucial. This is even more crucial as we move further into the age of digitalisation where speed and the ability to manage complexity are paramount. Think big data analytics, cloud computing, advanced robotics and, of course, artificial intelligence.

If we are to compete and win, we must develop, train and empower industry and its workforce in the skills of the now and the future. In the world we live in, we have no alternative.

We believe this report is a crucial point in the decision-making process on how we defend and protect ourselves.

The Report contains important recommendations in relation to:

- strategic prioritisation of critical defence industries, with the ability scale these areas through co-ordination of programs; the development of export markets and building international partnerships;
- Government use of the full range of policy levers to shape defence outcomes and strategic partnering arrangements; and finally
- appointment of Defence industry capability manager – a defence industry czar if you will – to define the capability and capacity of the industry the government needs to develop. This role must be held by a person who knows industry and defence and who recognises the need for speed to get the two to work together now and into the future as our strategic environment invariably evolves.

In summary, the Report we are launching today seeks to initiate a national conversation on reshaping Australia's defence industry policy. In this time of strategic uncertainty.

There could be no matter of greater importance than equipping the men and women of the ADF with the best capabilities, and we need a powerful Australian defence industrial base to support just that.

I commend the Report to you.

Thank you very much.

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