

Developing Australia's defence industrial base – a time for urgency, optimism and action

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Thank you for the kind introduction and thanks to everyone for being here.

The Nioa business started small – selling sporting firearms in the corner of a service station in regional Queensland 50 years ago.

It has now grown to be the largest Australian-owned supplier of munitions to the Australian and New Zealand defence forces.

In Australia we operate half of the Australian Government owned munitions facility in Benalla Victoria where, with partners like Rheinmetall and Northrop Grumman, we have privately invested in establishing medium calibre cannon ammunition and 120mm tank ammunition production lines.

We are the prime contractor for a range of Defence programs including:

- The Army's future family of artillery ammunition.
- The Major Munitions Contract which covers supply and the option for domestic production of over 70 natures of ammunition from 20 different international factories.
- Tranche 1 of the Army's Lethality program which is modernising weapons for the men and women of the ADF.
- And the Army's Light Weight Automatic Grenade Launcher program.

We have recently built a greenfield state of the art 155mm Artillery shell forging factory in my hometown of Maryborough Qld with our joint Venture Partner Rheinmetall.

A few weeks ago, we announced an agreement with L3 AeroJet Rocketdyne to explore the establishment of a multi-user rocket motor production facility in Australia to support domestic and allied missile production.

We established and own the Australian Missile Corporation which is principally a collaboration platform for now more than 350 Australian and international companies.

Earlier this year we acquired US based Barrett firearms, which supplies all of the sniper rifles to the U.S. military and exports to over 70 State Department approved countries around the world.

This month we became the first Australian company to ever be granted tenancy at the U.S. Government's Picatinny Arsenal, where the US munitions industrial base and research and development programs are run for all conventional weapons and munitions.

So, with that background you can imagine that I have been relishing the prospect of speaking at the National Press Club in Canberra on this topic!

The state and shape of Australia's defence industrial base is something which impacts on our shared future as Australians.

Today I'm calling for urgent action to strengthen Australia's national security.

For years I have been observing what Australian policy documents rather dryly call a deterioration in our regional security.

Europe is enduring the largest and most destructive war in generations.

The Middle East is in turmoil.

In the Indo-Pacific region a large authoritarian power, China, is challenging the status quo, seeking regional domination.

This is the world we face. It's not surprising people make analogies with the late 1930s.

Industry leaders could sit back and wait for the Government and Defence to develop a new set of industry policy settings to respond to these challenges.

But rather than leaving all the heavy lifting in this policy area to the department and government, we thought it would be better to provide some constructive inputs to the public debate, and the policy making and decision making in this important space.

That's why I got together with a group of like-minded Australian companies to produce the report we are releasing today. My speech summarises the detailed work and recommendations it contains.

We are Gilmour Space Technologies, Austal, Macquarie Technology Group, the NIOA Group and the Australian Industry Defence Network.

We represent the best locally developed defence capabilities and technology in Australia.

We span Defence, national security, space, national and regional resilience capabilities.

And we are here to make the case that the government needs to do more to create the foundations for an industry resurgence in Australia.

The report sets out a pathway to building genuine sovereign capability in defence industry.

This pathway would enable Australian medium and small companies, each with innovative, potentially world-leading capabilities marshalled together by an Australian prime to generate robust, resilient capability for Defence.

We're not looking for handouts, and we're comfortable that Australian companies succeed or fail on our own energy and capabilities.

None of us, frankly, have been the beneficiaries of past industry policy largesse, nor do we look for it.

But, as Australian companies deeply concerned about the national security outlook, we do look to government to make it **possible** for Australian industry to succeed.

The government has the power to deliver this outcome. Government sets the rules and makes the decisions. It needs to create the signals to which industry can respond.

As Winston Churchill urged the Americans in 1941 "Give us the tools and we will finish the job."

In our case the tools are the conditions that will allow strong Australian owned and run defence prime companies to emerge.

The timing is urgent because of our difficult national outlook.

The risk of conflict is real.

Even our most trusted security partners will be stretched in the event of a regional war.

So, Australia must have more independent capacity to defend ourselves and to be a strong partner with our allies in collective defence.

To be clear, independent capability and industrial collaboration with our allies are not competing objectives, they can certainly be one in the same.

Dr Bill LaPlante, the U.S. Department of Defence's under-secretary for Acquisition and Sustainment has been clear about the need for Allies to boost production to alleviate the drain on the struggling US supply chain.

He is calling on allies to build factories, establish industry partnerships, set up co-production, co-development and co-sustainment initiatives and support the notion of forward deployed logistics for the combined allied effort in contested regions.

This is the American defence industry policy response to a deterioration in global security. Because of the closeness of our alliance, it will rightly drive industry policy change here too.

But, while we step-up to that challenge, we must also focus on our own defence needs, being sovereign, being more self-reliant, able to draw on our own defence industry capabilities.

We must be more like Ukraine – able to generate and employ military force for our defence with support from other partners.

We need a ***national*** defence industry policy. Industry policy for our nation's defence is no longer the Department of Defence's industry policy alone.

It must be directed by government and designed and delivered by central departments including Treasury and Finance, as well as the Department of Industry, Science and Resources with the Department of Defence.

And let's be clear. You can't develop a successful defence industry policy without talking with defence industry. We need to be a larger part of this conversation.

The Australian military needs access to the growing number of new and powerful defence and dual use systems developed by Australian companies or that can be on-shored by Australian companies.

Like the technology we see in use by Ukraine, including Australian systems like the SYPAQ drones and EOS and Defendtex counter drone weapons.

But the many innovation grants and capability demonstrators will not grow the capabilities our Defence Force needs.

Actual supply and production contracts of four years or longer between Defence and Australian medium and small firms are needed.

They build capacity, workforce, skills and incentivise new participants.

The Australian military needs increased assured access to key consumables of war including munitions and missiles.

Stockpiling and local assembly of these supplies from foreign firms may be necessary but that level of dependence on foreign supply is not a complete solution.

The ADF needs access to assured flows of these supplies, not to tiny stockpiles that won't last long in a conflict and will be impossible to restock if our friends and allies are equally hard-pressed.

This is key to our economic and national security and frankly our obligation to support the broader Allied effort in maintaining peace.

We need government to put a strong priority on Defence building direct contractual, trusted partnerships with Australian medium and small firms who deliver complete systems and services.

Defence must reshape its contractual and procurement policies – and behaviours – to enable this.

The risks to reliable supply of our military in a time of crisis from relying on open competitions appealing to the global market are obvious.

Instead, assured and resilient supply and rapid fielding of innovative capability should be the Government's overriding priorities for defence industry.

They should be the key criteria driving decisions on how the defence budget is spent.

Nations like Israel and Sweden – both much smaller than Australia – have vibrant domestic defence industries that not only provide their own militaries with essential military capabilities, but provide their friends and allies including Australia and the US with systems we need.

Detractors will point to unique challenges that exist for Australia right now as we contemplate how to match countries like Sweden and Israel that are decades ahead of us on this journey.

One such challenge is the ADF's recent switch to a requirement for much of their equipment to be interchangeable with Allies rather than simply interoperable.

That often leads to a decision to simply buy American.

Combining this requirement with the broader objectives of building domestic Australian production presents an opportunity for Australian companies to lead local industrialisation activities. This will allow us to build the necessary scale to not only produce interchangeable products locally, but to also develop uniquely Australian products, technologies, and supply chains.

To capture value for the nation, we must have Australian company's lead these initiatives.

In parallel, we need more rapid evaluation of systems and solutions from medium and small firms, followed by equally rapid contracting if we are going to deliver what the ADF needs.

Defence decision making needs to operate to deliver real military capability at orders of magnitude faster than the current processes.

It can take four and more years for contracts to be awarded let alone for capability to be fielded.

Defence must fully act on the direction in the Defence Strategic Review to adopt 'minimum viable capability'.

That means don't take years aiming for perfection.

Iterative development building on success and learning from failure is preferable to spending years seeking perfect technical solutions.

Long timeframes are only appropriate for high end exquisite systems like advanced fighters, submarines and major surface combatants.

For almost all other systems provided by Australian companies these long time frames should not apply.

Defence's interaction with Australian medium and small firms must also recognise that cashflow is essential for business viability.

Reasonable profits and a strong balance sheet enable these firms to deliver and develop more successful capabilities for our military.

We are recommending today that a new budget provision should be within Defence's investment plan specifically to buy from projects run by Australian-owned firms.

I mean companies headquartered and operating in Australia. These companies will have Australia as their core priority, in times of crisis.

That's not true of firms headquartered and operating in the jurisdictions of even our most trusted partners, who will be **required** to put those nations' needs first.

Contracts should be directed to companies with a track record of successful delivery.

We need direct working relationships between military users of equipment and the Australian industry folk who design, make, supply and maintain the equipment.

"Middleware" that is, processes and bureaucracy, must be eliminated.

In fact, we have had this type of successful industry-ADF collaboration in the past.

The counter-IED (that is, road-side bombs) program that saved the lives of Australian troops in Afghanistan is an outstanding example.

Australian produced defence kit and services should be seen as complementary to what Defence buys from multinational defence primes.

And Defence must end its search for refining ever more detailed Strategic Industry Capability Priorities, followed by detailed implementation plans that take years to develop and can't be enforced anyway.

Further delays in action are likely to be the straw that broke the camel's back in terms of our struggling Australian Defence companies.

Much of defence industry planning in the past has lacked ambition and just acknowledges where the weight of Defence spending in Australia naturally goes, notably on estate and sustainment activities.

So, let's do away with these centralised planning models that cannot keep up with the pace of strategic and technological change.

I suggest that the real priority for Australian defence industry is simply: Making the 'consumables of conflict' – supplies and services essential in conflict.

These 'consumables' now include continuous supplies of what could be called 'the small, the smart and the many':

- armed and unarmed drones and other disposable systems;
- guided missiles and munitions;
- traditional supplies such as fuel, food, medical supplies and services, and deployable infrastructure, and;

- the backbone of modern military operations such as data storage, analysis and communications.
- shipbuilding also has to make this list, because being able to build, repair, replace and sustain these vessels will be something we must do should the worst happen and deterrence fail.

We need to focus on products delivering practical capabilities to military users. These will include a mix of uniquely Australian products designed and built by Australian companies and a robust onshoring effort of currently imported products to be produced in Australia by Australian companies.

Ultimately all of these products should form the base of export initiatives to provide industrial scale and support our trusted Allied partners.

Above all, Defence must embrace an openness to solutions brought by medium and small Australian firms, instead of setting proscriptive commercial and technology 'requirements' based on a limited grasp of the technology that's actually available.

Let me say that there is a lot that is good, tremendous even, in existing Defence industry capability.

It's not without reason that foreign primes come here and set up shop or partner with Australian companies to establish local capability. We have great people and technology.

The Defence Force is going through a difficult time because of changes in technology and force planning. But we shouldn't lose sight of the fact that it is a very capable organisation.

Australian owned and run industry offers a strong backbone to foreign primes wishing to operate in Australia, but it can also support the creation of our own Australian primes.

That said, change has to come.

With the statement that I am releasing today on behalf of my partner companies, we are expressing a determination to help get these new industry policy settings right.

Just like the foreshadowed National Defence policy statement we think that a whole-of-government focus on defence industry policy is needed too.

So, let me offer to you the core recommendations of our report.

I'll do that as simply and clearly as I can, pointing you to the greater detail in the study.

First, we urge the government to commit to the idea of Australian-owned and run defence industry primes and setting the right policies which will see these Australian companies emerge.

We must do this because of our deteriorating strategic outlook.

We use the term prime to mean companies with the scale and sophistication to manage large and complex projects, noting that most of our Australian defence companies are medium or small enterprises.

Let me be clear, this doesn't mean that foreign-owned primes won't be welcome.

And it certainly doesn't mean that Defence will stop buying major equipment using the United States Foreign Military Sales program.

But we cannot maintain our current level of dependence on international partners at a time when these partners are facing their own supply crises.

Australian owned defence industry primes leveraging Australian companies and trusted international supply chains will make supplying the ADF their first priority whatever the strategic circumstances.

Australian defence industry primes will become more capable partners to international primes who are an already active and welcome part of the Australian defence landscape.

If the Australian government agrees that having strong Australian defence primes is a necessary part of a strong, secure Australia, it needs to make it an explicit policy goal.

The idea was in the background of previous industry policies, like the previous government's 2016 Defence Industry Policy Statement and its Modern Manufacturing Initiative, which had defence as one of six priority areas.

But just hoping that strong Australian primes, capable of conducting large, complex defence projects, will emerge by themselves is not a strategy.

Certainly, they may emerge without an articulated policy, just as world-leading Australian defence manufacturers have exported without support from the government.

But the chance of achieving this goal will be immeasurably strengthened with clear policy and measures that empower and provide resources.

Second, we would like to see government establish an Australian Defence Industry Steering Council

Too much defence industry policy has been made in Australia **for** defence industry and not **with** defence industry.

The best way to shape defence industry policy is to bring successful Australian industry players to the table to collaborate and to have industry work closely with military users in the ADF.

The Steering Council must be drawn from leaders of companies with their headquarters in Australia and operations here and be a combination of large, medium and small Australian firms.

The Council must not become a large bureaucracy but draw on existing public service resources.

Its key value is to bring Australian industry into a trusted and senior-level policy discussion with government.

It's key purpose will be to monitor the implementation of the Australian industry policy directions outlined in the report we're releasing today and work in partnership with government to deliver against its priorities.

Of course it can have no role in deciding who gets what contracts, but it has a broader policy implementation role.

Thirdly, we need a new definition of 'industrial sovereignty' to drive government priorities.

A recent Senate committee report said that: "there is a view among some within Defence that 'built in Australia' should be the acceptable threshold for being defined as sovereign (to Australia)."

That is a risky assumption to make at a time when our friends and allies are facing immense pressures in their own defence industry systems.

When a national crisis occurs, governments will demand absolute priority support from companies headquartered in their jurisdictions and will use legal and regulatory measures to achieve this.

This is exercising sovereignty over industry. For Australia to assure its supplies in a conflict, we must have companies with headquarters and operations in Australia, where our defence needs will be the ultimate priority.

Fourth, the Commonwealth Procurement Rules must change to recognise economic security and industrial sovereignty as 'value for money.'

The Procurement rules need to explicitly support the need to build economic security with Australian industry capacity – that is, industrial sovereignty – so the ADF has assured access to what it needs in a sustained conflict. That is just as much a value for money criteria as cost.

Recommendation number five: Defence must change some core equipment procurement processes and grow direct partnerships with Australian companies.

Assured and resilient supply and rapid fielding of innovative capability should be the Government's overriding priorities for defence industry. They need to be the key criteria driving decision making on how the Australian defence budget is spent.

In a strategic environment with zero expected warning time for credible conflict, some past behaviours and mindsets are obsolete.

Big change is urgently needed. Defence decision making and business processes must now favour scale and mass, instead of the overriding focus on individual exquisite but unbelievably expensive platforms that dominate Defence acquisitions.

It must seek assured domestic supply of the consumables of conflict, instead of relying on tiny stockholdings and potentially disrupted offshore supply chains.

And rapid contracting, not based on cumbersome existing templates and procedures is essential. Defence needs direct working partnerships with Australian companies and the actual military users of their products.

Recommendation number six: Create a new \$500 million budget line at the minimum in the May 2024 Budget, growing to at the least \$1 billion a year to acquire capabilities and services from medium and small Australian companies for defence purposes.

This must represent new acquisition spending, designed to assist investment in building the pathway to sovereign defence industrial capability.

It must be new money, separate from existing activities like the Australian Advanced Capabilities Accelerator, minor capital programs, sustainment and facilities work and Australian sub-contracting to the big foreign primes in major projects.

The best defence industry policy will fail without funding. Cashflow and reasonable profit are enablers of successful product development and capability and service delivery.

Grants and demonstrator funding do not deliver this and will not grow our industrial capacity and industrial sovereignty.

Right now, I can tell you the perception in Australian defence industry is that little money is being directed to them from the Commonwealth.

Major programs involving Australian companies are being cancelled, scaled back or in-housed to grow the public service.

And government has turned away from one of the key tenets of the First Principles Review, which was to have defence personnel do only what defence personnel needed to do and leave industry to do the rest.

I look at many Australian defence companies and wonder if they will survive into 2024.

We have job losses and businesses on life support. Plans for building factories and capabilities in Australia are on hold or have already shifted to other countries where they could.

Why is this happening? Because so many reviews are stalling defence spending. Where is the sense of urgency, of responding to the strategic crisis? Where is the strategic vision to build Australian defence companies?

This new Budget funding line should be immediately available from next year's Budget and it needs to grow over the next three financial years to a minimum of \$1 billion annually.

It is to enable medium and small firms to have certainty from their key government customer so they can invest, employ, develop and deliver capabilities to the ADF rapidly.

The Albanese government has already committed to sourcing at least 20 per cent of Federal government procurement by value and 35 per cent of contracts, with a value of up to \$20 million from Australian *SMEs*.

I welcome the Prime Minister's support for Australian industry, but where is the evidence that this policy is being delivered in Defence procurement, which represents one of the largest Federal government expenditures.

People deliver what is being measured and what they are accountable for. How is this being measured in Defence procurement? And who is responsible for its delivery?

The US Defense Department features strongly in the broader US governments equivalent small business set-aside program, which resulted in over \$US160 billion spent this past year with American small businesses.

This might be an exemplar program for Australian policy makers to study.

Recommendation seven: AUKUS Pillar Two projects need to start delivering now, by putting industry to work.

Remember that Australia is intended to be a contributor to AUKUS not just a price and technology taker. In fact, there is already awesome technology resident in Australian medium and small companies which need to be brought into the AUKUS conversation.

The vision behind AUKUS is of three vibrant economies complementing each other in developing and supplying powerful capabilities to the Australian, US and UK militaries.

This vision needs to have industry as a key player in discussions and decisions with government and Defence.

We can't expect bureaucracies to lead the development of highly disruptive technologies or even identify what those technologies are.

In our three market-based economies, companies will not make investments on hope. They need certain funding from the AUKUS governments and, given this, will work to deliver against contracts.

We want AUKUS Pillar Two to deliver vibrant Australian, UK and US firms supplying and working across our national boundaries to the benefit of our three militaries and to the security of our region.

Our eighth and final recommendation is this: It is time to abandon the fruitless search for the perfect list of 'Strategic Capabilities Priorities' – long a Defence Holy Grail.

Plans like the Strategic Industry Capability Priorities (SICPs) have not kept pace with strategic and technological change.

Instead, the priorities for Australian industry in the defence sector should be to deliver the supplies and services that are essential to ADF operations.

I mentioned these earlier. These 'consumables' include armed and unarmed drones, guided missiles and munitions and traditional supplies such as fuel, food, medical material and deployable infrastructure as well as the backbone of modern military operations such as services, data centers and communications and our ship building and maintenance capabilities.

Many thanks for your attention.

These are dangerous strategic times but I assure you that Australian defence industry wants to play its part in making the ADF more ready, stronger and a more powerful deterrent force for peace and stability.

This is a time for urgency, optimism and action.

I look forward to your questions.