DEFENSE & SECURITY

Sector Report - Australia

DISCLAIMER

GLOSSARY

ADF	Australian Defence Force	**DWP**	Defence White Paper	**OPV**	offshore patrol vessel
AEW&C	airborne early warning and control	**FOC**	full operating capability	**PAES**	Portfolio Additional Estimates Statements
ALP	Australian Labor Party	**FSP**	2020 Force Structure Plan	**PBS**	Portfolio Budget Statements
ANAO	Australian National Audit Office	**GDP**	gross domestic product	**PMV-L**	protected mobility vehicle—light
ANI	Australian Naval Infrastructure	**GST**	goods and services tax	**PrSM**	Precision Strike Missile
ASLAV	Australian light armoured vehicle	**HIMARS**	HIMARS High Mobility Artillery Rocket System	**RAAF**	Royal Australian Air Force
ASW	antisubmarine warfare	**ICT**	information and communications technology	**REDSPICE**	Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers
ATACMS	Army Tactical Missile System	**IFV**	infantry fighting vehicle	**SIGINT**	signals intelligence
AWD	air warfare destroyer	**IIP**	Integrated Investment Program	**SPH**	self-propelled howitzer
BMS	BMS battle management system	**IOC**	initial operating capability	**SSN**	ship, submersible, nuclear (nuclear-powered fast attack submarine)
CASG	Capability Acquisition and Sustainment Group	**ISREW**	intelligence, surveillance, reconnaissance and early warning	**UAS**	unmanned aircraft system
CCP	Chinese Communist Party	**LOTE**	life-of-type extension	**UAV**	uncrewed aerial vehicle
CPI	Consumer Price Index	**LRASM**	long-range anti-ship missile		
DCP	Defence Cooperation Program	**MPR**	Major projects report	**USAF**	US Air Force
DSCA	Defense Security Cooperation Agency (US)	**NATO**	North Atlantic Treaty Organization	**USFPI**	United States Force Posture Initiative
DSU	2020 Defence Strategic Update	**NSM**	Naval Strike Missile	**USV**	uncrewed surface vessel
		OECD	Organisation for Economic Co-operation and Development		

Table of Contents

About this report

◆ This report is designed to give a market overview of the **Defense and Security** sector in Australia, covering the following key areas:

◇ Current trends
◇ Key players
◇ Market structure
◇ Major spending and procurement activities
◇ Key local legislation
◇ Market access

◆ This report will explore the following designated subsectors:

◇ General defense & security

◇ Unmanned

◇ Cyber

◇ Maritime

◇ Training

Executive Summary

◆ Foley & Associates represents the Commonwealth of Virginia, USA as their Authorised Trade Representatives in Australia and New Zealand.

◆ This report has been produced by Foley & Associates for the Virginia Economic Development Partnership (VEDP).

◆ The objective of this report is to provide VEDP with actionable market intelligence that can be used to further assist Virginian exporters access the market and win business in Australia.

◆ This report provides an overview of the **Defense and Security Sector in Australia** with a particular focus on six key topic areas.

Foreword

"Australia's geo-strategic environment underscores the need for a robust, sovereign and internationally competitive defence industry base. That is why the Australian Government is committed to building a genuine, long-term partnership with defence industry, large and small, both locally and internationally."

The Hon Richard Marles MP
Deputy Prime Minister of Australia
Minister for Defence

1 CURRENT TRENDS

General Defense & Security - Overview

◆ The newly-elected Labour led Australian Federal Government has confirmed its commitment to the current Defence spending plan which will see **an investment of A$270b (US$187b)** in the decade between 2020 and 2030 in new defense capability acquisitions.

◆ Australia continues to find itself in an uncertain and relatively unstable geopolitical position in the Indo-Pacific region. China is the largest power in the region and Australia's top trading partner, accounting for 26.4% of trade in goods and services.

◆ China continues to impose economic restrictions and tariffs on Australian exports, which thus has impacted the normalisation of diplomatic relations.

◆ Australia's closest allies are the United States and the United Kingdom, this relationship being further solidified by the AUKUS Trilateral Security Pact. Australia also engages heavily with India and Japan, undertaking military exercises and cooperation through the Quadrilateral Security Dialogue (QUAD).

◆ Australia is a party to the ANZUS Collective Security Agreement alongside the US and New Zealand. Australia is also a member of the Five-Eyes intelligence sharing alliance alongside Canada, New Zealand, UK and USA.

DFAT *Trade and investment at a glance 2020.*
New Zealand's involvement in ANZUS has been restricted since the imposition of a nuclear-free zone in its territorial waters.

General Defense & Security - Overview

◆ The Department of Defence continues to maintain a doctrine of operating a relatively small but highly skilled and equipped military force. There is a strong focus on connected and digitally-enabled capability, paired with an emerging emphasis on autonomy and automation within Defence and key acquisitions.

◆ Defense procurement in Australia continues to primarily be from tier-1 international suppliers, global defense primes from the United States and the United Kingdom. To a lesser extent, Australia procures equipment from tier-2 defence exporting nations including Israel, Spain and Germany.

◆ Australia is also emerging as a global defense exporter, with a particular specialisation in high-tech equipment and componentry, C4ISR, cyber and amphibious product verticals. Australian defence services exports are also in high demand. Australia has vast weapons testing and tracking ranges which are used by global defence players for research and development.

General Defense & Security – Export Trends

Estimated Value of Defence Industry Export Permits

AUD billions

- FY14: 1.63
- FY15: 4.2
- FY16: 1.11
- FY17: 1.55
- FY18: 4.9
- FY19: 5.35
- FY20: 2.72

Source: Department of Defence - Defence Export Controls. Note Australian FY July – June.

◆ The overall value of controlled defense exports had been steadily growing since FY16.

◆ This can be attributed to the strong focus the previous Liberal government had on boosting the domestic defence industry.

◆ The export potential of the local defense industry has been enhanced by the Federal Minister for Defence Industry, as well as agencies such as Austrade and Export Finance Australia.

◆ The COVID19 pandemic approximately halved the total value of controlled Defence exports. However, from our internal analysis of activity in the defense export space, we expect a strong recovery in the value of Australian defence export permits.

General Defense & Security – Export Trends

Defence Export Permit End-User Locations

Pie chart segments:
- 2%
- 4%
- 17%
- 17%
- 20%
- 24%
- 16%

Legend:
- Africa
- Asia
- Australia
- Europe
- North America
- Oceania
- South America
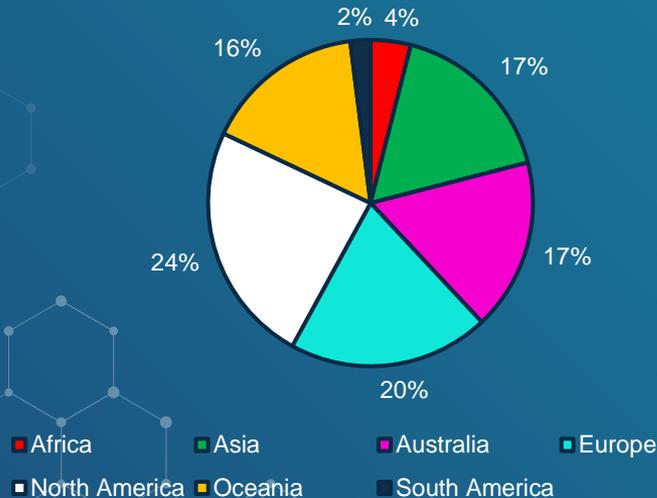
Source: Department of Defence - Defence Export Controls

◆ The United States is the key target market for defense related exports from Australia.

◆ North America and Europe are the largest importers of Australian defense related goods and dual-use technology, making up 24% and 20% of annual Defence Export Permit recipients, respectively.

◆ Australian end-users also receive Defence Export Permits, to cover future export actions and third-party sales. They account for 17% of annual recipients.

◆ South East Asian countries like Singapore make up 17% of defense export permit end-user locations. Oceania, including New Zealand and Pacific Island countries, make up an additional 16%.

General Defense & Security – Financial Trends

Australia defence budget 2015-2030
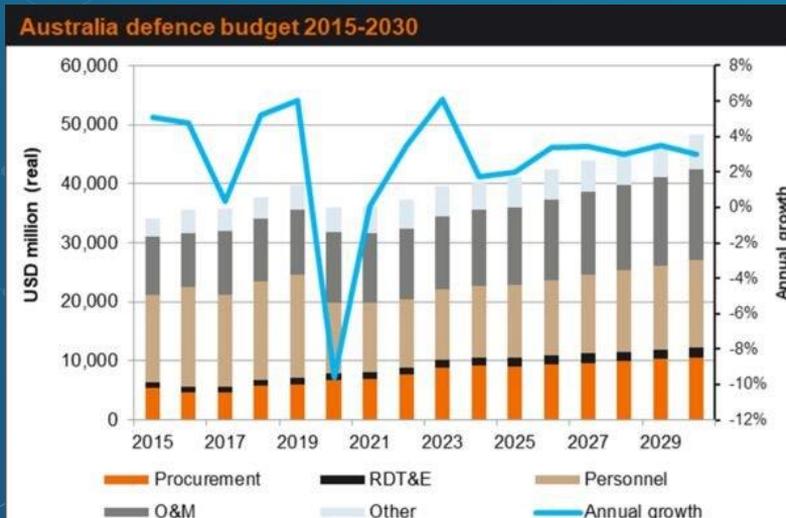
◆ Australia's defense expenditure has been growing between 2% and 4% per annum.

◆ Australia's defence spending, as a percentage of GDP, is the highest since the Cold War.

◆ Australia's deteriorating strategic military environment, primarily in the Indo-Pacific region has renewed focus and funding for Defence.

◆ Australia is engaging in several 'once-in-a-generation' platform wide upgrades, with the introduction of entirely new, advanced capabilities and has committed to greatly enlarging its Defence workforce. Further details are available in the **Major Spending & Procurement** section of this report.

Source: World Bank, Janes, Australian Financial Review.

General Defense & Security – Financial Trends

Defense Expenditure – Peers

% of GDP

6 — 5 — 4 — 3 — 2 — 1 — 0

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

— Australia   — United States   — United Kingdom
— Canada   — Japan   — India
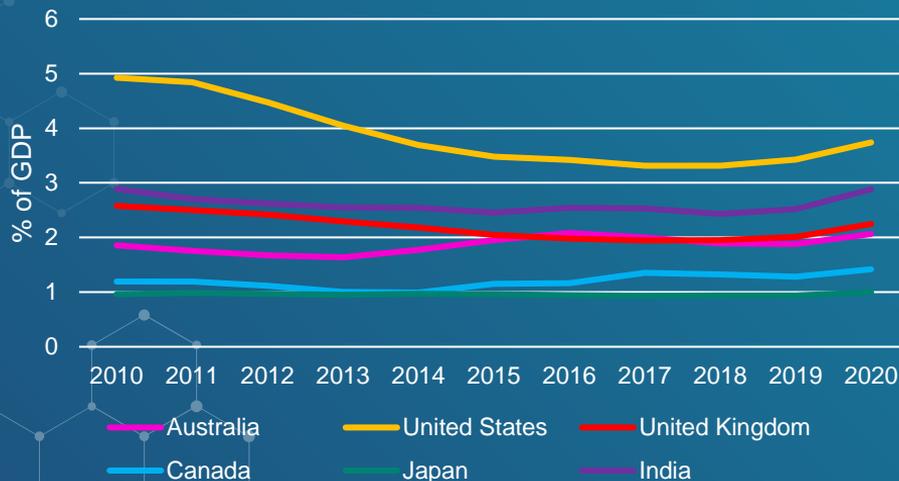
Source: World Bank, Janes, Department of Defence, Australian Financial Review.

◆ Defence expenditure is now above 2% of GDP, which is now the accepted standard for NATO and other Western allies.

◆ There was discussion in the previous Liberal Government around pushing defense expenditure even higher, to approximately 3% or even 4% of GDP in the near term, primarily as a result of the AUKUS alliance and the new Australian nuclear attack submarine program.

◆ Under the new Labour Albanese Government it is still unclear as to whether this new standard for defence spending will be maintained or tapered. The first Labour budget update is expected in October 2022.

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Unmanned Systems – Overview

◆ The development and fielding of artificial intelligence solutions and autonomous systems have been identified as urgent priorities for the Australian defense force across all three service branches.

◆ The ADF have developed the *Concept for Robotic and Autonomous Systems (RAS)* which is a guiding framework for Defence, industry and research partners to create a tactical and strategic advantage in the future operating environment by exploiting RAS.

◆ **The ADF is currently acquiring unmanned systems for all three service branches.** These platforms will undertake primarily ISR roles, however some platforms are also armed and will undertake combat, precision strike and deterrence roles across the air, land and sea domains.

◆ Larger and more complex unmanned systems will almost certainly continue to be procured via Military-off-the-Shelf (MOTS) approach via primarily American defense prime contractors. Australian local industry has been tapped to provide smaller drones more akin to their commercial counterparts, focusing on quick and cheap to procure intelligence gathering platforms for the squad-level combat force.

Unmanned Systems – Current Inventory Snapshot

Boeing Defence Australia MQ-29A Ghost Bat

Schiebel S100 Camcopter

Textron Systems RQ-7B Shadow 2000

Insitu-Pacific Scan Eagle

Cyber – Overview

◆ The cyber domain is of increasing importance to the ADF and has been the subject of renewed fiscal support and expansion in the most recent 2022-23 Federal Budget.

◆ Offensive and defensive cyber responsibility is that of the Australian Signals Directorate (ASD). This is an Australian government agency responsible for foreign signals intelligence, information technology support to military operations, cyber warfare, and information security.

◆ Project REDSPICE is a once-in-a-generation investment to expand the range and sophistication of Australia's intelligence, defensive and offensive cyber capability.

◆ **It is a A$9.9bn (US$6.8bn) investment over 10 years, that will significantly upgrade Australia's cyberwarfare capability.**
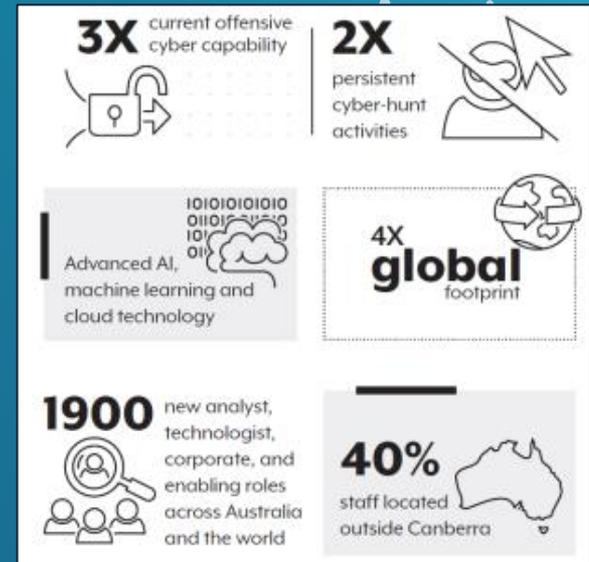
Objectives of Project REDSPICE

Maritime – Overview

◆ **Australia has committed between A$168b and A$183b (US$116b to US$126b) to establish a domestic National Naval Shipbuilding Enterprise**, which will execute the Naval Shipbuilding Plan. Under this Plan, Australia will continuously build and maintain naval vessels in-country.

◆ The Royal Australian Navy currently has the following major vessel construction activities underway or planned:

◇ Nine Hunter-class Frigates (based on the UK's Type 26 Global Combat Ship)

◇ Fourteen Arafura-class Offshore Patrol and Mine-Counter Measures Vessels

◇ Twenty Cape-class Patrol Boats

◇ Two Multi-role Sealift And Replenishment Ships

◇ At least eight Nuclear Attack Submarines

◆ The Royal Australian Navy is also expected to continue investment in key surface and undersea surveillance and combat capabilities, through weapon systems acquisitions and C4ISR and electronic warfare upgrades across the fleet.

Source: *Force Structure Plan 2020, CASG*.
At time of production, it is unclear whether the future Australian SSN will be domestically built or a foreign MOTS acquisition.

Training – Overview

◆ In March 2022 the Department of Defence announced that the ADF's size and capability would be significantly increased in response to the deteriorating global environment.

◆ As a result, the ADF will **increase its total workforce by over 30%,** reaching over 100,000 people by 2040, at a cost of some A$38b.

◆ ADF personnel will be increased in every Australian state and territory with a particular focus on capabilities associated with our trilateral security partnership between Australia, United Kingdom and United States (AUKUS), as well as air, sea, land, space and cyber capabilities and specializations.

◆ As part of Australia's core military doctrine, a significant emphasis is placed on high quality training and skills development across all three service branches.

◆ Technologically-enabled training techniques including VR and AR training solutions have been employed by all three service branches for some time now. The ADF is arguably a world-leader in this regard.

Navy Bridge Simulator
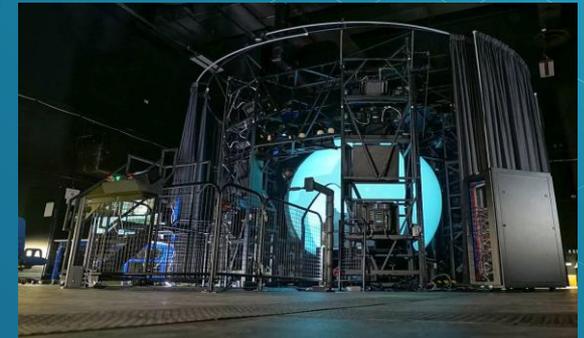
RAAF F35 Advanced Simulator

Public Sector – Federal

Australian Government
Department of Defence

◆ The defense of Australia is the responsibility of the Australian Federal Government (the Commonwealth) as per the Australian Constitution. The Department of Defence is the body responsible.

Military Services

Royal Australian Air Force

Army The Australian Army

NAVY Royal Australian Navy

Other Portfolio Services

Australian Government
Department of Defence
CASG

JOINT CAPABILITIES GROUP
FOR THE WARFIGHTER
AUSTRALIAN DEFENCE FORCE

DEFENCE INTELLIGENCE ORGANISATION

DST GROUP

ASD
AUSTRALIAN SIGNALS DIRECTORATE
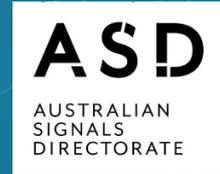
Public Sector – Federal

Export Finance Australia

- Export Finance Australia provides trade and cross-border finance solutions, including to the defense industry.
- Export Finance also administers the Defence Export Strategy and the US$3b Defence Export Facility which provides concessional loans, bonds, guarantees and letters of credit.

Australian Trade and Investment Commission (Austrade)

- The Australian Trade and Investment Commission is the Australian trade, education and investment promotion agency.
- Austrade provides support to exporters via export market development grants, market profiles and trade and investment assistance.

Office of Defence Industry Support

- The Office of Defence Industry Support assists SMEs to enter and expand their footprint in the defense industry.
- It does this via advisory, guidance and mentoring services to SMEs. The Office also provides direct linkages to Defence procurement programs and other industry programs.

Defense Primes - International

◆ Australia is home to the vast majority of global defense prime contractors. Some have full scale manufacturing, development and integration activities in Australia, whereas other simply have sales or representative offices.

Aircraft & Helicopters

Armour, Artillery & Vehicles

Illustrative only. Not exhaustive.

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Defense Primes - International

Guided Weapons

Small Arms & Ammunition

Illustrative only. Not exhaustive.

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Key Players – Domestic Top 20

Rank		Company	Key activities	2021 Turnover	2020 Turnover
1	BAE SYSTEMS (Australia)	BAE Systems Australia	Prime Contracting and Systems Integration	$920m	$843m
2	THALES AUSTRALIA	Thales Australia	Platform Manufacturing, Systems Integration	$820m	$784m
3	BOEING	Boeing Defence Australia	Prime Contracting and Systems Integration	$593m	$636m
4	lendlease	Lendlease	Real Estate and Facilities Mgmt	$571m	$475m
5	BROADSPECTRUM	Broadspectrum	Facilities Mgmt	$540m	$503m
6	LOCKHEED MARTIN Australia	Lockheed Martin Australia	Prime Contracting and Systems Integration	$436m	$455m
7	Downer Relationships creating success	Spotless / Downer	Facilities Mgmt	$410m	483m
8	RHEINMETALL DEFENCE	Rheinmetall Defence Australia	Weapon Sys and Vehicles	$410m	$470m
9	ASC	Australian Submarine Corporation	Submarine Manufacturing	$390m	$360m
10	AIRBUS	Airbus Australia Pacific	Aircraft Sales and MRO	$375m	$570m

Source: Australian Defence Magazine 2021 Rankings. Turnover in USD.

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Key Players – Domestic Top 20

Rank		Company	Key activities	2021 Turnover	2020 Turnover
11		Babcock	Prime Contracting and Engineering	$340m	$290m
12		Leidos Australia	Systems Integration	$300m	$280m
13		BGIS	Facilities Mgmt	$226m	$162m
14		Northrop Grumman	Platform Manufacturing, Systems Integration	$220m	$240m
15		Kellogg Brown & Root Pty Ltd	Prime Contracting and Engineering	$202m	$177m
16		L3HARRIS	C4ISR Systems Integration	$199m	$226m
17		Austal	Shipbuilding	$191m	$156m
18		Serco Australia	Services	$180m	$170m
19		Nova Systems	Systems Integration and R&D	$165m	$127m
20		Fujitsu	IT Consulting & Cloud	$138m	$136m

Source: Australian Defence Magazine 2021 Rankings. Turnover in USD.

Unmanned Systems - Key Players

MOTS Systems

Northrop Grumman MQ-4C Triton

Schiebel S-100 Camcopter

AeroVironment Wasp AE

IAI Heron

Indigenous Systems

Boeing Defence Australia MQ-28A Ghost Bat

Insitu Pacific ScanEagle & Integrator

Anduril XL Unmanned Underwater Vehicle

Various UAV Engines and Subassemblies

Current systems fielded or in development.

Cyber - Key Players

Major Consultancies

EY   KPMG   pwc   Deloitte.

SME

ShadowLens — SECURE DATA – PROTECT PRIVACY   intrix CYBER SECURITY

Interactive®   RIØT

Defense Primes

LOCKHEED MARTIN   BAE SYSTEMS

Mid-tier

CyberCX   tesserent

technologyone

Integrators

Microsoft   IBM   CISCO

Government

ACSC Australian Cyber Security Centre   ASD AUSTRALIAN SIGNALS DIRECTORATE   Australian Government Digital Transformation Agency

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Maritime - Key Players

Major Shipbuilders

AUSTAL

Navantia Australia

ECHO MARINE GROUP

ASC

BAE SYSTEMS

N·V·L LUERSSEN AUSTRALIA

Weapons & Sensors

CEA TECHNOLOGIES

Raytheon Technologies

GENERAL DYNAMICS

HENSOLDT

EuroTorp UNDERWATER BATTLESPACE DOMINATION

THALES UNDERWATER SYSTEMS

Engineering, Systems Integration & Fitout

SAAB AUSTRALIA

NQEA ENGINEERS & SHIPBUILDERS

HALLIDAY ENGINEERING

CIVMEC

AMT Australian Maritime Technologies

New Players

THE WHISKEY PROJECT GROUP

ANDURIL

EM SOLUTIONS

C2 ROBOTICS

Training - Key Players

Air Affairs Australia

Air Affairs provides adversarial training to the RAN and RAAF using a fleet of specialist aircraft.

Bohemia Interactive

Bohemia Interactive provide virtual and tactical simulation services to the ADF.

Emergency Australia

Emergency Australia is a medical and first-responder training company that operates several advanced simulation facilities.

Lockheed Martin Australia

LMT Australia provides aircrew training to ADF pilots via the Integrated Training Solution.

Kongsberg

Kongsberg Digital provide bridge, navigation and combat simulation and training solutions to the Navy.

Cubic

Cubic has won a US$205m to provide simulation and training prime systems integration to the ADF, including remote and distributed training solutions.

Kinetic Fighting

Kinetic Fighting provides specialist combat training to frontline ADF units.

Boeing

Boeing Defence Australia is contracted to provide pilot and aircrew screening and training for ADF helicopter aircrews.

Applied Virtual Simulation

AVS provides highly advanced tactical simulation solutions for aircraft, combat vehicles, infantry and artillery scenarios.

Defense Industry Associations

Australian Industry & Defence Network

AIDN is a national networking and advocacy organization for the defense industry and primarily represents SMEs.

AMDA Foundation

AMDA Foundation Limited is an Australian not-for-profit corporation established to promote the development of the fields of aviation, aerospace, maritime, defense and security.

Defence Industry Networking

Established by Defence Industry professionals, DIN is an informal forum for industry stakeholders to meet, network and develop relationships.

Australian Defence Alliance

Australian Defence Alliance represents over 700 businesses involved in supplying and supporting Defence capabilities.

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Other

Sovereign Missile Alliance

The Sovereign Missile Alliance is a joint venture between EOS and Nova Systems. It has been selected as an Enterprise Partner to the DoD's Guided Weapons and Explosive Ordnance program.

Australian Missile Corporation

The Australian Missile Corporation is a subsidiary of NIOA. It has been selected as an Enterprise Partner to the DoD's Guided Weapons and Explosive Ordnance program.

Lowy Institute

The Lowy Institute is an independent think tank which conducts policy-relevant research about international political, strategic and economic issues from an Australian perspective.

Australian Strategic Policy Institute

The Australian Strategic Policy Institute is a defense and strategic policy think tank based in Canberra, funded by the Australian and overseas governments, industry and civil society groups.

3 MARKET STRUCTURE

General Defense & Security

◆ Defense Prime Contractors remain by far the largest winners of defense business in Australia. Defense prime contracts are often the successful tenderers for head contracts, and then sub-contract out various subsystems or projects for larger defense procurement programs.

◆ The largest Defense Prime Contractors have internal subcontracting portals, listed below:

◇ BAE Systems Australia

◇ Thales Australia

◇ Lockheed Martin Australia

◇ Boeing Australia

◇ ASC

◆ Virginian companies looking to enter the Australian defense industry should actively engage with prime contractors operating in their area of expertise or specialization. Many will hold industry briefing or networking events which can prove invaluable in making your offering known to these larger organizations.

Unmanned

◆ The market structure for unmanned aerial, ground and underwater vehicles can broadly be segmented into two main categories: advanced, MOTS solutions and less advanced, experimental solutions.

Advanced

INSITU PACIFIC
AV AeroVironment™
BOEING
NORTHROP GRUMMAN

Experimental / Startup

ANDURIL
ROBOTICS
CYBORG DYNAMICS INNOVATING CHANGE
OMEGA DEV GROUP

- Deliver established, mature MOTS unmanned systems to Defence.
- Include small, medium and large unmanned aerial vehicles, unmanned ground vehicles and unmanned water and underwater vehicles.

- Defence, through DST Group, provides 'seed' or experimental funding for small scale development of unmanned systems in the air, land and sea domains.
- These systems then inform larger scale acquisitions and develop local industry.

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Cyber

◆ The market structure for cybersecurity in Australia is heavily segregated between the government services and private sector cybersecurity companies.

◆ The Australian government takes a strongly guarded approach to its cybersecurity capability considering the seriousness of the work and the potential consequences of any breach. This is further shown by the government's record investment in further developing its 'in-house' cyber capability through Project REDSPICE.

Government and Defence

Private Sector

Maritime

◆ The market structure for the maritime sector in Australia is heavily centered around defense prime contractors and their delivery of major shipbuilding projects. Defence primes will subcontract various subsystems, components and additive manufacturing to SMEs.

Australian Government
Defence

Primes

AUSTAL   **BAE SYSTEMS**   ASC   Navantia Australia

SMEs

EPTEC   SafeMate! ANTISLIP   Norship   Survitec   DCS DEFENCE COATING SYSTEMS   trs TROPICAL REEF SHIPYARD CAIRNS AUSTRALIA

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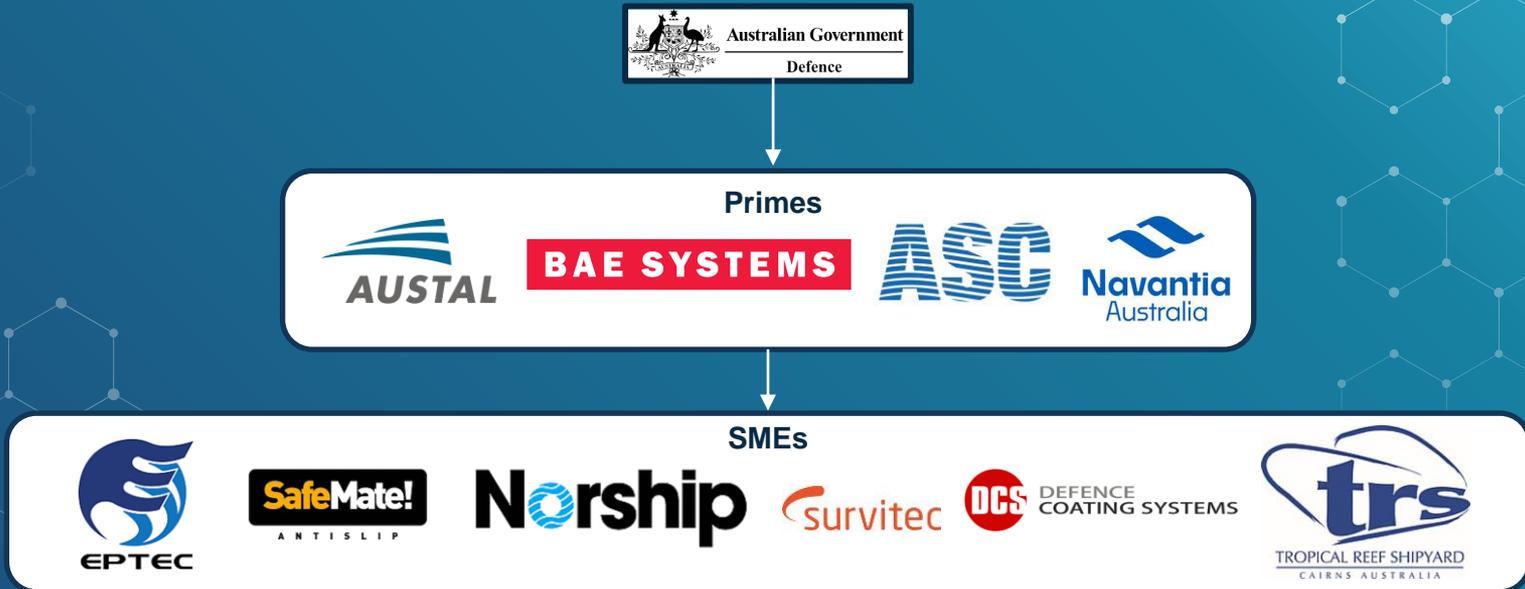
Training

◆ The market structure for the training sector is more based around the deemed operational outcomes required by each of the services. Training does not appear to follow procurement patterns observed in other areas of defense. Training can either be directly related to an acquisition project, related to an operational requirement or to develop a new capability entirely.

◆ Training services often are an integrated, or a follow-on component of large-scale acquisition projects.

   ◇ For example, the AIR6000 Joint Strike Fighter Program <u>includes a component for the provision of training</u> by Lockheed Martin, with a subcontract value of up to A$100m (US$68m).

   ◇ Sometimes the training provider selected will differ from the prime contractor for the project. For example, <u>Thomas Global Systems</u> was awarded a A$63m (US$42.4m) contract to provide training for the new M1A2 Abrams SEPv3 Tanks being acquired by Australia, even though they are being delivered by <u>General Dynamics Land Systems Australia</u>.

◆ Training is occasionally completed to meet immediate operational needs, such as <u>special warfare and tactics requirements</u>, and population protection and control for <u>peacekeeping and constabulary missions</u>.

4 MAJOR SPENDING & PROCUREMENT

Recent Spending and Procurement Trends

◆ The Australian Department of Defence is the largest procuring entity in terms of annual expenditure in the Australian Federal Government.

◆ Prior to leaving office, the former Morrison Government slated **A$48.6b (US$33.2b) for defense expenditure over the 2022-23 financial year.** This is **a growth of 7.4% compared with FY21-2**2 and is the **10th straight year of real growth in defense expenditure and equates to approximately 2.11% of Australia's national GDP**.

◆ With inflation running hot, this will start to bite into Defence's overall buying power, with the latest figures from the Reserve Bank of Australia putting inflation at 5.1%. To meet Australia's commitment to increased defense spending out to 2030, it is likely that the Defence budget in October will see significant funding placed towards key defense acquisitions.

◆ Australia tends to perform 'megaproject' acquisitions: large, multi-year or even multi-decade defense procurement activities with various subprojects or 'phases'. With this acquisition approach comes inherent risks, including the fact they often take an excessive amount of time to deliver initial operating capability (IOC), and when issues arise, they have a tendency to derail or significantly delay the entire project.

Source: Australian Strategic Policy Institute

Recent Spending and Procurement Trends

The Australian defence budget, 2010-11 to 2029-30 (nominal A$bn)
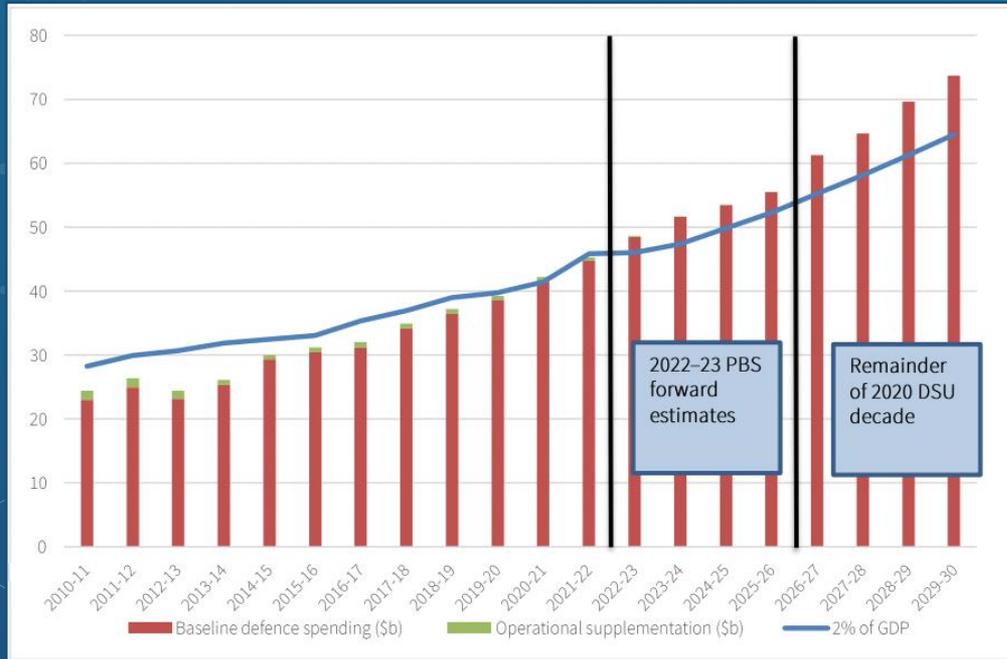
- The Labour Albanese government has supported the outgoing Liberal Morrison government's **commitment to A$270b (US$184bn) in spending on <u>new capabilities</u> out to 2030**.

- It has also supported **overall defense expenditure of A$575b (US$392b) over the next decade.**

- To meet these commitments and to deliver the desired capability in light of inflation, **defense expenditure is expected to remain well above 2% of GDP over the next decade.**

DSU: Defence Strategic Update 2020. PBS: Defence Portfolio Budget Statements.Source: Australian Strategic Policy Institute.

Recent Spending and Procurement Trends

Top 10 acquisition projects by total approved project budget (A$m)

EA-18G Growler 3,802 | MRH-90 3,795 | MH-60R Romeo 3,363
Offshore Patrol Vessels 4,632
Future Submarine 5,436
Boxer CRV 5,727
P-8A Poseidon 6,575
Future Frigate 7,066
Air Warfare Destroyer 9,094
F-35A 17,523
Other Acquisition Projects 59,615
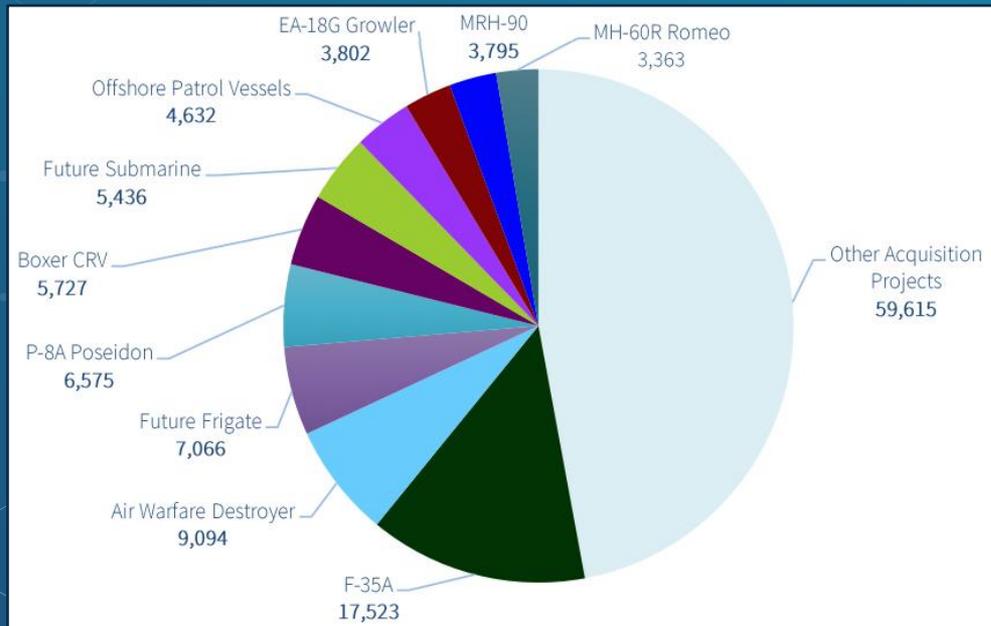
◆ By far the <u>acquisition</u> of 72 Lockheed Martin F-35A stealth fighter aircraft is the largest approved acquisition currently underway. Australia has a firm order for 72 aircraft with options for an additional 28.

◆ The Navy has received its final <u>Air Warfare Destroyer</u> and is undertaking various upgrades to software and hardware onboard.

◆ The Navy is also currently manufacturing the first of nine Hunter class frigates (based on the BAE System Global Combat Ship / Type 26 design).

Source: Australian Strategic Policy Institute

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VEDP

Recent Spending and Procurement Trends

Top 10 acquisition projects by <u>planned</u> 2022-23 spend (A$m)

Top 10 acquisition projects pie chart:
- Tactical Training Vehicles 275
- Navy Guided Weapons Sub-Program 239
- Triton 309
- P-8A Poseidon 374
- Long Range ISREW Aircraft 438
- Future Submarine 494
- Boxer CRV 520
- Offshore Patrol Vessel 585
- Future Frigate 820
- F-35A Joint Strike Fighter 1,261
- Other Acquisition Projects 5,608
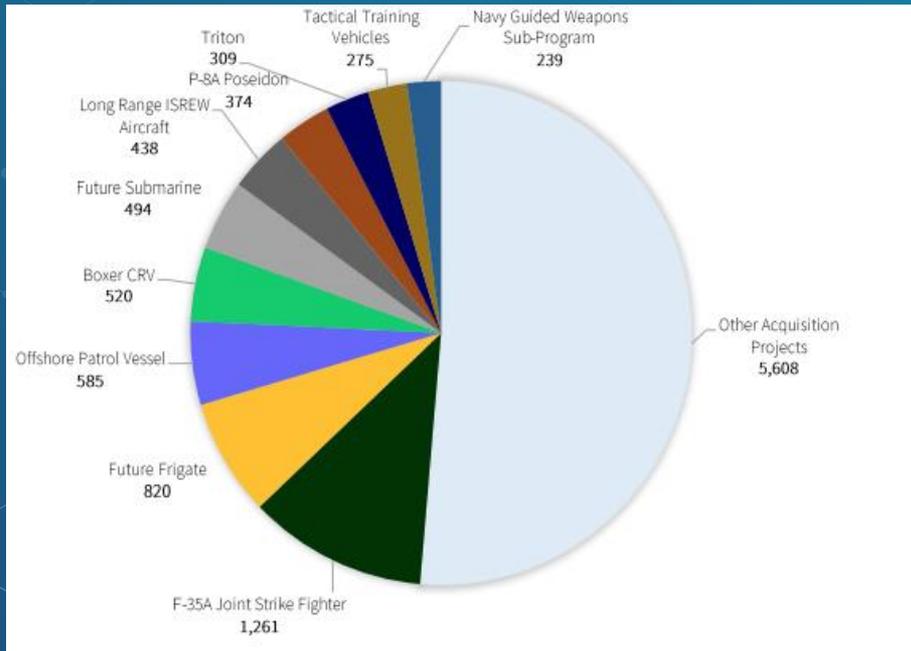
◆ This chart illustrates where Defence is planning to undertake key expenditure across its vast schedule of new capability acquisitions out to 2030.

◆ The F-35A acquisition remains the largest single acquisition expense for FY23, driven by high unit cost, associated weapons, stores, ground systems and training charges.

◆ The Navy's Future Frigate Program (Hunter Class FFG) is also in the construction phase, as is the Arafura-class OPV, requiring significant expenditure.

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Source: Australian Strategic Policy Institute

Recent Spending and Procurement Trends

Top 10 <u>sustainment projects by planned </u>2022-23 spend (A$m)
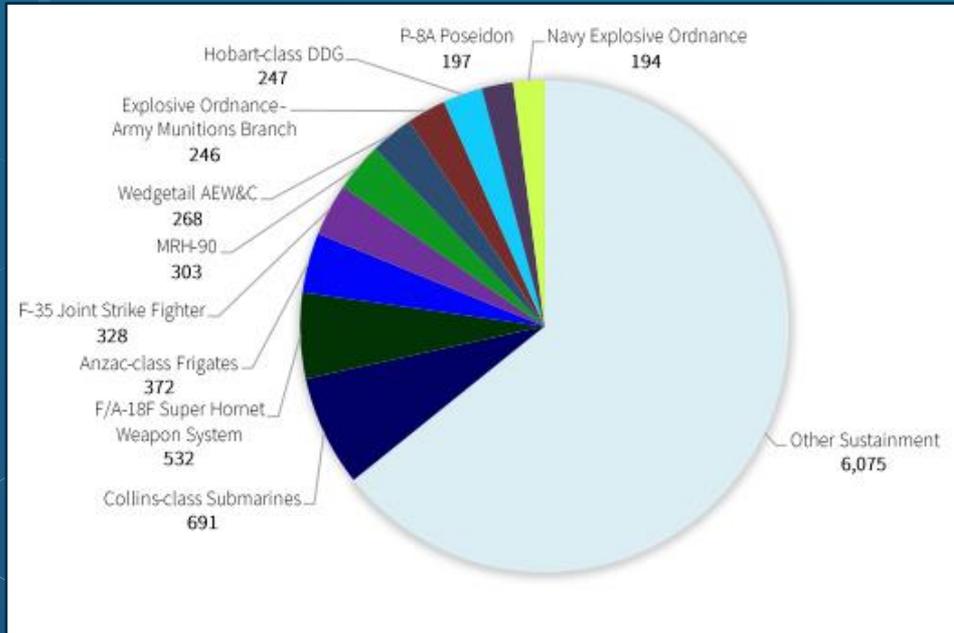
- Turning to sustainment activities, most sustainment projects are smaller scale and are either tendered via an Open Tender or via Limited Tender.

- For larger projects, sustainment activities are sometimes agreed in the initial contract with Defence.

- The largest singular sustainment project is for the existing six Collins Class diesel-electric attack submarines. This includes a <u>life-extension upgrade </u>and a <u>new optronics system.</u>

- Further upgrades to the Boeing F/A-18F Super Hornet are also being undertaken by the Air Force.

Source: Australian Strategic Policy Institute.

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Current and Future Procurement Projects

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Source: Capability Acquisition and Sustainment Group. Department of Defence.

Air Force

Medium Range Ground Based Air Defence - AIR6502 Phase 1

Status: RFP Closed

- Provision of medium range ground-based air defense capability including transporter, erector, launcher, missiles and associated radar and sensors.
- Must integrate with the existing Joint Integrated Air and Missile Defense (JAMD) capability.

Joint Air Battle Management System - AIR6500 Phase 1

Status: RFP Closed

- Defence has down selected Lockheed Martin and Northrop Grumman to participate in the next phase of the Competitive Evaluation Process.
- This solution will provide a highly-integrated C4 solution for integrated air defense of Australia.

Joint Strike Fighter - AIR6000 Phase 2A/2B

Status: Awarded

- Lockheed Martin will provide 72 F-35A fighters along with associated weapons, spares, support equipment, and infrastructure.
- Project AIR 6000 Phase 7 will see the fleet expand to up to 100 aircraft.

Peregrine Electronic Warfare Aircraft

Status: Awarded

- Defence will acquire 4 x highly modified Gulfstream G550 ISREW aircraft to undertake electronic warfare missions.
- L3Harris and Gulfstream will supply the aircraft.
- The project is worth A$2.46b (US$1.62b).

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Air Force

Advanced Growler Airborne Electronic Attack Capability - AIR5349 Phase 6

Status: Awarded

- Enhance the electronic warfare capability of Defence's existing 12 Boeing EA-18G Growler aircraft.
- Integrate the Next Generation Jammer to jam enemy radar and communication systems at longer ranges.

AEW&C Upgrade – AIR5077 Phase 5A

Status: Awarded

- This approved project will improve the existing capability of the E-7A Wedgetail Airborne Early Warning and Control Aircraft.
- Key upgrades are being undertaken to the IFF system, cryptographic systems, comms suite and navigation/GPS system.

Woomera Range Remediation – AIR3024 Phase 1

Status: Awarded

- Woomera Test Range is the largest defense weapons range in the world.
- Replacement of existing Aerospace Test and Evaluation and Research and Experimentation Equipment.

JORN Mid Life Upgrade – AIR2025 Phase 6

Status: Awarded

- Defence is looking to redesign and upgrade the Jindalee Operational Radar Network (JORN) which consists of three high-frequency radars in Queensland, Northern Territory and Western Australia.
- The project has been awarded to BAE Systems Australia.

Navy

Air Warfare Destroyer – SEA4000

Status: Awarded

- Navantia Australia and the Air Warfare Destroyer Alliance are providing sustainment for the three AWDs currently in service.
- Navanita has proposed three additional Destroyers for A$6bn (US$4.05b) to be built in Spain, Australia or via a hybrid model.

Phased Array Radar Upgrade – SEA1448 Phase 4B

Status: Awarded

- The Air Search Radar on the Navy's eight Anzac-class frigates is being upgraded with a highly advanced Australian-made AESA array.
- CEA Technologies, Saab Australia and BAE Systems Australia will complete the upgrade.

Collins-Class Life Extension

Status: Planning

- To prevent a gap in capability, all six existing Collins-class SSKs will undergo a life-of-type-extension.
- This program will extend the service life of each submarine by 10 years.
- The work is likely to be undertaken by ASC in South Australia.

Australian Nuclear Attack Submarine

Status: Planning

- With the signing of the landmark AUKUS Defence Agreement, Australia will procure at least eight nuclear powered attack submarines.
- First entry into service expected 2030s.
- Competing designs include UK's Astute-class and US's Virginia-class SSN.

Navy

Offshore Patrol Vessel – SEA1180 Phase 1

Status: Build Started

- Luerssen Australia has been selected to build 12 offshore patrol vessels for the Navy, with option for an additional eight.
- These vessels will undertake border protection and constabulary roles.

Minehunter and Subsea Warfare – SEA2000

Status: Planning

- This project aims to acquire modern sea mines to be laid by submarine, surface and air assets.
- Australia is also looking at acquiring unmanned mine-countermeasures vessels.
- Up to eight purpose-build minehunters are also planned.

New Anti-Ship and Land Strike Missile

Status: Awarded

- The Australian Government will procure approximately 600 Kongsberg Naval Strike Missiles which will replace the Boeing AGM-84 Harpoon weapons currently employed on the Anzac-class frigate and Hobart-class destroyer.

Future Joint Support Ship

Status: Planning

- Australia will be looking to acquire two Joint Support Ships that will provide sealift, weapons and fuel storage as well as medical and aviation facilities to the expeditionary force.
- These vessels are likely to be built overseas.

Navy

Hunter-class Frigate Program – SEA5000

Status: Design Phase

- BAE Systems Australia has been awarded a A$49.9b (US$33.6b) contract to deliver nine Hunter-class Frigates. The vessels will be primarily focused on anti-submarine warfare, but also can complete air-defense, anti-ship warfare and long-range surface strike operations.
- To date, more than 1400 Australian companies have pre-qualified for inclusion in BAE Systems Maritime Australia's Hunter class frigate supply chain.
- Steel has been cut on the first of class *HMAS Flinders* and sea-trials are expected for the first three vessels by the late 2020s.

East Coast Submarine Base

Status: Planning

- The previous Morrison government has committed A$10b (US$6.7b) to build a new submarine base for the incoming fleet of eight nuclear attack submarines.
- The locations down selected include Brisbane, Queensland, Newcastle, NSW or Port Kembla, NSW.
- With this investment will come significant subcontracting opportunities for projects such as fit out, facility services, building and construction, technical support and engineering.

Army

Land Combat Vehicle System (IFV) – LAND400 Phase 3

Status: Competition

- Hanwa Defence Australia is competing against Rheinmetall Defence Australia for an order of approximately 450 infantry fighting vehicles.
- The bidders are being subject to a rigorous competition.
- A winner will be announced this year.

Short Range Ground Based Air Defence – LAND19 Phase 7B

Status: Awarded

- This project will deliver short range air defense to the Army, primarily using the AIM-120 AMRAAM-ER and AIM-9X missiles.
- CEA Technologies, Kongsberg and Raytheon Australia are delivering the radar, platform and missiles, respectively.

Lethality System Project – LAND159

Status: Awarded

- NIOA Australia has been awarded the Prime Contract to deliver the LAND159 program.
- This program will deliver next-generation weapon systems, surveillance and target acquisitions ancillaries, ammunitions, facilities and training and support systems.

Protected Mobility Vehicle – LAND121

Status: Awarded

- Australia will acquire 1,100 Hawkei Protected Mobility Vehicles and 1,058 associated trailers for command, liaison, utility and reconnaissance roles.
- The vehicle is being delivered by Thales Australia and built in Bendigo, NSW.

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Army

Battle Management System - LAND200

Status: On Hold

- Elbit Land Systems Australia had been awarded the contract for a Battle Management System for the Australian Army.
- In 2021, the program was abruptly halted on grounds of potential security flaws and 'backdooring'.
- Currently the project is on hold.

Combat Reconnaissance Vehicle – LAND400 Phase 2

Status: Awarded

- Rheinmetall Defence Australia has been awarded a contract for 211 Boxer 8x8 Wheeled Combat Reconnaissance Vehicles (CRV).
- The Boxers are build built in Redbank Queensland.
- They are equipped with a 30mm LANCE turret, .50 BMG RWS, Anti-Tank Missile.

Apache Attach Helicopter

Status: Awarded

- Boeing has been awarded a A$5.5b (US$3.7b) contract to acquire 29 AH-64E Apache Guardian attack helicopters.
- These helicopters will replace the Army's existing 22 Eurocopter Tiger Armed Reconnaissance Helicopters.

Multi-Mission Helicopter Replacement

Status: RFI Sent

- Australia has requested information to acquire up to 40 Sikorsky UH-60M Blackhawk Mutli-Mission Helicopters to replace the troubled NHIndustries MRH-90 Taipan helicopter.
- A firm order has not been made as of yet.

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Unmanned

Triton Remotely Piloted Unmanned Aircraft System – AIR7000 Phase 1B

Status: Awarded

- Australia has three firm orders for Northrop Grumman MQ-4C Triton High Altitude Long Endurance (HALE) unmanned maritime surveillance aircraft, with an option for an additional four aircraft.
- Triton is equipped with an advanced surface search radar, electro-optical surveillance system, electronic support and jamming measures and a satcom data-link.
- The program has been costed at approximately A$3-4b (US$2-3b) with around A$475m (US$321m) already spent in Australia on local procurement activities.

Boeing MQ-28 Ghost Bat Unmanned Combat Air Vehicle

Status: Awarded

- The Royal Australian Air Force will acquire 10 MQ-28A Ghost Bat unmanned combat aircraft.
- Boeing Defence Australia is developing and manufacturing the aircraft domestically and will be the first combat aircraft manufactured in Australia in 50 years.
- The total funding allocated to the project thus far is approximately A$604m (US$409m), equating to approximately A$60.4m (US$40.9m) low-rate production unit cost.
- The Ghost Bat is a high-subsonic, stealth aircraft capable of carrying air-to-air and air-to-ground munitions, sensors and other stores.

Unmanned

Extra Large Autonomous Undersea Vehicles (XL-UUV)

Status: Awarded

- The Royal Australian Navy is co-funding the design and manufacture of Extra Large Autonomous Undersea Vehicles which perform a wide range of missions including advanced intelligence, surveillance, reconnaissance and targeting.
- California-based Anduril has been awarded the A$140m (US$94m) contract to rapidly complete development and manufacture of a classified number of underwater vehicles over the span of three years, for delivery slated for 2025.

Insitu Pacific Integrator UAV – LAND129 Phase 3

Status: Awarded

- Insitu Pacific has been announced as the preferred supplier by the Australian Government to provide a tactical uncrewed aerial system to the Australian Army.
- The order is worth approximately A$307m (US$206m).
- Integrator is a modular, multimission low altitude, low endurance unmanned aircraft primarily utilized for battlefield reconnaissance, signals intelligence and data relay.
- Insitu Pacific has also engaged over 20 Australian suppliers including Ascent Vision Technologies Australia, Orbital UAV, Nova Systems Australia, LSM Advanced Composites and Jayben Group to assist in the delivery of this project to Defence.

Cyber

Project REDSPICE

- Project REDSPICE is a A$9.9b (US$6.8b) investment in offensive and defensive cyber capability. Funds were sourced from the cancellation of Australia's A$1.3b (US$880m) acquisition of 12 General Atomics MQ-9B SkyGuardian armed drones.
- REDSPICE is the most significant single investment in the Australian Signals Directorate's 75 years. It responds to the deteriorating strategic circumstances in Australia's region, characterised by rapid military expansion, growing coercive behavior and increased cyber attacks.

Key Initiatives

- Investing $9.9 billion over the decade, the largest ever in cyber and intelligence capabilities.
- Workforce growth of 1900 over the decade.
- Growing and delivering asymmetric strike capabilities and offensive cyber for the ADF.
- Enabling next-generation data science and artificial intelligence (AI) capabilities.

- Hardening networks against cyber-attack with sharpened response capability.
- Enhancing intelligence capabilities.
- Improving core ASD resilience by bolstering our national and international footprint.
- Providing opportunities for Australian industry, including cyber, ICT, cloud computing and enabling services.

Goals of REDPSICE

- Scaling cyber effects capabilities.
- Developing new intelligence capabilities.
- Enhancing Australia's cyber defence.
- Increasing resilience and redundancy.
- Improving foundational technologies.

Training

Australia-Singapore Military Training Initiative

Status: Awarded

- The Australia-Singapore Military Training Initiative Facilities Project will see A$2.3b (US$1.5b) invested in Central and North Queensland.
- The ASMTI project in North Queensland will see the development of an estimated 310,000 hectare training area near Greenvale, 220km north-west of Townsville for use by the Australian Defence Force (ADF) and the Singapore Armed Forces (SAF).
- The Department of Defence is also expanding the Shoalwater Bay Training Area in Central Queensland under the ASMTI.
- CPB Contractors (A CIMIC Company) and Liang O'Rourke have been awarded the Managing Contracts.

United States Force Posture Initiatives

Status: Awarded

- A key component of the Australia-US Alliance is the United States Force Posture Initiatives (the Initiatives), comprising the Marine Rotational Force – Darwin and the Enhanced Air Cooperation (EAC).
- A$747m (US$503m) has been allocated to upgrade Northern Territory Training Bases which are used by the Australian Defence Force and the US Marine Rotational Force – Darwin.
- Subject to Parliamentary approvals, construction is expected to commence in the second half of 2021, with completion expected by mid-2026.
- Industry involvement is a high priority, with numerous local sub-contractor packages by Defence's local Darwin-based Managing Contractor, Sitzler.

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Legal System Overview

◆ Australia enjoys a stable and effective legal system which make it an attractive place to do business.

◆ Australia has a common-law based legal system, with legislation and case law forming the basis of the laws which apply to businesses and individuals.

◆ For the purposes of this report, the primary area of legislation of interest is that which pertains to:

◇ The Australian Defence Force

◇ Defence Import and Export Control Laws

◇ Dual-Use Technology Specific Legislation

◇ Commonwealth Procurement Laws

◇ Local Content Requirements

◇ National Security, Sensitive and Classified Information Laws

◇ General Australian Corporate Law

Defence Import and Export Controls

◆ Australia controls the import and export of defense and strategic goods, software and technologies to ensure that such imports and exports are in keeping with Australia's national interests and international obligations.

◆ This extends to inherently lethal non-military goods (e.g. commercial explosives) and to tangible and intangible items developed to meet legitimate commercial needs, but which could be used as military components or to develop or produce military systems or weapons of mass destruction ('dual use' items).

◆ The Australian Border Force, as the primary customs and border protection agency, controls and regulates the import of restricted and prohibited items, such as weapons and other defense related materiel.

◆ As a signatory to several international counter-proliferation and export control regimes, Australia controls trade in items on the Defence and Strategic Goods List (DSGL).

◆ Goods, software and technology included on the DSGL cannot be exported, supplied, published or brokered from Australia unless a permit has been obtained, or a legislative exemption applies to the relevant activity.

◆ Breaches of Australian defense import/export and border control laws can occur inadvertently, such as via re-export, engagement with overseas institutions or entities or other intangible or unintentional transfer of DSGL goods or technologies.

Source: Department of Defence – Defence Export Controls, Deloitte Australia, Australian Border Force.

Defence Import and Export Controls

◆ Entities should take particular care to determine whether their activities with defense-related or dual-use goods may be subject to import or export controls, which can include a requirement to obtain a permit or license.

◆ Offences in relation to controlled defense and strategic goods, software and technologies can attract substantial penalties – in some cases, 10 years' imprisonment or 2,500 penalty units (i.e. currently AU$525,000 / US$357,000), or both.

◆ The Defence and Strategic Goods List covers the following key items:

  ◇ Defense and related goods, software and technologies that are designed or adapted for use by the armed forces, and non-military goods that are inherently lethal.

  ◇ Dual use goods, software and technologies.

Dual-use goods, software and technologies: The ten categories of controlled dual use items in the DSGL are:

➢ Nuclear Material

➢ Materials, Chemicals, Micro-organisms and Toxins

➢ Materials Processing

➢ Electronics

➢ Computers

➢ Telecommunications and Information Security

➢ Sensors and Lasers

➢ Navigation and Avionics

➢ Marine

➢ Aerospace and Propulsion

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Source: Department of Defence – Defence Export Controls, Deloitte Australia, Australian Border Force.

Defence Import and Export Controls

Name	Category	Control Type	Authorisation Pathway
Biological agents	Defence and Strategic Goods	Export	Via Defence Export Controls
Body armour, extendable batons, tasers, directed energy weapons, incapacitants	Weapons	**Import**	Via Minister for Home Affairs
Certain chemical compounds	Defence and Strategic Goods	Export	Via Defence Export Controls
Chemical weapons	Weapons	**Import**	Strictly prohibited
Defence and strategic goods (DSGL list items)	Defence and Strategic Goods	Export	Via Defence Export Controls
Electromagnetic weapons	Weapons	**Import**/Export	Via Defence Export Controls, Minister for Home Affairs
Explosives, plastic	Hazardous Goods	**Import**/Export	Via Defence Export Controls, Minister for Home Affairs
Firearms, firearms parts, accessories and ammunition	Firearms	**Import**/Export	Via Defence Export Controls, Minister for Home Affairs
Nuclear material	Defence and Strategic Goods	Export	Via Department of Industry, Innovation and Science
Radioactive substances and sources	Defence and Strategic Goods	**Import**/Export	Via Australian Radiation Protection and Nuclear Safety Agency
Security sensitive ammonium nitrate	Defence and Strategic Goods	**Import**/Export	Via Defence Export Controls, Minister for Home Affairs

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Source: Australian Border Force.

Commonwealth Procurement Laws

◆ <u>Commonwealth Procurement Rules</u> are the core of the procurement framework and set out the rules for the procurement of goods and services by Commonwealth entities, including the Department of Defence.

◆ The key areas covered by the Commonwealth Procurement Rules include:

◇ Value for Money

◇ Encouraging Competition

◇ Efficient, Effective, Economical and Ethical Procurement

◇ Accountability and Transparency

◇ Procurement Risk

◇ Procurement Method

◆ Recent changes to the Commonwealth Procurement Rules in 2020 include:

◇ The ability for Government to directly procure from SMEs where the value of the goods and services is between AU$80,000 - AU$200,000 (US$54,640 - US$136,500) without an open approach to market.

◇ Sustainable procurement principles must now also be considered including 'whole of life costs'.

Source: Department of Finance

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Local Content Requirements

◆ The Australian Government's procurement framework is non-discriminatory, and subject to the Commonwealth Procurement Rules, all potential suppliers must be treated equitably.

◆ **Suppliers must be treated equitably based on their commercial, legal, technical and financial abilities** and **not be discriminated against due to their size, degree of foreign affiliation or ownership, location, or the origin of their goods and services**.

◆ **However**, in 2019, the Department of Defence introduced the <u>Defence Policy for Industry Participation</u>.

  ◇ The policy introduces a new requirement on tenderers to address Australian industry involvement for all Defence materiel and non-materiel procurements above A$4m (US$2.7m), and for the procurement of construction services above A$7.5m (US$5.1).

  ◇ To meet the new requirements of the policy, successful tenderers will need to provide **detailed commitments on how they will utilise and develop Australian industry**. These commitments will become contracted deliverables and successful tenders will be required to report on their performance against them.

Source: Department of Finance, Australian Procurement Rules.

National Security, Sensitive and Classified Information Laws

◆ Australia has several laws and frameworks which are intended to protect national security interests and sensitive and classified information.

◆ Of specific relevance to the defense and security sector is the Australian security clearance framework. Under the Australian Government Protective Security Policy Framework (PSPF), personnel that need ongoing access to security classified resources must hold a security clearance at the appropriate level. Security classified resources include Protected, Secret and Top-Secret information, systems that hold classified information, and classified assets.

◆ The Defence Industry Security Program (DISP) was launched in 2019 whereby the Department of Defence would work with defense industry participants to meet minimum security requirements. It uses a tiered level of membership tailored to individual business needs and requires its members to comply with Defence's protective security policies, practices and procedures.

◆ The key benefits of taking part in the DISP program are:

    ◇ Improved security operating environment for your business as security practices are strengthened.

    ◇ Access to Defence security services that will enable you to be 'Defence-ready' when delivering contracts and tenders.

    ◇ Ability to sponsor your own security clearances (not available for Entry Level membership).

    ◇ Security training and materials, including cyber training.

Source: Office of Defence Industry Support. Ai Group.

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National Security, Sensitive and Classified Information Laws

◆ An appropriate level of DISP Membership is required:

◇ when working on or with classified (PROTECTED or above) information or assets;

◇ when managing, storing or transporting Defence weapons or explosive ordnance;

◇ when providing security services for Defence bases and facilities; or

◇ if there is a Defence business requirement for DISP membership in the contract.

◆ DISP membership may also be beneficial if you are seeking to enter a supply chain and work with one of the larger Defence companies.

◆ Most larger companies have their own supply chain security requirements and being a DISP member can be an important step to lay out your security credentials when looking to work in a supply chain.

◆ An Australian registered business entity is required to apply for DISP membership. Foreign entities are not eligible; however, they may be recognized under a Security of Information Agreement or Arrangement (SIA). Currently there is an existing SIA between the Australian Department of Defence and the United States. The existence of an SIA does not provide blanket approval for the release of classified information. Approval must be granted by an appropriate releasing authority on every occasion, where there is a need to release official information.

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Source: Office of Defence Industry Support. Ai Group.

Australian Corporate Law

◆ The main legal structures that will be of interest to foreign defense and security companies seeking to enter the Australian market are a foreign branch or Australian subsidiary.

Foreign Branch

➢ Tax benefits, including the ability to repatriate losses to the home country, exemption from withholding tax and capital gains tax upon disposal of shares.

➢ No need for an Australian resident director.

➢ Maintenance requirements for operating a branch are less onerous.

➢ A resident Australian agent is required, and they be held liable for conduct of the foreign company.

➢ Liability is generally attributed to the foreign company.

Australian Subsidiary

➢ May be easier to engage in defence and security business. It is a more familiar business structure in defense contracting.

➢ Separate legal entity, insulating the foreign parent from liability.

➢ Enjoy Australian corporate tax benefits including concessional tax rate of 25% for SMEs, instant asset write-offs and carrying forward of losses.

➢ A resident Australian director is required.

➢ More onerous reporting and maintenance requirements.

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Foreign Investment Controls

◆ Australian Government policies encourage foreign investment and recognize the many benefits of foreign investment.

◆ To ensure foreign investment proposals are consistent with Australia's national interest, the government reviews foreign investment proposals on a case-by-case basis through the Foreign Investment Review Board.

◆ A foreign person proposing to take a notifiable national security action must seek foreign investment approval before taking the action. Penalties may apply for failure to notify. An action is a notifiable national security action if the action is taken, or proposed to be taken, by a foreign person and the action is any of the following:

◇ to start a national security business;

◇ to acquire a direct interest in a national security business;

◇ to acquire a direct interest in an entity that carries on a national security business;

◇ to acquire an interest in Australian land that, at the time of acquisition, is national security land; or

◇ to acquire a legal or equitable interest in an exploration tenement in respect of Australian land that, at the time of acquisition, is national security land.

Foreign Investment Controls

◆ The Foreign Investment Review Board have provided examples of key sectors where mergers and acquisitions activity, operational control, import and export, or trade or development in sensitive intellectual property will require the Board's approval. This includes:

◇ Critical technologies

◇ Defence providers

◇ Critical minerals

◇ Cloud computing and data service providers

◆ FIRB Guidance Note 8 spells out clearly the requirements for foreign companies: "Foreign persons **must seek foreign investment approval prior to starting, or acquiring a direct interest in, a business that develops, manufactures, or supplies critical goods or technology, for or intended for, a military end-use by Defence or the defence force of another country.** Foreign persons must also seek **foreign investment approval prior to starting, or acquiring a direct interest in a business that provides, or intends to provide, critical services to Defence or the defence force of another country."**

Source: Department of Foreign Affairs and Trade. Foreign Investment Review Board. PWC Australia.

Foreign Investment Controls

Mandatory Notification Obligations (Notifiable National Security Actions)

Protection systems for vehicles for military use	Protection systems for individual soldiers	Watercraft for military use	Communications and sensing for military use	Artificial intelligence and robotics for military use	Quantum technologies for military use	Toxic chemicals, biological agents, and radioactive materials for military use	Munitions for military use
Land vehicles for military use	Aircraft for military use	Signal processing, electronic warfare, cyber and information security for military use	Material sciences and advanced manufacturing for military use	Biotechnologies for military use	Directed energy capabilities for military use	Weapons and weapon systems for military use	Any business that produces goods, technology, or services for military use that are subject to export controls

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Non exhaustive, indicative only. Source: Department of Foreign Affairs and Trade. Foreign Investment Review Board. PWC Australia.

Foreign Investment Controls

Voluntary Notification				
Telecommunication-s, information, communications or technology (ICT), and data	Electricity (including renewable energy), gas and water	Education and training	Space industry, or science and technology related businesses	Defence industry (including subcontractors in the Defence contractor's supply chain)
Ports and airports	Health	Building maintenance	Construction	Transport and logistics

Foreign investors proposing to undertake a reviewable national security action by investing in businesses or entities with a contractual relationship with Defence which are otherwise not captured by the mandatory notification requirements in the above sectors are encouraged to seek foreign investment approval.

Non exhaustive, indicative only. Source: Department of Foreign Affairs and Trade. Foreign Investment Review Board. PWC Australia.

Understanding Defense Procurement

General procurement types

◆ *Acquisition procurements* require goods and services that can be integrated into Defence platforms or used by Defence personnel on operations. Prime contractors are engaged by Defence on long-term contracts with possible sub-contracting opportunities for businesses.

◆ *Sustainment procurements* relate to ongoing servicing, maintenance, upkeep and repair of current Defence capabilities and platforms.

◆ *Commercial procurements* cover a range of non-materiel goods and services provided to Defence such as health services, logistics services, training, travel, information technology, stationery and personal protective equipment.

◆ *Procurement of Defence estate management and infrastructure services* refers to the maintenance of Defence facilities, establishments and training areas, and a range of construction services.

◆ *Innovative technology procurements* in Defence seeks innovation proposals aligned with the six Defence capability streams identified in the Integrated Investment Program.

Source: Department of Defence

Key Procuring Entities

- **Capability Acquisition and Sustainment Group:** The Capability Acquisition and Sustainment Group (CASG) aims to be the premier program management, logistics, procurement and engineering services group in Defence.

- **Chief Information Officer Group**: Chief Information Officer Group (CIOG) engages broadly with industry to develop and support ICT systems that provide support to Defence operations and provide capability and solutions to the Defence community.

- **Defence Estate and Infrastructure Group:** Responsibilities include supporting the ADF and the Department of Defence through the provision of personnel administration and related functions such as ADF housing, financial and travel services, and contracts that provide catering, cleaning and grounds maintenance services.

- **Defence Strategic Policy and Industry Group:** Strategic Policy and Industry Group (SP&IG) provides strategic advice, policy and intelligence to enable defense capability and national security priorities and supports strengthened decision-making in Defence.

- **Joint Capabilities Group:** The Joint Capabilities Group (JCG) is responsible for the provision of Joint Health, Logistics, Education and Training, and Information Warfare. JCG also manages agreed Joint projects, and their sustainment, to support joint capability requirements.

Source: Department of Defence

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Overview of the Procurement Process

| Initial Announcement Published | Tender Information Published & Industry Briefing Conducted (Open Tender) OR Invitation to Register Interest / Invitation to Tender Released (Closed/Selective Tender) | Lodgement of Tender Responses | Evaluation of Tender Responses / Negotiation | Tender Awarded & Contract Signed → Standing Offer / Panel May be Established |

An EOI / RFI / ROI may be published by the relevant Government department on AusTender to gather intelligence

Request For Tender (RFT) / Request For Quotation (RFQ) is published on AusTender (Open Tender), or an Invitation to Tender (ITT) / Invitation to Register Interest (IRI) is released . An industry briefing may also be conducted by the relevant government department & any changes or additional information will be communicated via

Tender responses are lodged by industry before the deadline.

Tender responses are evaluated according to the criteria & clarification may be requested from tenderers if required. The government may also enter into post-offer negotiations with a preferred / short listed tenderer/s.

Tender awarded & agreement with successful tenderer is formalised in an official contract. Unsuccessful tenderers can also request a debriefing on their tender response once the process has been finalised. A Standing Offer/ Panel may also be established.

Approaches to Market

◆ An Approach to Market (ATM) refers to a business opportunity that is advertised on AusTender, the Australian Federal Government's online tendering portal.

◆ **Open Tender:** Open to any business that can satisfy the requirements, an Open Tender is advertised on AusTender to publicly invite all potential suppliers to bid for the work where:

◇ any interested suppliers may respond by providing the required information.

◇ all responses are evaluated against the stated evaluation criteria.

◇ the preferred supplier(s) is then selected.

◆ **Limited Tender:** Under a Limited Tender the ATM is accessible only to those suppliers that are invited to submit a response; one or more potential suppliers may be invited through this method.

◆ **Standing Offers (or 'panels'):** An arrangement with a government organisation (or group of government organisations) which specifies a range of goods or services the buyer may expect to purchase over a defined period of time. Potential suppliers indicate their willingness and ability to supply those goods and services over the defined period at a particular rate/cost, via a response to an ATM (to enter into a Deed of Standing Offer).

Source: Department of Defence. Department of Finance.

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Annual Procurement Plan

◆ The Defence Annual Procurement Plan (APP) articulates potential procurement opportunities prior to the ATM being available for response.

◆ The Annual Procurement Plan is updated at the start of each financial year, but is continually amended and updated as the details of the procurement opportunity are solidified or the procurement is withdrawn.

◆ In general, planned procurements with a total estimated value of A$1m (US$700k) and above are included in the Defence APP.

◆ The scope, scale, schedule, risk profile and complexity of individual planned procurements listed in the Defence APP differ across various procurement categories such as Logistics, ICT, Defence Estate Management, Construction Services and Capability Acquisition and Sustainment.

◆ There are currently approximately 200 potential procurement opportunities that have been published as part of the Annual Procurement Plan.

◆ The Annual Procurement Plan is available on AusTender, and details the estimated date of Approach to Market, the details of the planned procurement and the contact information of the procuring officer.

Source: AusTender.

ASDEFCON

◆ Businesses seeking to sell to Defence should familiarize themselves with the Australian Standard for Defence Contracting (AUSDEFCON) suite of tendering and contracting documents.

◆ These documents are used by the Department of Defence to create ATMs in AusTender and allow for industry participants to be familiar with the general contracting terms and strategies that are commonly utilized by Defence.

◆ The Australian Standard for Defence Contracting also contains important information with regards to the Technical Data and Intellectual Property (AUSDEFCON TD/IP) that is related to specific contracts/tenders.

◆ The AUSDEFCON TD/IP Framework has recently been updated to better improve and streamline defense procurement processes and to achieve a more appropriate balance between the TD/IP needs of Defence and the protection of industry's interests, as well as reflecting the fundamental importance of TD as a key enabler of capability outcomes.

Source: Department of Defence

Upcoming Changes to Procurement

◆ The Defence Procurement Review was concluded in 2021 by the then Minister for Defence Industry - The Hon. Melissa Price MP.

◆ The review has identified "significant opportunities to reduce red tape, saving industry time and money in supporting the delivery of capability to the Australian Defence Force." Under the changes, Defence will focus on reducing the time it takes to progress large materiel acquisition activities from the identification of a capability need to the signing of a contract.

◆ The key changes are as follows:

◇ Defence will now allow industry to brief its project teams on tenders they submit to further clarify the offer proposed in support of Defence's evaluation.

◇ Defence processes will be amended to require tender debriefs to be offered at the time a tenderer is advised it has been unsuccessful, rather than after the process is concluded. This will give small businesses feedback on unsuccessful tenders up to six-to-12 months more quickly in some cases, helping them improve their tender responses.

◇ There will be an improvement of probity practices, guidance and training for procurements in order to reduce communication barriers between Defence and industry.

Source: Department of Defence. Australian Defence Magazine.

Local Industry Priorities

◆ The Department of Defence has recently increased its overall engagement with SMEs with regards to sovereign industry capability. In this regard, Defence has outlined new Sovereign Industrial Capability Priorities (SICPs) to reflect the changing strategic environment.

Robotics, Autonomous Systems and Artificial Intelligence	Precision Guided Munitions, Hypersonic Weapons,
Space	Information Warfare and Cyber Capabilities

Boston Dynamics Robot

HIFiRE hypersonic missile

Source: Department of Defence.

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General Defense Procurement FAQs

Is every Defence purchase advertised and can any business respond?

✓ Generally speaking, non-construction procurements valued above $80,000 are advertised publicly via AusTender and are open to any business that wants to respond. This approach encourages fair competition and helps achieve the best value for money.

How can I find out when Defence is seeking to procure something?

✓ All open ATMs are published on AusTender which is free to use and join. If you are invited to participate in a Limited Tender you will be contacted by the government buyer with the tender details. These procurement processes only happen in specific circumstances. Annual Procurement Plans also help provide visibility of Defence's longer term procurement priorities.

Do I need to be Australian to respond to ATMs?

✓ You do not need to be an Australian company or an Australian citizen to respond to ATMs.

Do I need an Australian subsidiary to respond to ATMs?

✓ Whilst it is not essential, it is highly recommended for the following key reasons:

- An Australian Business Number is an important tool when dealing with tax and other authorities in Australia.

- It will simplify your Goods and Services Tax management.

- To procure the requisite insurance that will likely be a requirement of fulfilling a government contract, such as public liability insurance, product liability insurance, professional indemnity insurance and workers compensation insurance.

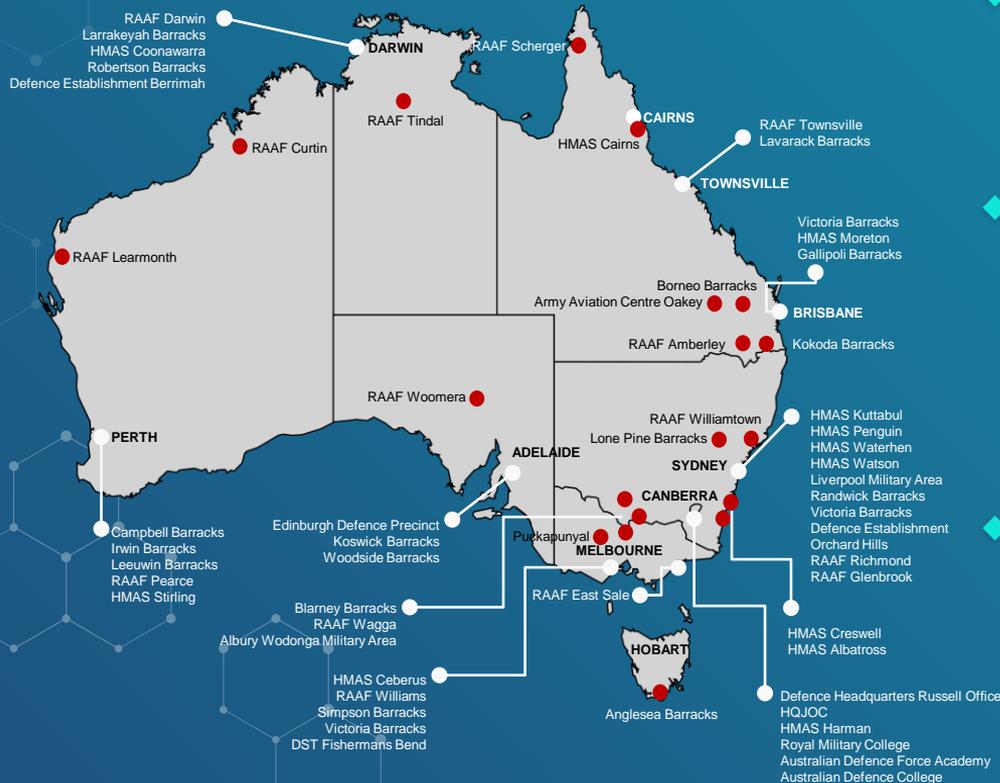*Source: Department of Finance.*

Defense Business Readiness

◆ The Australian Department of Defence has relatively high standards when it comes to Small and Medium Sized Enterprises looking to enter the Defence supply chain or sell to Defence.

◆ The Office of Defence Industry Support has outlined that the following key areas are of priority for Defence business readiness:

◇ Leadership

◇ Product and service evaluation

◇ Business capture

◇ Business processes

◆ The Defence Business Readiness Tool is a secure, stand-alone web-based system that allows small and medium enterprises (SMEs), including foreign companies to:

◇ assess themselves against industry best-practices for Defence suppliers.

◇ help them understand what it means to be 'Defence Ready'.

◇ prioritise actions to help them grow their Defence business capability.

Source: Department of Finance.

Establishing an Australian presence

◆ Virginian companies wishing to establish a presence in the Australian market following an initial market visit are encouraged to explore the following potential options, which include: appointing a local distributor / partner, setting up a local office (also known as foreign branch), setting up an Australian subsidiary, acquiring a local company, or setting up a foreign joint venture/strategic alliance.

◆ **Setting up a local office or branch or incorporating an Australian subsidiary -** offers customers a reassurance of your company's commitment to the local market. It is also the expected business structure if a Virginian company was looking to solely bid on Australian government tenders. Whilst affording greater control over operations in Australia, it also comes at a higher cost and will take longer to both set up and gain a reputation in the Australian market.

◆ **Appointing a local distributor / integration partner -** may be useful if a Virginian company wished to enter the Australian market and start accessing the defense industry without committing fully to the Australian market. You can leverage the expertise and networks of a local distributor or integration partner to access Defence procurement opportunities.

◆ **Acquiring a local company -** Although requiring significant capital outlay, acquiring an existing Australian defense player may be a fast way to quickly access the Defence market. This is subject to FIRB review.

◆ **Setting up a Foreign Joint Venture/Strategic Alliance -** Virginian companies could also consider forming a joint venture, or strategic alliance with a local Australian company. The key to success will be strong alignment on the financial and operational objectives of such a venture.

Key Defense Precincts

RAAF Darwin
Larrakeyah Barracks
HMAS Coonawarra
Robertson Barracks
Defence Establishment Berrimah

DARWIN

RAAF Scherger

RAAF Tindal

CAIRNS

RAAF Townsville
Lavarack Barracks

HMAS Cairns

TOWNSVILLE

RAAF Curtin

RAAF Learmonth

Victoria Barracks
HMAS Moreton
Gallipoli Barracks

Borneo Barracks
Army Aviation Centre Oakey

BRISBANE

RAAF Amberley   Kokoda Barracks

RAAF Woomera

RAAF Williamtown
Lone Pine Barracks

HMAS Kuttabul
HMAS Penguin
HMAS Waterhen
HMAS Watson
Liverpool Military Area
Randwick Barracks
Victoria Barracks
Defence Establishment
Orchard Hills
RAAF Richmond
RAAF Glenbrook

PERTH

ADELAIDE

SYDNEY

CANBERRA

Edinburgh Defence Precinct
Koswick Barracks
Woodside Barracks

Puckapunyal

MELBOURNE

Campbell Barracks
Irwin Barracks
Leeuwin Barracks
RAAF Pearce
HMAS Stirling

Blarney Barracks
RAAF Wagga
Albury Wodonga Military Area

RAAF East Sale

HMAS Creswell
HMAS Albatross

HMAS Ceberus
RAAF Williams
Simpson Barracks
Victoria Barracks
DST Fishermans Bend

HOBART

Anglesea Barracks

Defence Headquarters Russell Office
HQJOC
HMAS Harman
Royal Military College
Australian Defence Force Academy
Australian Defence College

◆ The Australian Defence Force and the supporting industry base has a presence in every Australian state and territory. Australia also has defence establishments and joint operating facilities overseas.

◆ Defence industry is concentrated most heavily along the South-Eastern seaboard, in Queensland, New South Wales and Victoria. Main industry subsectors located here include: manufacturing, MRO, professional services and research and development. The bulk of defence establishments, airbases, barracks and supporting infrastructure is in this region.

◆ The Australian shipbuilding sector is primarily located in South Australia and Western Australia. Supporting industries and private sector companies involved in maritime are also located here.

Cyber

◆ Accessing the Australian cybersecurity market can be challenging for foreign companies. As a result of the high security requirements set by the Australian Signals Directorate (ASD), foreign companies may find it challenging to directly contract with the Department of Defence.

◆ Virginian companies looking to engage with Defence regarding cybersecurity projects and tenders should consider approaching a local partner, who will assist in the localization of the offering, ensure compliance with Australia-specific security and information security requirements, and improve the chances of tender success.

◆ Virginian companies should also consider utilizing the various industry associations related to the cybersecurity industry in Australia:

◇ AustCyber

◇ Australian Computer Society

◇ Australian Information Security Association

Maritime

◆ The Australian defence maritime sector is heavily concentrated in the key shipbuilding states of South Australia and Western Australia. The key maritime prime contractors, along with SMEs in their supply chain and their workforces, are located around <u>Hendersen Shipyard in Western Australia</u> and <u>Osborne Naval Shipyard</u> in South Australia.

◆ International companies looking to enter the Australian defense maritime market can do so via three main avenues:

  ◇ Individually bid on applicable maritime projects via AusTender.

  ◇ Supply the defence maritime prime contractors already completing project work for Defence.

  ◇ Enter into a joint venture or partnership arrangement with a suitable Australian business to collaborate on defence maritime work.

◆ Other key market access resources include:

  ◇ <u>National Naval Shipbuilding Enterprise</u>

  ◇ <u>Australian Shipbuilding and Repair Group</u>

Training

◆ The market for training supplies and services in the Australian defense context is more fragmented than other subsectors.

◆ Commonly, the ADF and Defence will procure training services and equipment via the following avenues:

◇ **Training and associated equipment will form part of the head-contract**: the winner will be required to deliver the associated platform alongside any necessary training of personnel.

◇ Training services are procured on an ad-hoc or as needed basis via AusTender: the ADF, often in response to an operational requirement, will post an ATM on AusTender for specialized defense training.

◆ Global defense training contractors, such as Contellis, do not appear to operate in the Australian market.

◆ From an SME perspective, the Australian Defence Force relies heavily on former servicemen and women to contract training and associated services to the armed forces. This is especially popular for the Australian Army, with veteran-owned companies such as Kinetic Fighting providing training solutions for special forces and combat operations.

Key Events and Symposia

◆ Australia hosts a number of key events and symposia relevant to the Aerospace, Defence and Security Market. These events garner a high number of attendees across the Australian Defence Force, Department of Defence, global multinationals and Australian SMEs.

◆ **INDOPACIFIC International Maritime Exposition**: INDOPACIFC is the largest defence conference in the Southern Hemisphere, with a major focus on naval and maritime business opportunities and networking. (7th to 9th November 2023)

◆ **AVALON Australian International Airshow**: The AVALON Aerospace and Defence Expo is a global business, defence and public event, attracting senior civil aviation, air transport, aerospace and defence industry, military and government decision-makers from around the world. (28th February to 5th March)

◆ **LAND FORCES International Land Defence Exposition**: LAND FORCES is a ground forces focused international trade expo with key attendance across the Australian Army and suppliers of weapons, systems and vehicles for ground forces. (4th to 6th October 2022)

◆ **Australian Cyber Conference:** The Australian Cyber Conference is the key cybersecurity conference held by the Australian Information Security Association. (11th to 13th October 2022)

Key Events and Symposia

INDOPACIFIC 2022 International Maritime Expo – Sydney Australia

Rafael Varley Australia

Kongsberg Naval Strike Missile

Northrop Grumman RAAF Triton Mockup

Support Available to Virginian Companies

◆ Virginian companies have a <u>wealth of support services</u> available through VEDP to take on the Australian defence and security market.

◆ These services include:

  ◇ International Market Research

  ◇ Trade Mission and Show Support

  ◇ Supply Chain Optimization Program

  ◇ Trade Show Program

  ◇ Global Defense Program

  ◇ Virginia Leaders in Export Trade (VALET)

  ◇ Certificates of Free Sale

  ◇ State Trade Expansion (STEP) Grant

◆ <u>Foley & Associates</u>, as the Authorised Trade Representatives of the Commonwealth of Virginia in Australia and New Zealand, provide on-the-ground support and assistance to Virginian companies looking to enter the Australian market and have delivered numerous projects in the Defence and Security sector since 2002.

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7 Appendix

Key Leaders and Influencers

Mr Michael Ward
CEO – Raytheon Australia

Air Marshal (Rtd) Warren McDonald AO CSC
CEO – Lockheed Martin Australia

Dr Brendan Nelson
CEO – Boeing Australia

Ms Gabrielle Costigan MBE
Group Managing Director – BAE Systems

Mr Stuart Whiley
CEO - ASC

Mr Robert Nioa
CEO - NIOA

Mr Garry Stewart
Managing Director – Rheinmetall Australia

Mr John Fry
General Manager Kongsberg Australia

Federal Government of Australia

Australian Defence Force

Chief of Defence Force
General Angus J. Campbell, AO, DSC

Vice Chief of Defence Force
Vice Admiral David Johnston, AC, RAN

Chief of Army
Lieutenant General Simon Andrew Stuart, AO, DSC

Chief of Navy
Rear Admiral Mark David Hammond, AM

Chief of Air Force
Air Marshal Robert Timothy Chipman, AM, CSC

Foley & Associates

On Behalf of the Virginia Economic Development Partnership

Holden Frisoli General Manager - Operations
Alexander Singhi – International Trade and Investment Advisor
Foley & Associates Pty Ltd