

Revitalising Australia's defence industry and national service scheme: Lessons from Sweden and the AUKUS initiative



A paper based on a presentation to the Institute in Sydney on 30 July 2024 by

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This paper describes the current state of the Australian defence industry, highlighting its achievements, threats, and opportunities. Also discussed are the importance of having a robust national service scheme with regard to the manufacturing industry, and implications of the AUKUS (Australia United Kingdom United States) initiative on Australia's defence industry and national security.

Key words: Defence Strategic Review; Defence; defence industry; manufacture; innovation; technology; national service; AUKUS.

It is a great honour to address the Royal United Services Institute of New South Wales today. My presentation will focus on the current state of the Australian defence industry, highlighting its achievements, threats, and opportunities. I will draw insights from the Defence Strategic Review (DSR) as well as my own involvement in Defence Innovation Network (DIN), local industry, the US defence environment and the recent strategy DIN has undertaken with our nine universities and the Defence Science and Technology Group (DSTG) to provide a comprehensive look at the industry's challenges and potential solutions. Additionally, I will discuss the importance of a robust national service scheme and the lessons Australia can learn from Sweden's manufacturing industry. Furthermore, I will examine the implications of the AUKUS (Australia United Kingdom United States) initiative on Australia's defence industry and national security.

Achievements and challenges in the Australian defence industry

Despite some achievements, the Australian defence industry faces numerous challenges. Defence is working exceptionally hard on a huge number of separate internal reviews, studies and reorganisations in response to the DSR and policy announcements from the current and previous governments. It is not clear what will emerge from this effort. There is no obvious path forward on the future shape of the Royal Australian Navy's surface fleet, nor is there yet a new design for Army after reducing the infantry fighting vehicle program. The bulk of announcements in the recently released 2023 Australia-United States Ministerial Consultations (AUSMIN) communique are about US rather than Australian or joint activities in the north. We are no closer to a strategy for manufacturing missiles in-country. While the new Advanced Strategic Capability Accelerator (ASCA) has been

launched, it is not clear how it will surpass the lacklustre performance of previous innovation programs.

There is no clearly explained path to improve Defence's capacity to innovate, or to fix recruitment or to measurably strengthen the organisation's key missions to 'shape, deter and respond'. Similarly, there are no real signs Defence knows how to strengthen Australia's defence industry.

Policy risks and industry isolation

Australia's defence industry is looking for two things: the first is an opportunity to participate in the strategic level thinking needed to bring clarity to a situation of increasing policy disorder. The Government, Parliament and Defence need to create mechanisms that allow industry to operate as a 'fundamental input to capability' (FIC). Central to this idea is that industry is treated as a trusted partner, where genuine collaboration with Defence brings quick innovation.

Second, defence industry needs policy predictability. Industry must be confident that long-term investment in plant and workforce skills will ultimately lead to sustained returns. Without such confidence, overseas industry will not come or stay here and local industry will not diversify into defence projects or remain in the field. Successive Australian governments keep changing defence capability goal posts. Australia is developing a reputation as an investment sovereign risk. Why would an international company plan to build defence capability here when, in five or ten years, a government announcement could undermine years of investment?

A lesson is that Defence struggles to keep up with the twists and turns of responding to policy thought bubbles tied to the three-year political cycle. How the Department deals with this gives rise to a second policy risk with industry: isolation from policy development. One Defence 'coping' mechanism is to push off contact with industry on any aspect of new opportunities for cooperation. Far from treating industry as a 'fundamental input to capability', where engagement might lead to a shared

¹Photo provided by the author.

approach to innovation or delivery, Defence keeps industry at arm's length as the department struggles to understand how it must respond to government policy changes—while avoiding giving an impression it is 'getting ahead' of the government. The result is that too many new policy initiatives get in the way of delivering anything real. The promise of a new policy to be delivered at some future point often leads Defence to advise industry that contact should be delayed until the policy is endorsed by government. This has been a constant refrain of the department since before the 2016 Defence White Paper was released. It took two years to develop the 2016 White Paper during the tenure of two Prime Ministers and three Defence Ministers. While this process was underway, industry was told to wait to engage with the department until the White Paper was finalised. Once released in February of 2016, industry was told to wait while the department recalibrated around delivering the new Integrated Investment Program (IIP). Industry was then told to wait for the 2019 election outcome before substantive engagement could happen; then to wait for the 2020 Strategic Update; then to wait for AUKUS arrangements to be settled; then for the subsequent 2022 election; then for the DSR.

Threats to the Australian defence industry

One of the main threats to the Australian defence industry is the increasing competition from other countries, particularly in the Indo-Pacific region. China's military build-up is now the largest and most ambitious of any country since the end of the Second World War according to the DSR. This poses a significant challenge for Australia's defence industry, as it must keep pace with the rapid advancements in technology and capabilities.

Another threat is the lack of a skilled workforce in the defence industry. The Australian Defence Force (ADF) has a growing demand for highly skilled personnel, but there is a shortage of qualified workers. This shortage not only affects the industry's ability to deliver on projects but also hampers innovation and the development of new technologies.

Opportunities for growth

Despite these challenges, there are several opportunities for the Australian defence industry to grow and improve. The government's commitment to increasing defence spending, as outlined in the 2024 National Defence Strategy and the IIP provides an opportunity for the industry to invest in research and development, innovation, and the acquisition of new capabilities. But to date, industry is sceptical. They have seen these promises and reviews occur on an almost annual basis for the past 20 years.

To capitalise on these opportunities, the Australian defence industry must focus on several key areas. These include:

- Developing a highly skilled workforce through education and training programs.
- Strengthening partnerships with international defence companies and research institutions.
- Investing in research and development to foster

innovation and the development of new technologies.

- Improving the industry's ability to deliver projects on time and within budget.
- Enhancing collaboration between government, industry, and academia to create a more integrated defence ecosystem.

Lessons from Sweden's manufacturing industry

Manufacturing in Australia peaked in the 1960s, contributing 25% to the country's Gross National Product (GDP) and employing a significant portion of the workforce. Today, manufacturing accounts for less than 6% of GDP, and many iconic Australian industries, such as the sugar cane mill, steel mills, automotive manufacturing, white good manufacturing have all succumbed to economic pressures and global competition – in other words "offshoring".

Sweden, despite its smaller population and comparable high labour costs to Australia, has managed to maintain a robust manufacturing industry. This includes the production of well-known brands such as Saabs, Volvos, and Gripen fighter jets, as well as a range of whitegoods. This demonstrates that high labour costs do not necessarily preclude a country from engaging in manufacturing. Australia, with its rich natural resources and skilled workforce, has the potential to revitalise its manufacturing sector.

Sweden currently has six operational nuclear power reactors, which provide a significant portion of its electricity.

A nation reliant on importing essential goods compromises its economic security and sovereignty. We must revitalise our manufacturing sector to reduce dependence on foreign imports and safeguard our national interests.

Revitalising Australia's manufacturing sector and national service scheme

To address the challenges in the defence industry and revitalise manufacturing in Australia, the country should consider implementing a voluntary national service scheme for 18-year-old Australians. This scheme could offer young people the opportunity to serve in the ADF (Army, Navy, Air Force) or in community service roles (emergency services, fire brigade, ambulance, helping the homeless, aged care, etc.).

In return volunteers will be given assistance for university study, TAFE, trade training schemes etc. We have seen the popularity of these schemes in Scandinavian countries where the programs are actually oversubscribed. Why is that?

Because it turns out that the youth enjoy team work, being with their mates, learning about serving something larger than themselves, and by the way, employers overwhelmingly choose candidates who have completed voluntary national and community service above those that have not.

We cannot keep deploying the ADF to every fire, flood or emergency that occurs. That is not their role, nor is it sustainable.

But until Australia pays more attention to the people actually serving in the ADF, buying shiny expensive equipment and making grand strategies matters little.

In 2024, the ADF was more than 4300 personnel below its authorised strength, representing a shortfall of 6.9%. This decline is a threat to the nation's planned military overhaul.

The 2023 DSR highlighted the need for innovative and bold approaches to recruitment and retention in the ADF, which is seeking to grow by 30% by 2040. However, the ADF has struggled to meet its existing recruitment targets, with the number of enlisted personnel declining by 3.5% over the past five years, while the number of military star-ranked officers has increased by over 20%.

The recruitment crisis in the ADF has been attributed to various factors, including the toll of service life on families, the need for more competitive salaries for specialised staff, and the need to improve family-friendly policies. The ADF has also faced criticism for its recruitment practices, with some arguing that the focus on quotas (and not merit) has hindered the organisation's ability to attract and retain personnel.

This year we became aware that on average it is taking the ADF 12 months to onboard a new recruit. One would imagine that many recruits would either choose not to go through this, find another job in the meantime and not proceed, or get fed up.

It really sets a tone of incompetence – which one hopes is not setting that as a standard.

We must address these issues and also begin to hold people accountable. That is not to say you did not try hard, you accepted a senior position, and you are a good person. Fine. But you failed. So this is clearly not the role for you, and we are going to relieve you of this duty and find someone else.

When was the last time we saw that in Defence? I suspect during a war. However in the private sector it happens every day.

Implications of the AUKUS initiative

The AUKUS initiative which aims to strengthen the security and defence capabilities of Australia, the United Kingdom, and the United States presents both, opportunities and challenges for Australia's defence industry. While the Biden-Harris administration sees AUKUS as a way to make Australia take a stronger leadership role in Indo-Pacific security, there are concerns that Australia has been free-riding on America's military presence in Asia for decades. The Albanese government gives no tangible sign that it wants to shoulder a greater security burden, and Defence spending is planned to grow minimally over the rest of this decade.

The AUKUS initiative includes Pillar Two, which covers eleven additional technology areas including quantum computing, artificial intelligence, cyber and undersea technologies, and hypersonic vehicles. While these activities are important and worthwhile, there are concerns that the Defence organisations of the AUKUS countries have had little idea about what to do with Pillar Two. There is a need for greater engagement with

Australian industry to ensure that it plays a role in the development of these technologies.

Conclusion

The Australian defence industry is at a critical juncture. While it has made significant achievements in recent years, it faces numerous challenges that threaten its ability to meet the country's defence needs. To overcome these challenges, the industry must focus on developing a skilled workforce, fostering innovation, and strengthening partnerships with international stakeholders. Australia can learn from Sweden's manufacturing industry and revitalise our own manufacturing sector to reduce dependence on foreign imports and safeguard our economic security and sovereignty.

By implementing a voluntary national service scheme, Australia can also create opportunities for young people to contribute to the nation's defence and community service needs while fostering a sense of national pride and responsibility.

The AUKUS initiative presents both opportunities and challenges for Australia's defence industry. While it aims to strengthen Australia's security and defence capabilities, there are concerns that Australia has been free-riding on America's military presence in Asia. There is a need for greater engagement with Australian industry to ensure that it plays a role in the development of the technologies covered by Pillar Two of the AUKUS initiative.

But all of this requires direction, investment, certainty and most importantly leadership.

The Author

Lincoln Parker works for the Defence Innovation Network at the forefront of delivering cutting edge national security technology solutions to both governments and militaries in Australia and the United States. Lincoln is also former Chair of the Liberal Party's Defence & National Security Policy branch. As a weekly guest on the Sky News "Erin" show and a regular voice on Radio 2GB, Lincoln is at the forefront of discussions on defence, national & energy security issues. Lincoln has a degree from Berkeley in the United States and lived and worked in San Francisco, New York and Washington DC, working across national security fields (which he continues currently).

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