DeltaPearl Partners

# The Defence Dividend: Strengthening Australia's Economy Through Sovereign Defence Procurement

## Final Report

Prepared for Sovereign Australian Prime Alliance

December 2025

SAPA
SOVEREIGN AUSTRALIAN PRIME ALLIANCE

DeltaPearl Partners

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- ECONOMICS
- PUBLIC POLICY
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## DISCLAIMER

# Preface

In 2025 the Australian Government introduced reforms to the Commonwealth Procurement Rules (CPRs). These reforms lowered thresholds for high-value procurements, strengthened requirements to consider broader economic benefits, and increased commitments to source goods and services from small and medium enterprises (SMEs), which are a significant component of Australia's defence industrial base. The revised CPRs mean that there is a mandate to evaluate not only the immediate dollar cost of a contract, but also its contribution to the broader economy. Thus, there is a requirement to consider issues such as domestic industry development, supply chain resilience, local job creation, and innovation, as well as long-term sovereign capability consequences of procurement decisions. In November 2025, the Australian Government revised the CPRs further, including updates to the definition of an Australian business for procurement purposes, and added requirements to give preference to Australian businesses in certain circumstances. Taking into account these recent changes, this report is a robust analysis of the net economic returns of directing a greater proportion of procurement spending towards Australian-owned and operated companies.

The Sovereign Australian Prime Alliance (SAPA) is an informal group of Australian defence and technology companies advocating for greater sovereign capability in Australia's defence industry. SAPA tasked DeltaPearl Partners to analyse this issue and to set out arguments for and against stronger preference for Australian defence suppliers in Australian Government procurement using robust, quantitative evidence. Both government and industry have expressed an interest in understanding the actual economic returns that might be gained from a relative increase of procurement spending with Australian defence suppliers (as opposed simply to those businesses with an Australian Business Number (ABN) holder which might otherwise be owned or operated by a foreign entity).

Accordingly, the analysis within this report seeks to model and measure the "defence dividend" – the range, form and value of economic and strategic benefits (and any costs) that may accrue when defence contracts are delivered by Australian prime suppliers as opposed to foreign-owned or controlled entities.

The methodology is a combination of input–output multiplier analysis and computable general equilibrium (CGE) modelling to capture the range of economic impacts on the economy. This methodology evaluates the macroeconomic effects primarily through changes in real gross national disposable income (RGNDI), integrating key microeconomic and macroeconomic linkages. This powerful two-step methodology provides a quantitative analysis of how this change to defence spending will affect the Australian economy. In contrast to standard analytical approaches which use input-output tables and associated multipliers to provide detailed industry-level insights into supply chain effects, CGE modelling simulates economy-wide effects, including labour shifts, price adjustments, household income, and trade balances. The approach enables scenario analysis comparing current procurement baselines with increased domestic Australian prime contracting, projecting outcomes to 2035 with the aim of delivering a robust, holistic estimate of the sovereign dividend and net economic returns to Australia.

The ultimate aim of the analysis is to provide SAPA and government policy-makers with a defensible evidence base to inform future policy discussions, procurement decisions, and potential refinements to the CPR framework that extend access to defence spending for the growing base of Australian primes and other Australian defence businesses in a way that strengthens national sovereign capability and maximises economic benefit and minimises economic costs to and within Australia – the Defence Dividend.

SAPA membership at the time of the commissioning of this report included Aspen Medical, NIOA, DroneShield, Macquarie Technology Group, AUSTAL, Nova Systems, and Gilmour Space Technologies.

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# Key Definitions

**Australian business**

Defined in the CPR as follows: "The proposed definition establishes three criteria for a business to be considered 'Australian':

- Ownership: At least 50% of the entity's ownership must be Australian, including any parent businesses, or its principal trading activity must take place on an Australian equities market.
- Tax residency: The entity must be an Australian tax resident.
- Principal place of business: The primary place of business must be in Australia."

In the report, we outline that Australian businesses should also be assessed on supply chain metrics and leadership and control tests. Supply chain metric: measures an organisation's "Australianness" not just by who owns it, but by how it spends its money. That is, the percentage of contract value that flows to other Australian businesses. A company that actively cultivates a deep and resilient domestic supply chain provides far greater economic and strategic benefit than one that simply acts as a local storefront for imported goods. The leadership and control test: measures an organisation's "Australianness" by where its strategic, financial, and operational decisions are ultimately made.

**National resilience**

The capacity of the nation—across its institutions, industry, communities, and critical systems—to anticipate, withstand, adapt to, and recover from adverse events and crises, whether natural or human-made, ensuring the continuity of essential functions, the preservation of sovereignty, and the ability to deter, absorb, and rapidly recover from shocks or disruptions to security or supply chains: Building national resilience requires closer partnerships between the Commonwealth, states, territories and industry. These partnerships will help address challenges that require effective coordination between all levels of government, including threats to sovereignty, social cohesion, critical infrastructure and transport security. These partnerships will also enable more effective responses to foreign interference, espionage, terrorism and violent extremism. National resilience includes ensuring that civil society and civil infrastructure can support ADF requirements, including our network of northern bases, roads, railways, ports and telecommunication networks. (National Defence Strategy 2024).

**Sovereign capability**

Sovereignty and sovereign capability are often confused. Sovereignty refers to Australia's right and authority to make independent decisions, including defence and security decisions. It is: "*The capacity of a people, through their government, to determine their own circumstances and to act of their own accord, free from any coercive influence. Defence capability is a key factor in sovereignty. It does not define sovereignty."* (Minister for Defence). In the defence context, sovereignty refers to Australia's ultimate authority and freedom to make independent decisions about its national security, military operations, and strategic priorities. It is about possessing the legal and political power to act in Australia's national interest without undue reliance on, or constraint by, foreign governments, suppliers, or systems. Sovereignty is fundamentally about decision-making power.

Sovereign capability refers to the specific defence-related industrial, technological, and operational capabilities that Australia must either own, control, or have assured access to in order to exercise sovereignty effectively. It focuses on the practical ability to design, manufacture, sustain, upgrade, and support critical defence systems and services within Australia—or under reliable, secure arrangements. Sovereign capability is about having the means to act independently when required.

**Sovereign industrial capability**

The capacity for Australia to independently design, develop, produce, sustain, and upgrade critical defence assets, enabling Defence to employ and support military capability, technology, services and infrastructure as needed for national security especially during crises or supply chain disruption. Critical elements of sovereign industrial capability include:

- resilient domestic supply chains, local ownership, management, and technical capacity in priority areas identified by Defence
- a domestic workforce, and an industrial base capable of maintaining essential Defence functions under strategic pressure and without reliance on assistance from foreign countries that are not allied or friendly with Australia.

# Key Parameters of the Analysis

- **Project Objective**: Modelling budget-neutral scenarios and to understand and analyse the economic impacts of directing proportionally more Defence procurement spending to Australian-owned and operated major defence companies (Australian primes) and SMEs in order to inform future policy discussions, procurement decisions, and potential refinements to the CPR framework in a way that strengthens national sovereign capability and maximises economic outcomes for the Australian taxpayer.
- **Significance of Defence Procurement**: Defence plays a dominant role in Commonwealth Government procurement. In 2024–25, Defence accounted for around 56% of the total value of government contracts awarded.[1] Defence is by far the largest spender in the federal government when it comes to net capital investment and procurement from private suppliers. Defence spending in 2024-25 totalled $57.06 billion (roughly $156 million per day).[2] After excluding Defence-related benefits (veteran's benefits, military superannuation payments, and Defence housing programs), Australian Government spending on defence accounts for around 6.5% of total government expenses.[3]
- **Commonwealth Procurement Rules (CPR) Reforms**: CPR reforms have lowered thresholds requiring the completion of economic and strategic benefit assessments from $4 million to $1 million procurement levels and increased mandated SME participation targets to a 25%-40% range. From November 2025, a new definition of an Australian business requires entities to meet ownership, tax residency, and principal business location criteria to be considered Australian for procurement purposes. These reforms aim to align procurement with broader policy goals such as sovereign capability, supply chain resilience, and domestic industry growth as articulated in the Government's Future Made in Australia and Buy Australian policies.
- **Procurement Dominated by Foreign Entities and Large Primes**: Much of Defence's procurement spending is directed towards multinational primes, albeit with Australian ABNs and addresses, although disaggregating this data exactly based on currently available public data sets is not possible. Australia hosts approximately 5,500 defence suppliers, mainly SMEs, with capabilities spanning munitions, shipbuilding, autonomous systems, cyber security, medical services and so on. SMEs often face barriers when competing against multinational primes dominating procurement.

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[1] AusTender, *Contracts by Procuring Agencies* (2025), https://help.tenders.gov.au/getting-started-with-austender/information-made-easy/contracts-by-agency.
[2] Department of Defence, *Portfolio Budget Statements: 2025-26* (2025), https://www.defence.gov.au/about/accessing-information/budgets/budget-2025-26.
[3] Treasury, *Budget Strategy and Outlook: Budget Paper No. 1* (2025), https://budget.gov.au/content/bp1/download/bp1_2025-26.pdf.

# Key Findings

This report presents a comprehensive analysis of the net benefits generated by directing a greater proportion of Australian defence spending, both materiel and services, towards genuinely Australian-owned and operated prime contractors. The modelling, based on budget-neutral scenarios, demonstrates that prioritising defence spending directed to sovereign Australian firms as opposed to foreign-owned subsidiaries delivers a significantly superior economic and strategic return for the nation – a Defence Dividend.

Our central finding is clear: a strategic reallocation of Defence procurement funding is one of the most powerful policy levers available to the government to maximise domestic economic benefit, create high-value jobs, and build genuine sovereign capability.

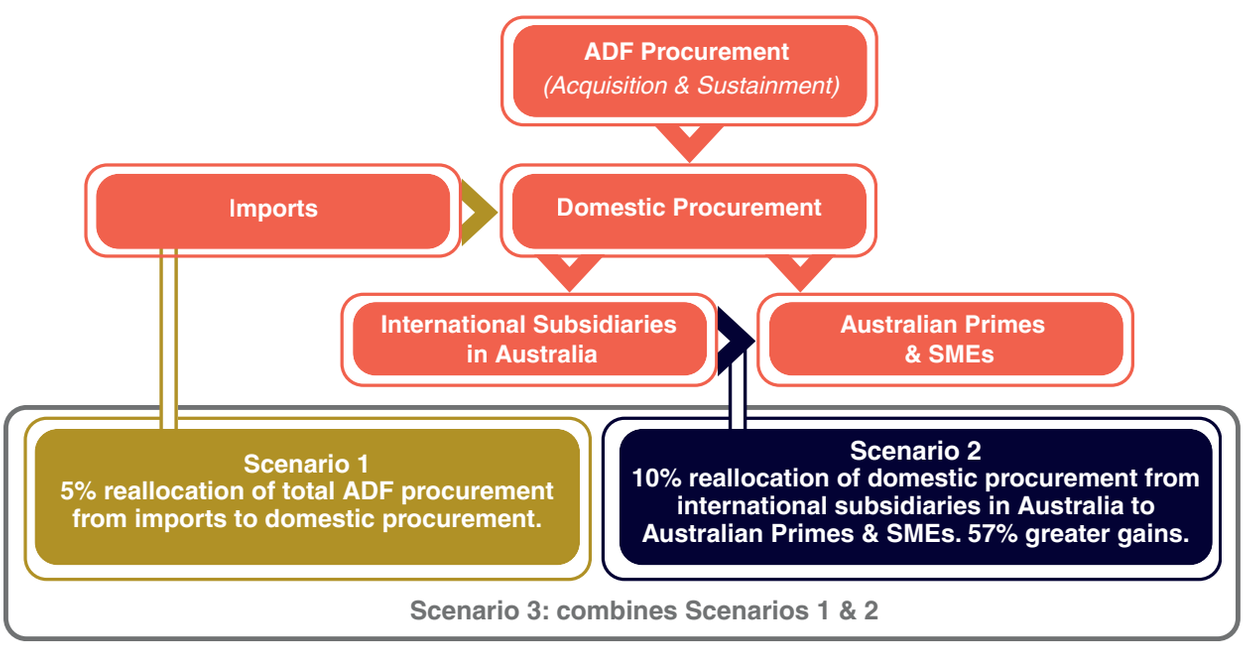
## A Compelling Sovereign Dividend: Modelling Three Scenarios

This report presents a comprehensive analysis of the net benefits generated by directing a greater proportion of Australian defence spending towards genuinely Australian-owned and operated prime contractors. The modelling, based on budget-neutral scenarios, demonstrates that prioritising defence spending directed to sovereign Australian firms as opposed to foreign-owned subsidiaries delivers a significantly superior economic and strategic return for the nation – a Defence Dividend.

Our central finding is clear: a strategic reallocation of Defence procurement funding is one of the most powerful policy levers available to the government to maximise domestic economic benefit, create high-value jobs, and build genuine sovereign capability.

We modelled three budget-neutral scenarios (i.e., assuming no change to the planned Defence budget set out in the National Defence Strategy) against the current baseline to quantify the national benefit of a revised procurement strategy.

*Figure 1. Illustration of scenarios 1 & 2 flows with indicative percentages*




- Scenario 1 involves shifting a portion of *total* Defence spending (5%) from imports to Australia-based companies (including foreign subsidiaries).
- Scenario 2 involves reallocating a portion of *domestic* Defence spending (10%) from foreign-owned subsidiaries based in Australia to fully Australian-owned companies.
- Scenario 3 involves combining Scenarios 1 and 2 and has a multiplicative effect that increases the size of the positive impacts. That is, the scenarios are not mutually exclusive.

All scenarios create positive impacts through increased local jobs, taxes, and indirect supply chain stimulus. Although the table below shows the greatest gain is from redirecting imports to all firms in Australia, within that reallocation there are funds going to foreign subsidiaries and Australian firms. The funds going to genuine Australian companies offer an incremental gain of $0.35-$0.58 per dollar or a 57% added gain, as shown in Table 2.

*Table 1: Comparison of scenario outcomes*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | Job Creation (Annual) |
|---|---|---|---|
| Scenario 1: Shift defence spending from imports to domestic procurement (from Australian-based entities, including foreign subsidiaries in Australia) | 5% of total Defence procurement | $3.4-5.6 billion | 17,131-29,278 FTEs |
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian companies | 10% of local Defence procurement | $1.4-2.3 billion | 7,558-12,474 FTEs |
| Scenario 3: Scenario 1 + Scenario 2 | 1 + 2 | $5.0-8.1 billion | 25,569-43,205 FTEs |

Table 1 presents the results at a broad aggregate level and demonstrates that a combination of both Scenarios 1 and 2 will yield the highest benefits in terms of net GDP and job creation.

Table 2 below breaks down the analysis to a granular return per $1 million of spending. This is important because it highlights the superior returns from prioritising Australian-owned primes and SMEs over foreign-owned entities or imports.

While Table 1 demonstrates the overall national benefits of redirecting total defence procurement from imports to any Australian-based firms, the per-dollar lens in Table 2 underscores a "Defence Dividend" from redirecting spending away from imports *and* Australian-based foreign primes towards Australian-owned primes and SMEs.

- Every $1 million of Defence procurement redirected from imports to foreign-owned Australian subsidiaries increases Australia's GDP by $610,000 to $1 million.
- Every $1 million of Defence procurement redirected from imports to Australian-owned primes and SMEs instead delivers an increase to Australia's GDP of between $960,000 and $1.57 million.

Reallocating Defence spending from foreign-owned Australian subsidiaries to genuinely Australian-owned primes and SMEs generate much greater (57% more) net returns per dollar spent for Australia—economically and strategically—than simply increasing total domestic Defence spending without regard to ownership structure.

Scenario 1 involves redirecting imports - if it is refined into redirecting *total* spending from imports to Australian-owned primes and SMEs (first green row in the table) and combined with redirecting *domestic* spending to Australian primes and SMEs (second green row in the table), the defence dividend is optimised.

The green-highlighted rows emphasise that reallocations of spending from imports and domestic spending that target Australian primes and SMEs deliver the best outcomes.

*Table 2. Economic gains per $1 million reallocated*

| Budget reallocation option | GDP Added per $1mn reallocated | Job Creation per $1mn reallocated | Economic Leakage |
|---|---|---|---|
| Scenario 1: Shift from imports to domestic procurement | $0.75M-$1.23M | 3.8-6.4 FTEs | Medium |
| ○ (a) Shift from imports to Australian companies | $0.96M-$1.57M | 4.9-8.3 FTEs | Low |
| ○ (b) Shift from imports to foreign-owned Australian subsidiaries | $0.61M-$1.00M | 3.0-5.1 FTEs | High |
| Scenario 2: Shift from foreign-owned Australian subsidiaries to Australian companies | $0.35-$0.58M | 1.9-3.2 FTEs | Reduced |

The core difference between the scenarios lies in economic leakage. Ownership matters because nominally "Australian" subsidiaries of multinational primes funnel substantial dividends and management overseas, limiting local benefits even as local operations create jobs in Australia. Profits, decision-making, and intellectual property (IP) with foreign subsidiaries tend to flow offshore, reducing the multiplier effect and weakening Australia's capacity for innovation and self-reliance.

Foreign-owned subsidiaries, although employing Australians and maintaining operations here, repatriate profits, dividends, and often supply chain and back-office expenditures to the parent country. As a result, less economic benefit is retained in Australia.

In contrast, genuinely sovereign primes and SMEs:

- Retain profits onshore, reinvesting in local R&D and workforce.
- Deliver higher fiscal returns via tax revenue and income circulation.
- Strengthen sovereign capability by keeping strategic decision-making and IP in Australia.
- Prioritise Australian SMEs in their supply chains.
- Reduce economic vulnerability by limiting dependence on global corporate priorities, which may not align with national interests.

Government should prioritise sovereign Australian companies in procurement to capture a 57% added gain, and to foster high-value jobs and innovation spillovers that align with national sovereignty goals. This option yields higher multiplier effects, innovation spillovers, export potential, and ESG benefits. Not all the benefits are typical or easily measurable economic benefits but have a real impact on the national economy and long-term security of Australia and its citizens. The approach includes a *Sovereign Dividend Scorecard* that seeks to quantify and weight these more difficult to measure values.

## Need for a Balanced Approach

While a reallocation of spending to Australian primes delivers the greatest net advantage per dollar, a balanced approach between Australian and foreign partner capability is essential. Australia faces significant structural challenges in defence sector transformation, including fragmented industrial capacity, workforce shortages—particularly in advanced trades, engineering, cybersecurity, and digital roles—and supply-side bottlenecks. Strategic procurement must therefore target increased domestic preference in priority areas—critical capabilities, innovation platforms, exportable technologies—while maintaining flexibility to access specific foreign technologies and capabilities from trusted international partners when necessary. Combining both approaches—expanding overall domestic spend with Australian primes but favouring sovereign primes where logical—maximises economic return and resilience, while mitigating capacity risks, and thereby producing a sovereign dividend.

## A Procurement Framework Misaligned with National Objectives

Our analysis extended beyond economic modelling to assess the current procurement framework. We find that some aspects limit Australia from achieving its stated goals for sovereign capability, local jobs, and economic growth.

The Government's procurement process suffers from:

- A disconnect between high-level policy objectives and the on-the-ground decision-making of procurement officers.
- An outdated and narrow definition of "value for money" that fails to account for whole-of-nation benefits.
- A risk-averse culture that defaults to large, well-marketed foreign firms over innovative, high-value Australian SMEs and primes, directly undermining our sovereign industrial base and national resilience.

Our conclusions reinforce those of the Australian National Audit Office in its 2025 review[4] of Defence contracts, which found that "Defence has not maximised Australian industry participation through the administration of its contracts," and that it has been unable to ensure suppliers met their local participation promises. There is no indication that Defence is measuring or actively attempting to achieve greater domestic purchases, suggesting that higher level direction is necessary to achieve change.

## Summary of Findings

The analysis in this report has identified compelling evidence that directing a greater proportion of defence procurement spending towards genuinely Australian-owned and operated prime contractors delivers significant economic and strategic benefits—the sovereign dividend—for the nation. The economic modelling demonstrates that reallocating spending domestically from foreign-owned subsidiaries to Australian primes yields higher returns per dollar, minimises economic leakage, strengthens supply chain resilience, retains intellectual property and strategic control, and creates high-quality jobs and innovation spillovers. Strategically mixing local capability building with selective international partnerships avoids inefficiency, protects against overdependence, and ensures optimal outcomes for the ADF and the broader economy. A realignment of the CPRs to direct more procurement towards Australian firms is one of the most powerful policy levers available to maximise Australia's sovereign capability and economic growth.

Despite recent reforms to the CPRs, the current procurement framework remains somewhat misaligned with these findings. Procurement decision-making continues to rely on outdated, narrow definitions of value for money focused on upfront cost rather than whole-of-life and whole-of-nation benefits. Ambiguities in defining an "Australian business" allow foreign-owned entities to capture contracts, limiting genuine domestic capability development. Furthermore, public servants in charge of procurement lack clear, practical tools and guidance to prioritise strategic national interests in tender evaluations,

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[4] Australian National Audit Office, *Maximising Australian Industry Participation through Defence Contracting*, Auditor-General Report No. 31 2024–25 (2025), https://www.anao.gov.au/sites/default/files/2025-05/Auditor-General_Report_2024-25_31.pdf.

perpetuating risk-averse behaviour favouring large foreign primes over innovative Australian SMEs and primes.

To fully realise the sovereign dividend revealed by economic evidence, reforms are required. These include redefining value for money to encompass the broader economic, strategic growth, and sovereign capability dividends; strengthening the definition of Australian business to capture ownership, control, supply chain commitments and IP retention; empowering procurement officials with quantitative decision-support frameworks; and adopting a whole-of-government approach aligning procurement with national strategy.

This integrated approach will ensure that future defence procurement not only delivers required capability but also builds a resilient, innovative, and sovereign Australian defence industrial base that supports national security, sustainable economic development, and global competitiveness.

# Recommendations

## Strategic Recommendations: A Framework for a Stronger Nation

Realising the full potential of the sovereign dividend requires urgent and decisive reform. This analysis proposes an upgraded Defence procurement framework to ensure every dollar of defence spending delivers maximum value for Australia. We have five strategic recommendations for the Australian Government to provide a more sophisticated framework for a stronger nation.

### 1. Redefine 'Value for Money'

Too often, "value for money" is interpreted as the lowest upfront price, neglecting potentially immense downstream benefits. True value for money in the context of Defence procurement incorporates sovereign capability, supply chain resilience, economic multipliers, innovation spillovers, local job creation, and national security considerations. The Australian Government should establish a mandatory weighted procurement evaluation framework that quantifies the total value proposition of a bid. Australian Government procurement policies and practices must explicitly acknowledge that the "value" in value for money is not just the “ticket price” but also the strategic and broader economic value — measured by the contribution to Australia’s sovereign industrial base and national resilience. This redefinition requires formal articulation in procurement guidelines, training, and accountability mechanisms to ensure that procurement officers and decision-makers understand the strategic imperatives of defence expenditure. Without this foundational shift in perspective and mandate, procurement practices will continue to undervalue the wider economic and strategic benefits that may accrue from supporting Australian-owned and operated firms in high-value defence contracts.

### 2. Adopt a Quantitative Framework for Procurement Decisions

The Government should adopt a quantitative tool, such as the recommended Sovereign Dividend Scorecard prepared as part of this project for Defence procurement. This framework moves the assessment beyond the ticket price to a holistic "net benefit to nation" calculation. Any new framework must measure all benefit pillars and give explicit weighting to three core dividends:

- The Economic Dividend: The net value to the nation after accounting for local taxes, job creation, and domestic income gains.
- The Strategic Growth Dividend: The contribution to export potential, innovation, and Australia’s overall economic complexity.
- The Sovereign Capability Dividend: The direct benefit to national self-reliance and resilience through Australian ownership, resilient supply chains, and sovereign control of IP.

### 3. Strengthen the Definition of an "Australian Business" and extend the preference threshold

The definition of Australian business in Defence’s industry policy should be strengthened to ensure contracts awarded in the national interest deliver genuine sovereign benefits, prioritising firms with Australian ownership, control, and IP retention, reflecting the new 2025 definition included in the CPRs, and use it for all future tender design, analysis and subsequent reporting. The CPR reforms to some extent address the previous ambiguity which allowed foreign-owned subsidiaries to capture contracts intended to benefit our domestic industry. However, Defence must adopt a more rigorous, multi-dimensional definition that distinguishes genuinely sovereign companies from local branch offices as defined in the new CPR. This definition must go beyond an Australian Business Number (ABN) to include:

- Australian Ownership and Control: Prioritise entities with majority Australian ownership, an Australia-based board, and ultimate decision-making authority residing within Australia.
- Supply Chain Commitment: Measure the percentage of actual contract value flowing to Australian SMEs, rewarding bidders who actively build Australia’s domestic industrial ecosystem.
- IP Ownership: Place a premium on bids where critical IP is owned and controlled by Australian entities, ensuring our long-term freedom to modify, sustain, and upgrade capabilities.

### 4. Empower Procurement Officials with Clear Tools and a Stronger Mandate

Policy intentions are failing at the operational level because procurement officers lack the tools and confidence to prioritise sovereign outcomes. Systemic changes are essential to empower these key decision-makers. The Australian Government should:

- Provide Practical Tools: Procurement decisions must move beyond the "ticket price." We propose a three-pillar framework—Economic Dividend, Strategic Growth Dividend, and Sovereign Capability Dividend—be embedded into the decision-making process to quantify the comprehensive value of local procurement, including fiscal impact, supply chain resilience, and innovation potential. The Australian Government should develop and adopt user-friendly tools, such as the Sovereign Dividend Scorecard with its simple spreadsheet format, to make assessing broader benefits straightforward and repeatable.
- Provide Unambiguous Guidance: Centrally issued guidance from Treasury and Finance is required that provides a clear methodology for quantifying and weighing non-price criteria, removing subjectivity and de-risking the decision to back Australian industry.
- Hold Defence Accountable for Local Content: Use evidence from Australian National Audit Office (ANAO) reports to demand robust verification and enforcement of Australian Industry Capability (AIC) plans, ensuring commitments made in tenders are delivered in practice.

### 5. Adopt a Deliberate Whole-Of-Government Approach to Defence Procurement as a Key Driver of National Economic Strategy

The Australian Government should reframe Defence procurement as a primary instrument of national policy, not merely a cost impost. This requires a whole-of-nation approach as set out below:

- Integrate Procurement with National Strategy: procurement decisions must be explicitly aligned with national economic priorities, targeting investment in areas of strategic importance.
- Adopt a Whole-of-Government Approach: Defence procurement cannot operate in a silo. A coordinated, whole-of-government strategy is essential to integrate industry policy, workforce development, and strategic priorities, ensuring Defence investment builds enduring national capability and prosperity.
- Highlight the Superior Return on Investment: Our economic modelling shows that reallocating spending to Australian primes yields much higher multiplier effects, innovation spillovers, export potential, and ESG benefits, presenting a powerful, evidence-based argument for changing procurement behaviour.

# Executive Summary

## Objectives and background

The Sovereign Australian Prime Alliance (SAPA) tasked DeltaPearl Partners to analyse the net economic returns of directing greater proportions of Defence procurement spending towards Australian-owned and operated companies (Australian primes).

The Australian Government introduced reforms to the CPRs 2025 with the aim of directing more procurement toward goods and services from domestic firms; the CPRs apply to all Commonwealth Government procurement but will have a particularly significant impact on Defence, which is the largest departmental procurer by a considerable margin. In 2024-25, Defence awarded $58.76 billion in procurement contracts,[5] and accounted for 56.1% of government contracting by value.

The CPR reforms align with the Australian Government's emphasis on sovereign capability, supply chain resilience, and enhancing the development of the domestic defence industry as expressed in the National Defence Strategy (2024)[6] and related policy and strategic documents (e.g., the Defence Industrial Development strategy (DIDS) [7] and the Cyber Security Strategy[8]). They also align procurement with the broader policy goals articulated in the Government's Future Made in Australia and Buy Australian policies. The CPR reforms strengthen requirements to consider "broader economic benefits" by lowering the thresholds for high-value procurements that require this assessment and increase commitments to source from SMEs, which are a significant component of the Australian defence industry, operating alongside large international primes, which have dominated Defence procurement to date. As part of the CPR reforms, the Government included a definition of an Australian business for procurement.[9] However, only procurements under $125,000 are required to be directed toward Australian companies, a threshold that is insignificant in the Defence context, reducing the impact of the new definition in prioritising Australian businesses. Current Defence investment plans indicate an increased use of foreign defence primes, suggesting that international primes will continue to dominate procurement without a considerable change to procurement policy.

This report seeks to model and measure the "sovereign dividend"—the range of economic returns and strategic benefits that accrue when Australian suppliers deliver defence contracts. The ultimate aim is to provide SAPA and the Government with a defensible evidence base to inform future policy discussions, procurement decisions, and potential refinements to the CPR framework that extend access to Defence spending for Australian defence firms in a way that strengthens national sovereign capability.

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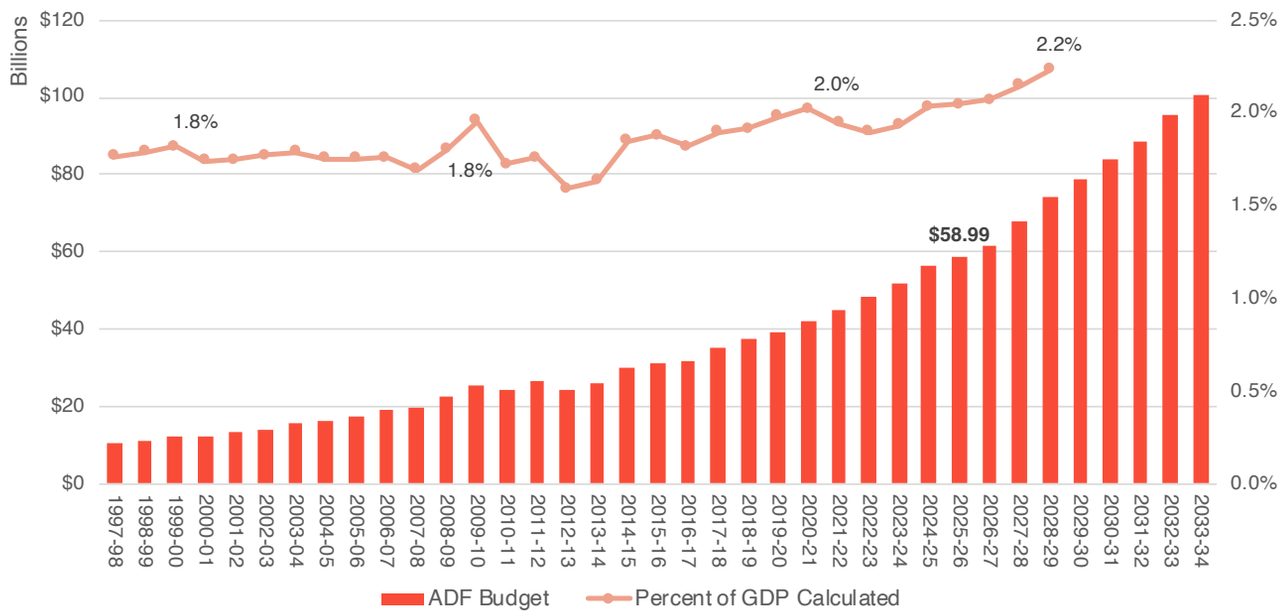
[5] AusTender, *Contracts by Procuring Agencies*.
[6] Department of Defence, *2024 National Defence Strategy* (2024), https://www.defence.gov.au/about/strategic-planning/2024-national-defence-strategy-2024-integrated-investment-program.
[7] Department of Defence, *Defence Industry Development Strategy* (2024), https://www.defence.gov.au/about/strategic-planning/defence-industry-development-strategy.
[8] Department of Home Affairs, *2023–2030 Australian Cyber Security Strategy* (2023), https://www.homeaffairs.gov.au/cyber-security-subsite/files/2023-cyber-security-strategy.pdf.
[9] Department of Finance, *Commonwealth Procurement Rules* (2025), https://www.finance.gov.au/sites/default/files/2025-10/Commonwealth-Procurement-Rules-2025.pdf.

# Defence procurement from Australian businesses

In the 2025-26 current year, total defence funding is budgeted at 2% of GDP ($58.99 billion), with planned funding growing to $100 billion in 2033-34 under the 2024 National Defence Strategy.[10] Defence spending includes wide-ranging investments in equipment, capability upgrades, infrastructure, technology, digital and health services, recruitment, sustainment and other services.

*Figure 2. Australian Defence Funding, FY1998-2034* [11] [12] [13] [14] [15]




Australia has a deep industrial base with defence capabilities and expertise spanning a wide range of products and services, from munitions and armed surface ship building to digital and combat-zone health services, to drones and counter drones, digital and cyber safety services, as well as space and counter-space products. The Australian Bureau of Statistics (ABS) estimates that there are around 5,500 Australian defence suppliers, and that the majority are SMEs. Many have defence and “defence-adjacent” capabilities, meaning their products and services are sought by defence and the civil sector. For example, among the SAPA members, Drone Shield’s autonomous systems, Gilmour’s space-based technologies, and Macquarie Technology Group’s cybersecurity services are applicable to the civil sector as well as Defence.

The Australian Government’s strategic ambition for its defence expenditure is clear, multifaceted, and extends far beyond the acquisition of military hardware. It is an instrument of statecraft intended to achieve a suite of interlocking national objectives: fostering a secure domestic supply chain, catalysing high-tech manufacturing, developing critical minerals and high-value service industries, nurturing innovative technology and a highly skilled workforce, and embedding robust ESG principles. Crucially, these elements are designed to cohere into a resilient sovereign industrial base capable of ensuring Australia’s security, even under the duress of conflict.

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[10] Department of Defence, *2024 National Defence Strategy*.
[11] Includes funding the Department of Defence, Australian Signals Directorate, and Australian Submarine Agency.
[12] Department of Defence, *Portfolio Budget Statements: 2011-12 to 2025-26* (2025), https://www.defence.gov.au/about/accessing-information/budgets/budget-2025-26.
[13] ASPI, *The Cost of Defence Public Database* (2021), https://www.aspi.org.au/report/cost-of-defence-database/.
[14] Department of Defence, *2024 National Defence Strategy*.
[15] Parliamentary Budget Office, *PBO Historical Fiscal Data: 2025-26 Budget Update* (2025), https://www.pbo.gov.au/publications-and-data/data-and-tools/data-portal/historical-fiscal-data.

*Text Box 1: The CPR reforms of 2024 and 2025*

**The CPR reforms of 2024 and 2025**

All Commonwealth procurement (including by Defence) is governed by the CPRs issued by the Department of Finance. The CPRs are of particular significance to Defence given it is the major Commonwealth procurer of goods and services. Reforms during 2024 and 2025 represent a significant evolution in Australian Government procurement policy, marking a shift toward leveraging Commonwealth procurement as a tool for fostering sovereign defence industrial capability and economic benefit.

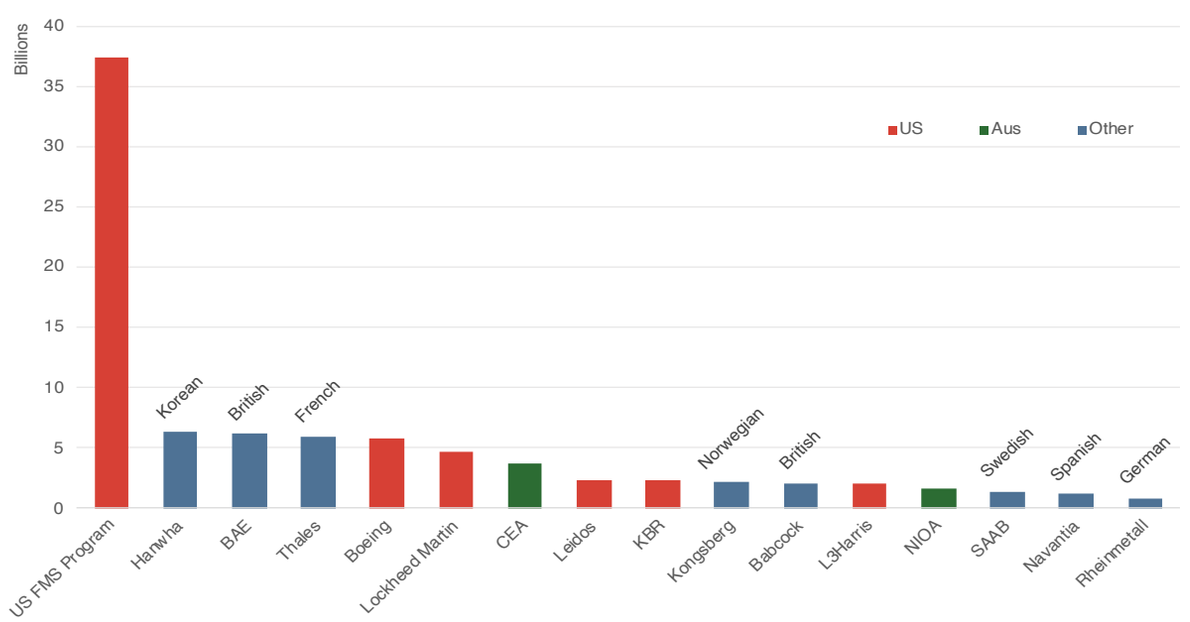
In 2025, the Australian Government introduced reforms to the CPRs that:

- lowered procurement thresholds for broader economic benefits assessments; and
- increased commitments to sourcing from SMEs.
- In November 2025, further reforms included:
- a formal definition of an "Australian business" for procurement purposes, establishing criteria of Australian ownership of at least 50%, tax residency, and principal place of business within Australia (this followed release of a draft definition in March 2025)
- mandates that Australian businesses be given preference in certain circumstances (limited to tenders under $125,000).

As this analysis finds, the reforms constitute a meaningful but incomplete step. Their success in advancing sovereign capability hinges on enhancing definitional clarity, removing the low caps on the dollar value of tenders, operational mandates, and decision-support tools to translate policy ambitions into measurable and enforceable procurement outcomes.

The Australian Government has recognised the importance of directing more procurement toward Australian defence firms in the CPR reforms and broader policies and strategies. Nevertheless, the top fifteen defence contractors are virtually all foreign-owned entities (known as primes), as shown below. Many have businesses operating in Australia, with Australian ABNs and addresses, but their headquarters and IP are not owned by Australia.

*Figure 3. Value of Australian defence contracts awarded to the top 15 defence contractors, FY2021-2025*[16]




[16] DeltaPearl Partners, from; AusTender, *Contract Notices 2020-2025* (2025), https://www.tenders.gov.au.

Domestic Australian companies and SMEs win a small proportion of defence contracts in terms of contract value and often they play a dominant role only in support services and niche innovation segments. This dynamic poses risks for Australia's sovereign capability and limits the development of an Australian domestic defence industry.

Under the Australian Industry Capability (AIC) program, tenderers for significant Defence contracts have been required to develop detailed AIC plans illustrating how Australian industry will be engaged at all stages of the procurement and supply chain, with the aim of ensuring that international primes adopt Australian firms as subcontractors and suppliers. However, a 2025 review of Defence contracts by the Australian National Audit Office (ANAO, 2025)[17] found that Defence had not maximised Australian industry participation through its contract administration in practice, and that it was unable to ensure suppliers met their local participation promises.

The Australian Government's goal for procurement must extend beyond mere local participation targets to achieving substantive, verifiable contributions to Australia's sovereign industrial capability, innovation capacity, and economic resilience—yet the 2025 ANAO review reveals that Defence has struggled to meet basic local participation commitments, highlighting a systemic failure to translate policy ambition into operational reality and to fully capitalise on the strategic potential of domestic industry engagement.

*Figure 4. ANAO Review (2025) of Defence's implementation of local participation requirements*

| Contract | Did Defence effectively advise potential suppliers of DPIP requirements? | Has Defence contracted with suppliers in accordance with DPIP requirements? | Has Defence monitored industry compliance with contracted DPIP commitments? |
|---|---|---|---|
| 1. Missiles | ▼ | ▼ | ▼ |
| 2. DSS | ■ | ■ | ■ |
| 3. Utility | ■ | ■ | ■ |
| 4. Systems | ▲ | ▲ | ■ |
| 5. MSP | ■ | ▼ | ■ |
| 6. Monitoring | ▲ | ▲ | ■ |
| 7. Learmonth | ▲ | ▲ | ▼ |
| 8. Tindal[a] | ▲ | ▼ | ▼ |

Key: ◆ Effectively met all AIC requirements; ▲ Largely met most AIC requirements; ▼ Partly met the AIC requirements; ■ Did not meet AIC requirements

Note a: This procurement occurred across two phases (started in 2018 and 2020 respectively) with an overall project LIC plan. As part of Defence's management of this project, the approved LIC plan was revised and re-approved after 2018. The plan has been reviewed since execution of the Delivery Phase contract in 2020.

Source: ANAO analysis of Department of Defence documents.

*Note: DPIP denotes the Defence Policy for Industry Participation (2019) that requires AIC plans and schedules for materiel and non-materiel procurements above $4 million and LIC plans for construction services procurements above $7.5 million.*

As ANAO concluded:

> *Defence has not maximised Australian industry participation through the administration of its contracts. Defence industry policy and contracting requirements were not applied to all relevant procurements, and — where supplier commitments have been contracted — Defence has not effectively monitored or ensured the delivery of those obligations. … each [of the contracts examined] had one or more important shortcomings resulting from limitations in Defence's advice to potential suppliers, weaknesses in Defence's contracting of industry participation commitments, and ineffective monitoring of supplier compliance with those commitments*[18]

[17] Australian National Audit Office, *Maximising Australian Industry Participation through Defence Contracting*.
[18] Ibid.

In this context, this report seeks to answer the following questions

- what are the benefits of directing more procurement toward domestic businesses?
- can these benefits be quantified in the Australian context?
- are the current CPR reforms sufficient to increase procurement to Australian businesses and to achieve stated Defence goals of sovereign capability and national resilience?
- what reforms might be required to achieve these goals through procurement?

The Australian Government should be strategic in identifying priority areas in which to target increased domestic procurement, and in which areas to rely on trusted international partnerships to access foreign capabilities. Australia's relatively small population and industrial base, compared to, for example, US or EU providers, mean that relying on domestic firms to deliver every required capability is not feasible or desirable. Targeting domestic preferences in priority areas, combined with trusted international partnerships to access foreign capabilities, will yield strong economic benefits and sovereign capability dividends for Australia.

# Benefits of directing more procurement to Australian businesses

In considering the benefits of more “local procurement” in defence, there needs to be an awareness that defence is different from other industries and hence the nature and extent of the benefits of procuring more from Australian industries than from overseas may differ from other industries. Defence differs from other industries because:

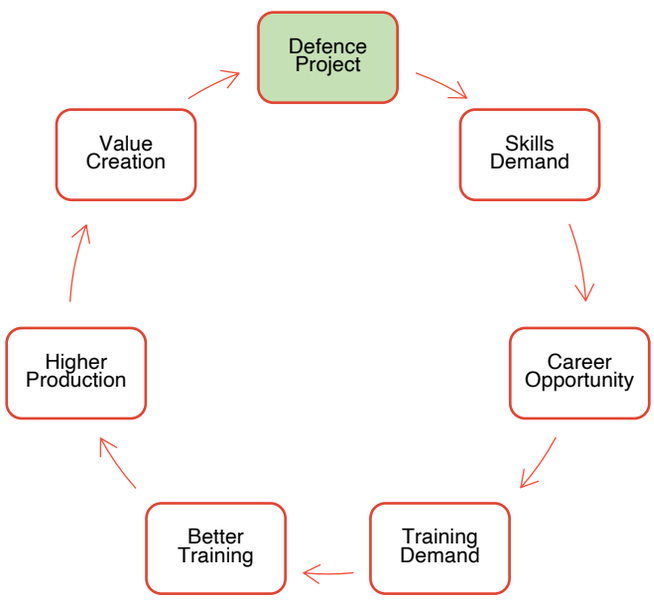
- it procures strategic goods and services that contribute to sovereign capability and national resilience, which are public goods that benefit all Australians, particularly as Australia enters an era of greater uncertainty and strategic challenges;
- it is not a normal free market owing to restrictions on many parts of the market, government subsidies, protection, the benefits of incumbency, the monopoly/monopsony structure of the market, import/export controls, and so on; and
- defence supply chains must prioritise accessibility and operational readiness over cost efficiencies, even though cost efficiency is a critical consideration.

Economic theory and an extensive literature indicate that directing more procurement toward local suppliers has net benefits. These include building supply chain resilience, stimulating the Australian economy, creating high-value jobs, fostering innovation and spillovers, contributing to the development of export opportunities, and enhancing commitments to certain ESG goals. There are many trade-offs in allocating funding to Defence spending, including potentially crowding out other industries and inflating wages, which are considered in our analysis and estimated in our CGE modelling.

**Directing more procurement to Australian firms builds supply chain resilience**: Domestic sourcing reduces exposure to global shocks and enhances the ability of Defence to source goods and services in crises. Local capacity is particularly vital for continuity during conflict. Combining trusted international partnerships to access foreign capabilities with domestic sourcing in priority areas will yield substantial supply chain resilience benefits.

**Economic multipliers and job creation**: Every dollar invested directly in a local defence business circulates through supply chains and the economy, creating a multiplier effect. The spending supports not only direct jobs for engineers, technicians, and project managers but also a vast ecosystem of indirect jobs in the supply chain—from steel fabrication and software development to logistics and professional services. Furthermore, the jobs created are typically high-skilled, high-wage jobs that contribute to a stronger national tax base and foster a more advanced labour force. Domestic investments minimise 'economic leakage'—the portion of expenditure that would otherwise flow overseas. The investment circulates through the economy, supporting a vast ecosystem of Australian SMEs in the supply chain. The resulting tax revenue from businesses and employees further strengthens the national balance sheet, creating a virtuous economic cycle. There are trade-offs when the government redirects spending to Australian based organisations, including real constraints on the number of skilled workers and other resources. Modelling used for this report includes a CGE model, which has the ability to estimate the Australian domestic economic constraints.

*Figure 5. Virtuous circle of domestic defence projects*




**Innovation and spillovers**: Defence procurement often sits at the cutting edge of technological advances. Defence innovations diffuse into civilian markets, where they create large positive spillovers across the economy. The internet, GPS, and advanced composite materials are other well-documented examples of transformative civilian technologies that originated in defence applications. In the Australian context, examples of dual-use technologies include advances in autonomous defence systems which have accelerated robotics applications in mining and logistics. Australia's economy includes a large healthcare, mining, and agriculture sector that produces innovations that could benefit from connection into defence. Leveraging industry developments into defence has large national benefits for workers, skills, and the wider economy.

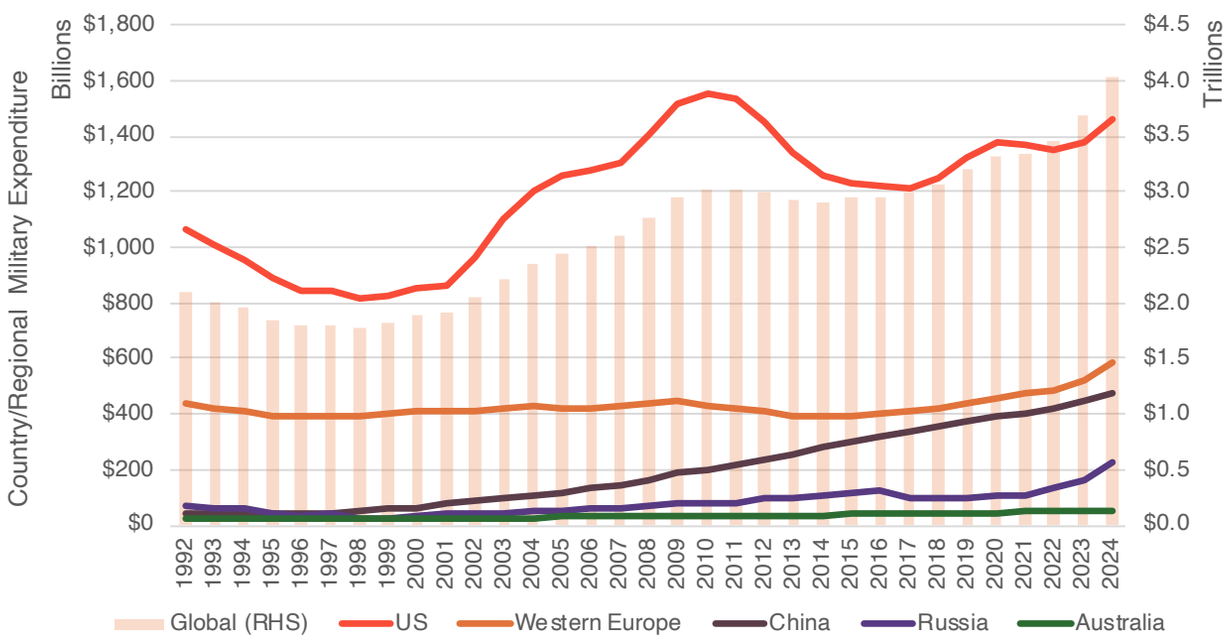
As mentioned, Australia has many small contractors and start-ups who are often at the forefront of technology development, particularly in fast-moving fields like artificial intelligence (AI), drones, and advanced sensors. These firms tend to be agile and capable of quick innovation compared with large primes, enabling rapid prototyping and adaptation.[19][20] Government investment in sovereign projects de-risks private research and development and creates a demand for cutting-edge solutions, boosting national productivity and drives a more complex, high-value industrial base. Technological diffusion is a critical, long-term economic benefit that is difficult to achieve by simply purchasing equipment or services

[19] E. Ilzetzki, "Guns and Growth: The Economic Consequences of Defense Buildups," *KIEL REPORT No. 2 I Kiel Institute for the World Economy*, 2025, https://www.ifw-kiel.de/publications/guns-and-growth-the-economic-consequences-of-defense-buildups-33747/., p.19
[20] Ibid.

from overseas, or with a sole fixation on project cost. A critical element of the technology diffusion is the fact that Australian primes are much more likely to use Australian based SMEs to deliver goods and services that further increases the domestic gains.

**Export potential**: Directing more procurement spending to Australian firms would assist Australian firms to tap into the global defence market, valued at over US$2.6 trillion (AUD4.01 trillion) in cumulative spending between 2023 and 2032. Capturing even a small portion of this market would add significantly to Australia's GDP, transforming the sector into a genuine engine of economic growth. A competitive defence export sector strengthens international partnerships, reduces lifecycle costs through scale, and attracts private capital. Exports transform defence from a cost centre into a revenue-generating industry. Prospective future exports gain has not been captured in this analysis.

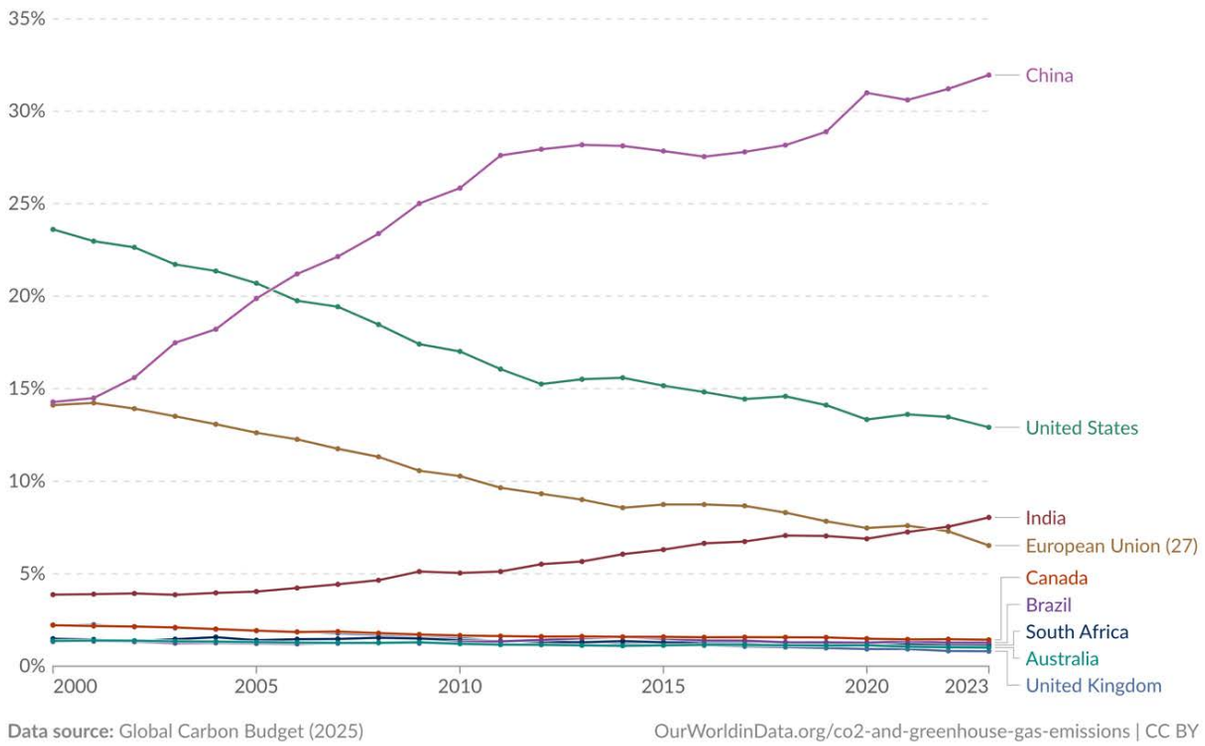
*Figure 6. The extent of the global military market, Australian dollars, real terms (2023 prices)*[21]




**ESG (Environmental, Social, Governance) benefits**: Offshoring defence procurement to overseas suppliers that lack Australia's robust ESG regime, which tends to increase base costs, produces global environmental and social harm, measurable in global carbon emissions, worker exploitation, and other measures. This "regulatory arbitrage" erodes local industrial capability and weakens ESG outcomes across the global supply chain. Compared to key international suppliers, Australia demonstrates exemplary outcomes on several high-impact environmental indicators, including global emissions, which are insignificant globally (see below). Australian emissions intensity is relatively low compared to other countries, firms produce 30% less CO2-e per dollar of GDP compared to US-based suppliers, which are the largest source of ADF imports. The US has recently removed major emissions restrictions, while Korea is only targeting a 1% reduction by 2030.

[21] DeltaPearl Partners, from; Stockholm International Peace Research Institute, "SIPRI Military Expenditure Database," 2025, https://doi.org/10.55163/CQGC9685.

*Figure 7. Share of global CO2 emissions by selected countries, 2000-2023*[22]




**Costs and risks:** In some but not all cases, there is a "local premium" for buying Australian defence-related goods and services owing to Australian defence companies having smaller production runs and limited economies of scale compared with multinational primes. There is no publicly available data to enable a comparison of such costs, although Australian SMEs assert that, in some cases, their costs can be 50% lower than overseas competitors.[23] An assessment of global inflation suggests that Australia's real costs of production have risen by less than those of some other countries.[24] However, even when there is a local cost premium at the point of purchase, directing more procurement to Australian defence businesses may deliver net benefits to the Australian economy because of the broader economic benefits.

The Australian Government must also bear in mind lessons from the past (e.g., the failure of the protected car industry to develop) and avoid the "infant industry trap," where protectionism and guaranteed funding create a permanently dependent and inefficient sector, rather than a globally competitive one,[25] thereby missing out on the economic benefits, such as future export revenues and economies of scale. Another key risk is that any increase in domestic Defence spending could crowd out current higher value activity, including mining, placing upward pressure on wages and inflation.

The Australian Government should be strategic in identifying priority areas in which to target increased domestic procurement, and in which areas to rely on trusted international partnerships to access foreign capabilities. Australia's relatively small population and industrial base mean that relying on domestic firms to deliver every required capability is not feasible or desirable. The report reviews some of the costs, risks, and barriers to production in more detail. However, targeting domestic preferences in priority areas, combined with trusted international partnerships to access foreign capabilities, will yield strong economic benefits and sovereign capability dividends for Australia.

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[22] Hannah Ritchie and Max Roser, *CO2 Emissions* (Our World in Data, 2024), https://ourworldindata.org/co2-emissions.
[23] House Standing Committee on Industry, Science and Resources, *Sovereign, Smart, Sustainable* (2023), https://www.aph.gov.au/Parliamentary_Business/Committees/House/Former_Committees/Industry_Science_and_Resources/Completed_Inquiries_of_the_47th_Parliament/AdvancedManufacturing/Report.
[24] Australian Bureau of Statistics, *CPI International Comparisons* (2023), https://www.abs.gov.au/articles/cpi-international-comparisons.
[25] Patrick Walters, *The End of the Road* (Australian Strategic Policy Institute, 2013), https://www.aspistrategist.org.au/the-end-of-the-road/.

# Quantifying the benefits of an increase in domestic procurement in Australia

Our economic evaluation demonstrates that increasing local content in Defence procurement delivers substantial and quantifiable benefits to the Australian economy. Using a robust framework combining input–output (IO) analysis and computable general equilibrium (CGE) modelling, we assessed the net impact of changes to the CPRs through to 2035. The findings clearly show that prioritising genuinely Australian-owned prime contractors provides a superior economic return for the nation compared to spending with foreign-owned subsidiaries based in Australia.

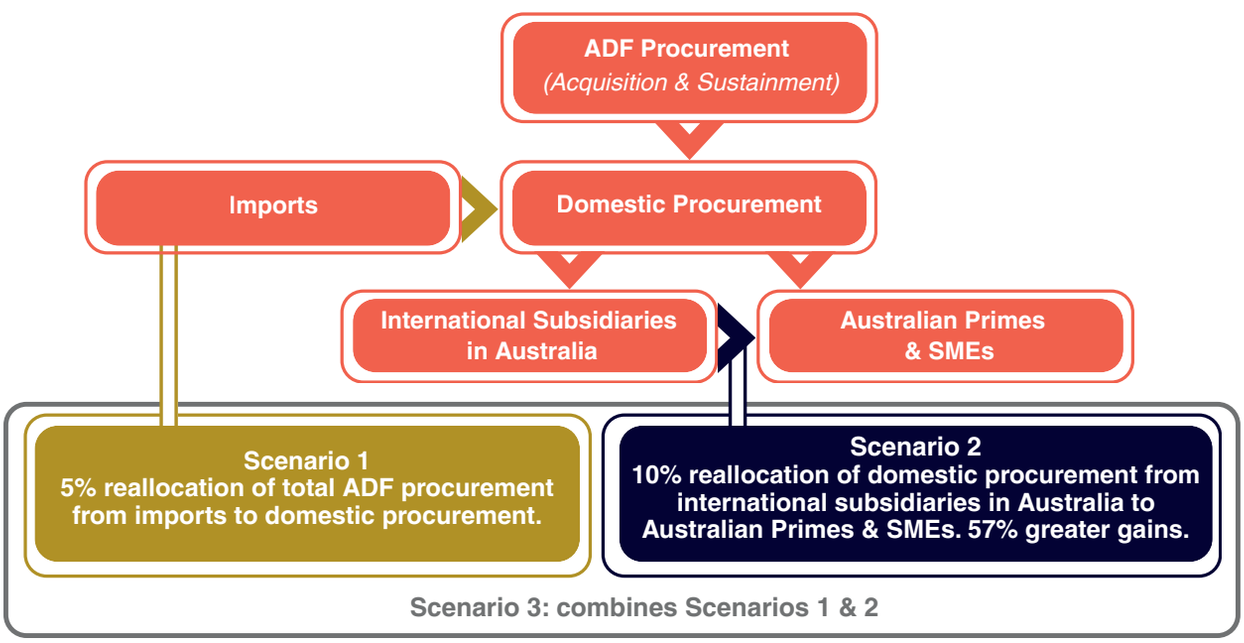
The modelling demonstrates that prioritising defence spending with sovereign Australian firms over foreign-owned subsidiaries delivers a significantly superior economic and strategic return for the nation – a sovereign dividend.

Our central finding is clear: a strategic reallocation of Defence procurement funding towards sovereign Australian firms is one of the most powerful policy levers available to the government to maximise domestic economic benefit, create high-value jobs, and build genuine sovereign capability.

## A Compelling Sovereign Dividend: Modelling Three Scenarios

We modelled three budget-neutral scenarios against the current baseline to quantify the national benefit of a revised procurement strategy. Scenario 1 involves shifting more defence spending from imports to Australia-based companies (including foreign subsidiaries), and Scenario (2) involves reallocating spending within Australia, diverting it from foreign-owned subsidiaries to fully Australian-owned prime contractors. Scenario 3 combines Scenarios 1 & 2.

*Figure 8. Illustration of scenarios 1 & 2 flows with indicative percentages*




- Scenario 1 involves shifting a portion of *total* Defence spending (5%) from imports to Australia-based companies (including foreign subsidiaries).
- Scenario 2 involves reallocating a portion of *domestic* Defence spending (10%) from foreign-owned subsidiaries based in Australia to fully Australian-owned companies.
- Scenario 3 involves combining Scenarios 1 and 2 and has a multiplicative effect that increases the size of the positive impacts. That is, the scenarios are not mutually exclusive.

All scenarios create positive impacts through increased local jobs, taxes, and indirect supply chain stimulus. Although the table below shows the greatest gain is from redirecting imports to all firms in Australia, within that reallocation there are funds going to foreign subsidiaries and Australian firms. The funds going to genuine Australian companies offer an incremental gain of $0.35-$0.58 per dollar or a 57% added gain, as shown in Table 2.

*Table 3: Comparison of scenario outcomes*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | Job Creation (Annual) |
|---|---|---|---|
| Scenario 1: Shift defence spending from imports to domestic procurement (from Australian-based entities, including foreign subsidiaries in Australia) | 5% of total Defence procurement | $3.4-5.6 billion | 17,131-29,278 FTEs |
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian companies | 10% of local Defence procurement | $1.4-2.3 billion | 7,558-12,474 FTEs |
| Scenario 3: Scenario 1 + Scenario 2 | 1 + 2 | $5.0-8.1 billion | 25,569-43,205 FTEs |

Table 1 presents the results at a broad aggregate level, and demonstrates that a combination of both Scenarios 1 and 2 will yield the highest benefits in terms of net GDP and job creation.

Table 2 below breaks down the analysis to a granular return per-$1 million of spending basis. This is important because it highlights the superior returns from prioritising Australian-owned primes and SMEs over foreign-owned entities or imports.

While Table 1 demonstrates the overall national benefits of redirecting total defence procurement from imports to any Australian-based firms, the per-dollar lens in Table 2 underscores a "Defence Dividend" from redirecting spending away from imports *and* Australian-based foreign primes towards Australian-owned primes and SMEs.

- Every $1 million of Defence procurement redirected from imports to foreign-owned Australian subsidiaries increases Australia's GDP by $610,000 to $1 million.
- Every $1 million of Defence procurement redirected from imports to Australian-owned primes and SMEs instead delivers an increase to Australia's GDP of between $960,000 and $1.57 million.

Reallocating Defence spending from foreign-owned Australian subsidiaries to genuinely Australian-owned primes and SMEs generate much greater (57% more) net returns per dollar spent for Australia—economically and strategically—than simply increasing total domestic Defence spending without regard to ownership structure.

Scenario 1 involves redirecting imports - if it is refined into redirecting *total* spending from imports to Australian-owned primes and SMEs (first green row in the table) and combined with redirecting *domestic* spending to Australian primes and SMEs (second green row in the table), the defence dividend is optimised.

The green-highlighted rows emphasize that reallocations of spending from imports and domestic spending that target Australian primes and SMEs deliver the best outcomes.

*Table 4. Economic gains per $1 million reallocated*

| Budget reallocation option | GDP Added per $1mn reallocated | Job Creation per $1mn reallocated | Economic Leakage |
|---|---|---|---|
| Scenario 1: Shift from imports to domestic procurement | $0.75M-$1.23M | 3.8-6.4 FTEs | Medium |
| ○ (a) Shift from imports to Australian Primes and SMEs | $0.96M-$1.57M | 4.9-8.3 FTEs | Low |
| ○ (b) Shift from imports to foreign-owned Australian subsidiaries | $0.61M-$1.00M | 3.0-5.1 FTEs | High |
| Scenario 2: Shift from foreign-owned Australian subsidiaries to Australian Primes and SMEs | $0.35-$0.58M | 1.9-3.2 FTEs | Reduced |

The core difference between the scenarios lies in economic leakage. Ownership matters because nominally "Australian" subsidiaries of multinational primes funnel substantial dividends and management overseas, limiting local benefits even as local operations create jobs in Australia. Profits, decision-making, and intellectual property (IP) with foreign subsidiaries tend to flow offshore, reducing the multiplier effect and weakening Australia's capacity for innovation and self-reliance.

Foreign-owned subsidiaries, although employing Australians and maintaining operations here, repatriate profits, dividends, and often supply chain and back-office expenditures to the parent country. As a result, less economic benefit is retained in Australia.

In contrast, genuinely sovereign primes and SMEs:

- Retain profits onshore, reinvesting in local R&D and workforce.
- Deliver higher fiscal returns via tax revenue and income circulation.
- Strengthen sovereign capability by keeping strategic decision-making and IP in Australia.
- Prioritise Australian SMEs in their supply chains.
- Reduce economic vulnerability by limiting dependence on global corporate priorities, which may not align with national interests.

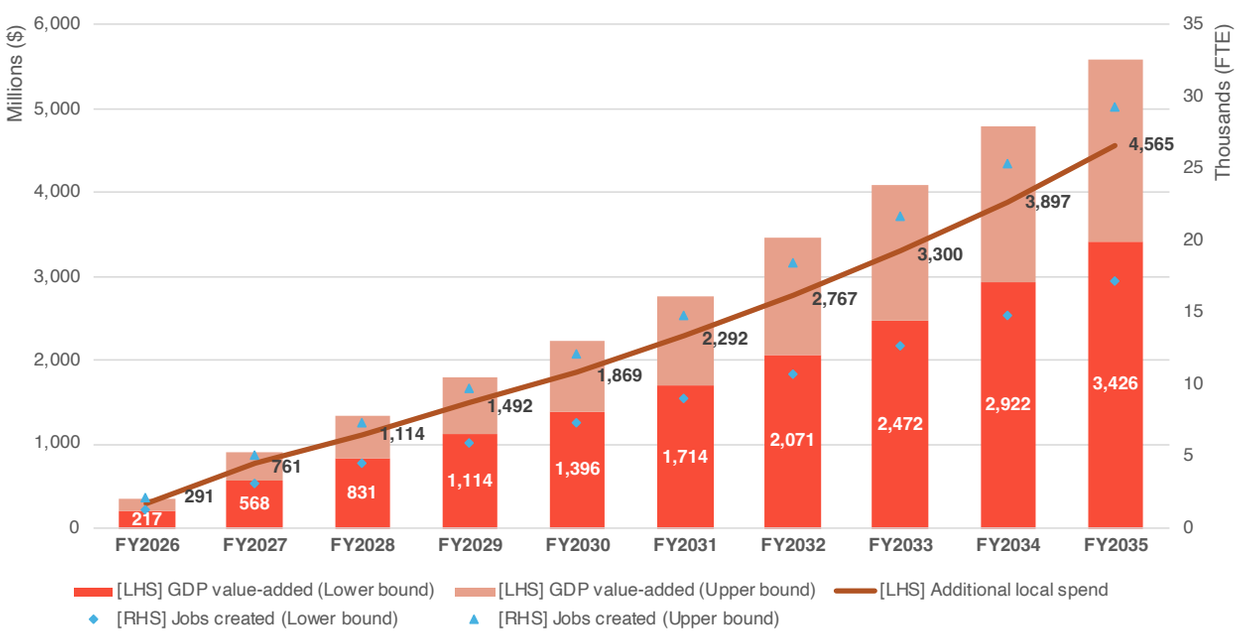
Government should prioritise sovereign Australian primes and SMEs in procurement to capture a 57% added gain, and to foster high-value jobs and innovation spillovers that align with national sovereignty goals. This option yields higher multiplier effects, innovation spillovers, export potential, and ESG benefits. Not all the benefits are typical or easily measurable economic benefits but have a real impact on the national economy and long-term security of Australia and its citizens. Our approach includes a *Sovereign Dividend Scorecard* that seeks to quantify and weight these more difficult to measure values.

Scenario 1: Reallocate 5% of the current Defence total acquisition and sustainment budget from imports to Australia-based companies (both foreign subsidiaries based in Australia and Australian companies).

Outcomes: Projected Annual Contributions:

- Increased Domestic Activity: An additional $4.6 billion annually in defence spending is redirected to Australia-based companies.
- National GDP Contribution: Adds between $3.4 billion and $5.6 billion to Australia's GDP annually.
- Job Creation: Supports an additional 17,131 to 23,278 full-time equivalent (FTE) jobs across the national economy.
- Increased Value for Money: For every dollar reallocated from imports and procured with Australia-based companies, the incremental return to the economy is between $0.75 and $1.23.

*Figure 9. Estimated contribution to GDP and job growth, of additional local spend from CPR reforms*[26]




Scenario 2: Reallocate 10% of the Defence domestic acquisition and sustainment budget from foreign-owned Australian subsidiaries to Australian businesses.

Outcomes: Projected Annual Contributions:

- Increased Domestic Activity: An additional $3.9 billion annually in defence spending is redirected from foreign-owned Australian subsidiaries to Australian business.
- National GDP Contribution: Adds between $1.4 billion and $2.3 billion to Australia's GDP annually.
- Job Creation: Supports an additional 7,558 to 12,474 FTE jobs across the national economy.
- Increased Value for Money: Every dollar reallocated from a foreign subsidiary towards Australian primes, the incremental return to the economy is between $0.35 and $0.58.

[26] *DeltaPearl Partners' estimates.*

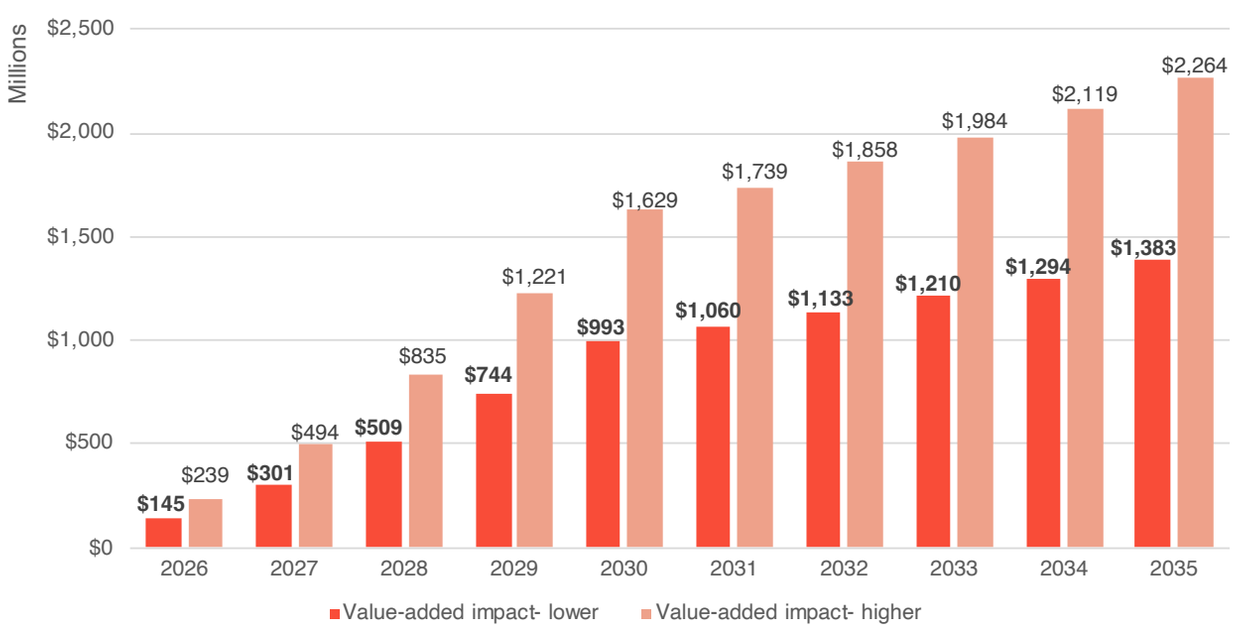
### Scenario 3: combined Scenario 1 & 2 budget reallocations

Adding both spending reallocations together creates a greater net outcome due to the multiplicative effects when the shift from imports to domestic spending increases the size of the total Defence domestic acquisition and sustainment budget. Therefore, when the 10% of domestic spending shifts to Australian companies, the value of the dollars moved is higher.

In our baseline (i.e., neither Scenario 1 or Scenario 2 is in effect), over a 10-year assessment period, foreign-owned Australian primes are estimated to direct approximately $70.3 billion of spending and profit repatriation overseas, with Australian-owned primes directing approximately $11.8 billion of spending overseas.[27] In Scenario 2, approximately $24.8 billion of defence procurement is redirect from foreign-owned subsidiaries to Australian-owned Primes, resulting in $7.5 billion less spending and profits being directed overseas.

The key measure of gain to the Australian economy is the net value-added gains to GDP. The net value-added gains from directing 10% of domestic Defence procurement to Australian-owned primes is estimated at $8.8 billion to $14.4 billion over the 10-year, with the low and high ranges representing variation in downstream effects and other factors. By the end of the assessment period, once the full reallocating of procurement has taken effect, this translates to $1.4 billion to $2.3 billion in added GDP annually. Each dollar reallocated to fully Australian-owned primes increase Australian GDP by $0.35 to $0.58 (low to high scenarios).

*Figure 10. Net value-added gains low and high estimate*




In conclusion, our economic modelling confirms that while any increase in local content is beneficial, the strategic decision to procure through Australian-owned primes delivers a significantly greater economic return. This approach minimises offshore leakage and maximises the circulation of investment within our domestic economy, delivering superior outcomes for national income, jobs, and overall prosperity.

[27] These estimates are derived from reporting on major Defence projects, as well as confidential commercial information provided by SAPA members, and represent direct spending by Primes. Downstream supply chain spending invariably includes further overseas sourcing, even for Australian-owned primes.

## Summary of the findings

Table 1 presents the results at a broad aggregate level and demonstrates that a combination of both Scenarios 1 and 2 will yield the highest benefits in terms of net GDP and job creation.

Table 2 below breaks down the analysis to a granular return per $1 million of spending basis. This is important because it highlights the superior returns from prioritizing Australian-owned primes and SMEs over foreign-owned entities or imports.

While Table 1 demonstrates the overall national benefits of redirecting total defence procurement from imports to any Australian-based firms, the per-dollar lens in Table 2 underscores a "Defence Dividend" from redirecting spending away from imports *and* Australian-based foreign primes towards Australian-owned primes and SMEs.

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Reallocating Defence spending from foreign-owned Australian subsidiaries to genuinely Australian-owned primes and SMEs generate much greater net returns per dollar spent for Australia—economically and strategically—than simply increasing total domestic Defence spending without regard to ownership structure.

Scenario 1 involves redirecting imports - if it is refined into redirecting *total* spending from imports to Australian-owned primes and SMEs (first green row in the table) and combined with redirecting *domestic* spending to Australian primes and SMEs (second green row in the table), the defence dividend is optimised.

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The core difference between the scenarios lies in economic leakage. Ownership matters because nominally "Australian" subsidiaries of multinational primes funnel substantial dividends and management overseas, limiting local benefits even as local operations create jobs in Australia. Profits, decision-making, and intellectual property (IP) with foreign subsidiaries tend to flow offshore, reducing the multiplier effect and weakening Australia's capacity for innovation and self-reliance.

Foreign-owned subsidiaries, although employing Australians and maintaining operations here, repatriate profits, dividends, and often supply chain and back-office expenditures to the parent country. As a result, less economic benefit is retained in Australia.

In contrast, genuinely sovereign Australian primes:

- Retain profits onshore, reinvesting in local R&D and workforce.
- Deliver higher fiscal returns via tax revenue and income circulation.
- Strengthen sovereign capability by keeping strategic decision-making and IP in Australia.
- Prioritise Australian SMEs in their supply chains.
- Reduce economic vulnerability by limiting dependence on global corporate priorities, which may not align with national interests.

Government should prioritise sovereign Australian companies in procurement to capture a 57% added gain, and to foster high-value jobs and innovation spillovers that align with national sovereignty goals. This option yields higher multiplier effects, innovation spillovers, export potential, and ESG benefits.

Not all the benefits are typical or easily measurable economic benefits, but they have a real impact on the national economy and long-term security of Australia and its citizens. Our approach includes a *Sovereign Dividend Scorecard* that seeks to quantify and weight these more difficult to measure values.

# The procurement framework is misaligned with national objectives

Our analysis extended beyond economic modelling to assess the current procurement framework. We find that the procurement framework prevents Australia from achieving its stated goals for sovereign capability, local jobs, and economic growth. Although the CPRs and Defence policies and strategies recognise the need to increase domestic procurement of defence goods and services, the current procurement framework, despite reforms, does not adequately direct procurement spending toward Australian defence firms because the procurement process suffers from:

- A narrow definition of "value for money" that fails to account for whole-of-nation benefits.
- A disconnect between high-level policy objectives and the on-the-ground decision-making of procurement officers.
- A risk-averse culture that frequently defaults to large, well-marketed foreign firms over innovative, high-value Australian SMEs and primes, undermining our sovereign industrial base and national resilience.

## An Incomplete Definition of 'Value for Money' and 'Broader Economic Benefits'

The CPRs rightly emphasise value for money but, in practice, this is too often narrowly interpreted as the lowest upfront tender price or "ticket price". This fails to account for the wholistic, whole-of-life costs and benefits to the nation. It overlooks the fiscal dividend of taxes returned to the Treasury, the economic stimulus of local wages and supply chain spending, and the strategic premium of supply chain security. The ESG impacts of projects is typically limited to a very low bar measure of no modern slavery, however, our assessment shows the key ADF trading countries have significant failings in their supply chains that are not clearly evaluated in the value-for-money definition.

The guidance provided to procurement officers on how to define, measure, and weigh the "broader benefits" (see below) is not adequate. The definitions in the CPRs are broad, open to interpretation and do not provide a practical, repeatable framework for decision-making.

*Text Box 2: Broader economic benefits in the CPRs*

**Consideration of Broader Economic Benefits in Procurement - Extracts from the CPRs**

*What is a domestic economic benefit?*

In general terms, economic benefits to the Australian economy result when the goods or services being procured:

- make better use of Australian resources that would otherwise be underutilised (for example employing people who would otherwise be under or unemployed, using spare industrial capacity, or freeing government funds for other spending);
- otherwise increase productivity (for example by adopting new know-how or innovation, or enabling more people to acquire in-demand skills, or ensuring that resources are allocated to sectors in which Australia has a comparative advantage); or
- provide broader benefits that support the development and sustainment of industry capabilities; for example, enhancing key industry sectors through the Department of Defence's Sovereign Industrial Capability Priorities.

An increase in productivity-enhancing technology development and adoption can also deliver economic benefit, for example through:

- research and development related activities and investments (including those undertaken with universities);
- transfer of technology to Australian businesses such as through licensing arrangements for IP;
- Indigenous workforce participation;
- engaging a business that provides services of persons with a disability;
- traineeships or apprenticeships in areas of skills shortage; or
- boosting a supplier's international competitiveness (e.g. through greater efficiency or product innovation).

*How can a supplier provide a domestic economic benefit?*

Some examples include, but are not limited to:

- providing skills and training that benefit Australian communities;
- employing workers in Australia;
- employing apprentices or trainees in Australia;
- paying taxes in Australia;
- using SMEs in delivering goods and services;
- developing and adopting innovative products or practices that benefit Australian communities;
- sharing knowledge, skills and technology with SMEs;
- creating export opportunities for Australian goods and services;
- developing Australian industry capabilities or industrial capacity.

Similarly, the instruction to assess "broader benefits that support the development and sustainment of industry capabilities" requires further definition to guide procurement decisions in line with policy objectives. A true economic analysis of broader benefits, guided centrally by Treasury and Finance, should empower non-economist procurement officers to consider market and non-market benefits to society, the environment, health, and culture. Without specific guidance on what to include, how to value contributions from different types of bidders (e.g., SMEs vs. primes), and how to weigh these benefits against costs, the value-for-money calculation becomes an arbitrary exercise rather than a robust tool for implementing policy. A procurement decision maker can prioritise the different categories of economic benefit however they see fit and in line with their personal preferences based on individual value judgments related to their personal biases and historical experiences. Another procurement decision maker will make different choices based on their values and preferences. Neither decision maker may be in alignment with broader national priorities.

High-level guidance is provided to procurement officials (see below), stating that procurements must "*Consider what economic benefit information will be collected, how it will be collected and how it will be used as an evaluation criteria to assess value for money*" and that "*Where feasible, quantitative and qualitative economic benefits considered in tender submissions should be verified at the appropriate stage of the procurement*." However, no guidance is issued on quantifying the broader economic benefits.

*Text Box 3: CPR Guidance Note*

**CPR Guidance Note (2020)**

*What do procurement officials need to do?*

10. During planning, consider how the Australian economy may benefit from the procurement activity. Consider what economic benefit information will be collected, how it will be collected and how it will be used as an evaluation criteria to assess value for money.

11. The type and amount of information collected should be commensurate with the scale, scope and risk of the procurement. It should not introduce excessive red tape and cost for tenderers bidding for government contracts.

12. Procuring officials should be careful to ensure that the requirement to demonstrate economic benefit does not inadvertently disadvantage SMEs. For example, officials should be mindful that additional requirements in tender documentation could result in a greater burden on SMEs than larger businesses. This could be due to the SME possessing fewer resources to demonstrate their capability to meet the requirements, compared to established large suppliers to the Government. All potential suppliers must be treated equitably and must not be discriminated against based on their size, location or ownership (paragraph 5.4 of the CPR refers).

13. Officials should make clear in tender documentation that only direct effects, or first round economic effects to the Australian economy are considered in the evaluation of a tender's economic benefit. This will help to provide clarity around the requirement and reduce the likelihood of tenderers including claimed benefits that will not be considered. Where feasible, quantitative and qualitative economic benefits considered in tender submissions should be verified at the appropriate stage of the procurement.

## Ambiguous Definition of an 'Australian' Company

The strategic and economic benefits delivered by procurement from a foreign-owned company performing some work in Australia and procurement from a genuinely sovereign, Australian-owned and operated entity are profoundly different. A sovereign prime retains its profits in Australia, pays taxes to the Australian Treasury, reinvests in local R&D, and is subject solely to Australian law and national interest—benefits that are significantly diluted with an offshore parent company.

Considering an Australian business as one with an ABN and an Australian address has allowed the majority of high-value contracts to flow to multinational primes that may maintain Australian addresses and ABNs but are ultimately foreign-owned. As a result, profits, IP, and critical decision-making remain offshore, while genuinely Australian firms are relegated to low-value roles in the supply chain. This marginalisation not only weakens local industry capability but also suppresses innovative technological development and export potential.

A case study of the Bushmaster protected mobility vehicles is indicative of these issues and the potential benefits that Australia misses out on by investing in a company that may have an Australian presence, but has its leadership, ownership and core business activities in other countries. While the government investment may be creating local jobs, by investing in an ostensibly “Australian” company that is not Australian-owned or operated, with genuinely Australian companies overlooked or relegated to low-value tasks, we are missing out on more jobs, which limits broader economic benefits.

*Text Box 4: Case study - Thales Australia and Bushmaster*

**Case study - Thales Australia and Bushmaster**

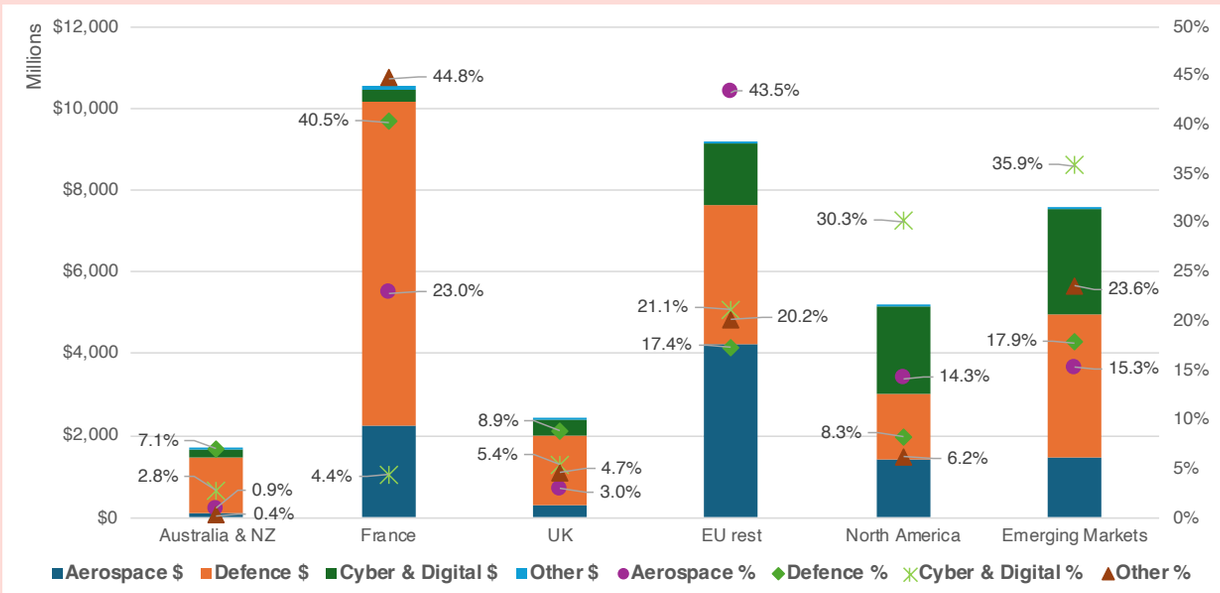
The Australian Government recently announced that its investment in Bushmaster was contributing to over 250 local jobs at a cost of $100 million, continuing its commitment to defence and a future made in Australia,[28] An Australian engineering firm did the original design of the Bushmaster, and the development of the technology was funded by the Australian Government. However, the company was sold to Thales, a prime operating in defence, aerospace, and cyber/digital areas. Although Thales Australia appears to meet the government’s definition of an Australian company, only a tiny portion of its activity is based in Australia, with ownership, leadership and core business activities all based in other countries and it is very likely that most profits are being directed to other nations. Even the development of the new technology solution for anti-drone technology being added to the Bushmaster is being provided by a USA company.

“Thales Australia.” is a small subsidiary of a very large French business that operates globally seeking to make profit from the defence and other expenditure of other countries. That is, Thales Australia is not really an Australian company in terms of improving Australian sovereign capability, which puts a portion of our total capability at risk and does not deliver maximum value for money. The graph below shows the reported Thales order intake for 2024, where Australia is such a small portion of the total it is added to New Zealand (NZ) spending. Over 40% of Thales defence revenue is from France and 7.1% is from Australia and NZ. Other major areas of spending in Australia and NZ include aerospace 0.9% and cyber & digital 2.8%.[29]

[28] Pat Conroy, *Further Investment in Bendigo with New Bushmaster Order* (Defence Ministers, 2025), https://www.minister.defence.gov.au/media-releases/2025-01-08/further-investment-bendigo-new-bushmaster-order.
[29] Thales Group, *Investor Relations* (2025), https://www.thalesgroup.com/en/investor-relations.

## Case study - Thales Australia and Bushmaster

*Figure 11. Thales Global Order Intake by Country/Region and Activity Type 2024*




The potential local impact would have been much larger if the Australian Government, instead of paying a French company, procured goods and services from Australian-owned and operated companies.

Originally, the Bushmaster was designed and developed by a fully owned and operated Australian company but was sold off to Thales. Under a more coordinated and sovereign capability focused procurement strategy using a wholistic long-term evaluation approach, the choice could have been to support a fully owned and operated Australian firm to progress the Bushmaster.

The Prime Minister's recent announcement of spending some $300 million since coming to office and a $100 million in January 2025 to support 250 local jobs,[30] dodges the potential local impact if the funds were spent on an Australian prime, rather than a French one. The real question is, how many local jobs and net economic benefit would be created if an Australian prime was selected to deliver the contracts?

The inclusion of a definition of an Australian business in the 2025 CPRs is a step in the right direction in addressing this ambiguity that allowed foreign subsidiaries to capture contracts intended to benefit our domestic industry. However, Defence must adopt a more rigorous, multi-dimensional definition that distinguishes genuinely sovereign companies from local branch offices as defined in the new CPR. This definition must go beyond an ABN to include:

- Australian Ownership and Control: Prioritise entities with majority Australian ownership, an Australian-based board, and ultimate decision-making authority residing within Australia.
- Supply Chain Commitment: Measure the percentage of contract value flowing to Australian SMEs, rewarding bidders who actively build our domestic industrial ecosystem.
- IP Ownership: Place a premium on bids where critical IP is owned and controlled by Australian entities, ensuring our long-term freedom to modify, sustain, and upgrade capabilities.

[30] Conroy, *Further Investment in Bendigo with New Bushmaster Order*.

## A Failure to Quantify Strategic Imperatives

The Government's key objectives—resilience, innovation, sovereign capability, and ESG performance—are treated as qualitative aspirations rather than core, measurable criteria in tender evaluations. Without a formal mechanism to assign a concrete value to these factors, they are inevitably outweighed by the more easily quantifiable metric of headline cost.

Strategic policy goals must filter down through departmental layers to the final tender process. In the process, the broad, nation-building objectives are often diluted into a narrow interpretation of 'value for money'.

This traditionalist approach, focused on securing the lowest possible cost for a specified product or service, systematically undermines the strategic goals it is meant to serve. Without a clear mechanism at the procurement-officer level to integrate sovereign capability, supply chain resilience, and spillover innovation, Australia continues to forgo national value in pursuit of short-term savings.

The outcome is a procurement paradox where the process actively works against the policy, creating a cascade of unintended consequences that diminish Australia's long-term security and economic prosperity.

To direct more procurement toward Australian defence firms, the procurement framework requires reforms that recognise the benefits of local procurement beyond the "ticket value" and incorporates economic, strategic growth and sovereign capability dividends. This framework needs to be extended beyond the CPRs to the decision-making level of procurement officers.

# Changes Needed to Secure the Defence Dividend

## Strengthen the definition of an Australian business for procurement purposes

The government has been investing in “Australian” companies that are not Australian, but foreign-owned subsidiaries, with Australian companies tending to be relegated to low-value tasks in defence procurement projects.

To avoid these outcomes, the government must strengthen the definition of an Australian business for procurement purposes and the requirements to direct procurement toward Australian businesses. The latest reforms to the CPRs in November 2025 included:

- a formal definition of an “Australian business” for procurement purposes, establishing criteria of Australian ownership of at least 50%, tax residency, and principal place of business within Australia.
- new requirements mandating that Australian businesses be given preference under certain circumstances for specified goods and services (excluding construction services), and establishing a relevant procurement threshold is $125,000

These changes built on the July 2025 reforms that lowered procurement thresholds for broader economic benefits assessments and increased commitments to sourcing from SMEs.

However, the definition of "Australian business" risks allowing foreign-owned subsidiaries with Australian ABNs and addresses to capture contracts meant to favour genuinely Australian sovereign companies. the requirement to give preference to Australian businesses only applies to contracts between $10,000 and $125,000. This makes the reforms irrelevant for Defence procurement because the threshold is so low that it will exclude all significant Defence contracts.

*Text Box 5: The definition of an Australian Business in the November 2025 CPRs*

**Australian Business - definition included in the CPRs from November 2025**

In November 2025, the Government included a definition of an Australian business in the CPRs,[31] following the release of an earlier draft definition. [32] This definition extends the basic criteria of an ABN and includes Australian ownership and control criteria. The definition in the CPRs is:

*The Australian business –*

- *is a business, including any parent business, that:*

  *– has 50% or more Australian ownership, or is principally traded on an Australian equities market; and*

  *– is an Australian resident for tax purposes; and*

- *is a business that has its principal place of business in Australia.*

[31] Department of Finance, *Commonwealth Procurement Rules*. The CPRs also direct that “Relevant entities must apply the guidance at www.finance.gov.au/australian-business when applying this definition.”
[32] Department of Finance, *Guidance on the Definition of an Australian or New Zealand Business* (2025), https://www.finance.gov.au/government/procurement/defining-australian-business-commonwealth-procurement/guidance-definition-australian-or-new-zealand-business.

However, while the November 2025 reforms mark progress, ambiguities and issues remain.

The ability of the November 2025 CPR reforms to leverage Commonwealth procurement as a tool for fostering sovereign defence industrial capability and economic benefit hinges on whether the government will enhance definitional clarity, strengthen the operational mandates (expanding the $125,000 cap), and provide decision-support tools to translate policy ambitions into measurable and enforceable procurement outcomes.

Defence must adopt a more rigorous, multi-dimensional definition that distinguishes genuinely sovereign companies from local branch offices as defined in the new CPR and ensure that the distinction can be made at the procurement-officer level. We argue that there are four dimensions that should be considered when deciding whether a company satisfies the criteria for a domestic business.

**The ABN Test: A Legal and Tax Presence**: The government rightly uses an ABN as a minimum threshold as it signifies a business has a legal and tax presence in Australia. However, it is wholly insufficient as an indicator of a company's national character, as any foreign entity can register for an ABN to establish a local branch or subsidiary. It indicates nothing about a company's ownership, control, investment strategy, or contribution to the Australian economy.

**The Ownership Test: Where Profits Flow**: The percentage of Australian ownership is a more substantive metric as it determines where the financial returns of a company's success ultimately flow. A 100% Australian-owned company, for instance, directs its profits back into the Australian economy, either through reinvestment or as dividends to Australian shareholders, including our vital superannuation funds. Maximum Australian ownership is a powerful and direct economic benefit. However, this test also has its limits. In a globalised world, many large, publicly listed companies have diverse international share registries. Conversely, a foreign-owned company might be mandated to reinvest 100% of its Australian-generated profits back into its local operations, thereby growing its onshore capabilities. Ownership is a crucial indicator, but it does not paint the complete picture.

**The Supply Chain Test: Where Investment is Directed**: The supply chain metric interrogates a company's operational behaviour and tangible economic impact. We can measure an organisation's 'Australianness' not just by who owns it, but by how it spends its money. A company that actively cultivates a deep and resilient domestic supply chain provides far greater economic and strategic benefit than one that simply acts as a local storefront for imported goods. This test assesses the percentage of contract value that flows to other Australian businesses, particularly SMEs. A foreign-owned prime contractor that commits to building a robust local supply chain, transferring skills and creating hundreds of indirect jobs, can often deliver a greater net economic benefit than a locally owned 'shelf company' that imports finished products. This test measures a company's real contribution to building our national industrial ecosystem.

**The Leadership and Control Test: The Acid Test for Sovereignty**: The leadership and control test is the most critical for a sovereign defence industry. It asks a simple question: where are the key decisions made? A company may have an ABN, local staff, and even some Australian ownership, but if its strategic, financial, and operational decisions are ultimately made in a head office in Washington, London, or Paris, its alignment with Australia's sovereign interests can be compromised. True sovereignty resides in having local leadership with the authority to act, to control the IP, and to direct the company's resources in a crisis without needing foreign approval. This test of decision-making power and IP control is the ultimate determinant of whether a company is merely in Australia or truly of Australia, capable of being a trusted partner in safeguarding our national security.

The new definition incorporates ownership criteria, but should be extended to cover the other dimensions of a domestic industry:

- Supply Chain Commitment: Measure the percentage of contract value flowing to Australian SMEs, rewarding bidders who actively build our domestic industrial ecosystem.
- IP Ownership: Place a premium on bids where critical IP is owned and controlled by Australian entities, ensuring our long-term freedom to modify, sustain, and upgrade capabilities.

Ultimately, defining 'Australian' is not about applying a rigid label. It requires a sophisticated assessment that weighs all four of these dimensions and develops a nuanced and evidence-based approach to building our sovereign defence industrial base.

## Quantify the “broader economic benefits” of defence goods and services

Strategic products and services required for national security differ fundamentally from ordinary market transactions and require different procurement logic and justification. Government investment in building capability—whether through direct expenditure, skills formation, or technology transfer—delivers national value far beyond what market price alone can measure. Avoiding the costs of future conflict, crisis-induced industrial standstills, or loss of sovereign supply chains provides returns to the nation far greater than conventional procurement analysis recognises. Government policy should explicitly recognise this reality and provide for investments that create and capture strategic value for the nation.

Defence procurement must be viewed purchasing strategic goods and services that deliver sovereign capability and resilience; Procurement policy must be refocused to prioritise the long-term national objectives, not just immediate cost or technical compliance.

We propose a Sovereign Dividend Scorecard to provide a clear, quantitative, and comparative assessment of procurement options that systematically measures the value for money of a procurement beyond the ticket price and including the broader benefits, including strategic, to the Australian economy. The proposed scorecard is structured around three core pillars: the Economic Dividend, the National Growth Dividend, and the Sovereign Capability Dividend.

**Economic Dividend**: This first pillar of the SDS focuses on the direct and measurable financial and economic impacts of a project on the Australian economy, providing a transparent assessment of how the taxpayer's investment circulates within and strengthens our domestic economic system.

| **Economic Dividend** | |
|---|---|
| Fiscal Impact: | Metric assesses the net cost to the Commonwealth budget, starting with the tender price but immediately analyses the fiscal circularity of the investment. For an Australian-owned prime, a significant portion of the project expenditure is returned to government coffers through company tax on profits, PAYG income tax from a locally based workforce, payroll taxes, and GST levied on domestic supply chain transactions. In contrast, profits generated by foreign-owned entities are often repatriated offshore, representing a permanent loss of tax revenue to the Australian Treasury. The SDS captures this vital distinction, calculating a more accurate "net cost to nation." |
| Economic Efficiency: | Quantifies the project's contribution to domestic value-add (DVA) and its effect on the broader economy. DVA measures the proportion of a project’s total value that is genuinely generated within Australia through local labour, resources, and innovation. Furthermore, it considers the concept of the excess burden of taxation—the economic distortion caused by levying taxes to fund government expenditure. Australian-made products and services potentially have a higher financial cost due to the very high domestic standards. However, a project with high fiscal circularity and high DVA reduces this burden, as the government recoups a larger share of its initial outlay, requiring less taxation from the wider economy to fund the capability. |
| Job Creation | Quantifies the employment impact within Australia, distinguishes between direct domestic jobs (engineers, technicians, project managers, and factory workers directly employed by the prime) and secondary domestic jobs (employees within the local supply chain, from steel fabricators and software developers to logistics providers). A fully sovereign project anchors both direct and secondary employment in Australia, fostering stable, high-skill careers and regional development, a benefit that is significantly diluted when key roles and supply chain contracts are directed offshore. |
| Domestic Income: | Linked to job creation, this metric measures the increase in Australian household income. By employing a local workforce, a sovereign project channels wages and salaries into Australian communities, which in turn drives consumer spending and stimulates broader economic activity. The SDS evaluates the degree to which project expenditure translates into disposable income for Australian families, providing a tangible measure of its contribution to national prosperity. |

**National Growth Dividend**: The second pillar moves beyond immediate economic returns to assess the project's long-term contribution to Australia's industrial maturity, innovation capacity, and global standing, measures how a defence investment can be leveraged to build enduring economic strength.

| National Growth Dividend | |
|---|---|
| Export Potential: | the realistic potential for the capabilities, products, and IP developed for the ADF to be exported to allied nations or converted into civilian export opportunities. An Australian prime, owning the IP and controlling the technology, is best positioned to pursue and secure these exports, which not only generates significant economic returns but also enhances Australia's international standing and deepens strategic relationships. International subsidiaries based in Australia might be able to export products made in Australia, however, that creates relatively low value and short term net gains compared to the net gains from real Australian companies development and export of goods and services. The SDS also requires a sober assessment of the risks involved, ensuring that export strategies are credible and achievable. |
| Economic Growth Potential: | evaluates the project's role as a catalyst for advancing Australia's economic complexity. It asks: do the technologies have dual-use, civilian applications? Is new, sovereign IP being created? Will the project generate spillover innovation into adjacent sectors like space, medical technology, or advanced manufacturing? A project that fosters a domestic ecosystem of systems integration, advanced software engineering, and R&D helps transition the national economy from simple manufacturing to producing highly complex, technology-intensive goods, which is the cornerstone of long-term prosperity. Claims of potential improvements in this area can be overstated and should be tested, measured, and monitored to ensure real outcomes eventuate. |
| Market Failure Risk: | potential negative economic impacts of market distortion, where a large government project might unfairly crowd out private sector competition or innovation. It also evaluates the "infant industry risk"—the danger of subsidising a domestic capability that fails to become globally competitive. Seeks to guide government investment towards building genuinely sustainable and efficient industries, not protectionist enclaves. |
| ESG Impact: | demonstrating how the project assists the Australian Government to achieve its SDS mandates a thorough evaluation of a project's ESG footprint. An Australian-based prime and its domestic supply chain operate under Australia's stringent regulatory frameworks for WH&S, gender equality, and environmental protection (including emissions, water usage, and air quality). This provides a higher degree of assurance and transparency compared to complex global supply chains where labour practices, environmental standards, and governance can be opaque and difficult to verify, thereby leveraging Defence procurement to champion improve global outcomes. |

**Sovereign Capability Dividend**: Assesses the project's direct contribution to Australia's self-reliance, national security, and strategic autonomy by considering the degree to which a project builds genuine, enduring sovereign control over capabilities critical to the defence of the nation.

| Sovereign Capability Dividend | |
|---|---|
| Australian Ownership: | the corporate structure of the prime contractor is important. Is it a registered Australian entity with a majority Australian board, controlled by Australian interests? Critically, it investigates whether the company is subject to the direction or control of a foreign government or organisation, which could create a conflict of interest in a time of crisis. True sovereignty requires that the ultimate decision-making authority for a critical defence capability resides in Australia. |
| Supply Chain Resilience | considers a project's ability to deliver and sustain a capability, particularly during a crisis, throughout the entire supply chain, from acquisition to whole-of-life support. Key questions include: what percentage of the acquisition and, more importantly, the sustainment supply chains originate in Australia? Can the capability be produced, repaired, and upgraded if international trade is disrupted? Surge capacity: in a time of urgent national need, can production be rapidly scaled up, how long would it take, and at what cost? An Australian prime with a localised supply chain offers a fundamentally more resilient and assured solution than one reliant on lengthy and potentially vulnerable global logistics. |
| IP Ownership: | how much of the key IP, including for critical subsystems, will be owned by Australian entities. Where IP is licenced, it considers the permissiveness of these agreements. Do they allow Australia to modify, upgrade, and integrate the system with other ADF assets without seeking permission from a foreign entity? This metric guards against the strategic risk of technological dependency, where future sustainment costs can be dictated by an offshore IP owner, and our freedom of action is constrained. |
| Compatibility: | interoperability of the proposed system, how seamlessly the product or service integrates with existing and future ADF platforms, networks, and command-and-control systems. A capability developed by an Australian firm, in close collaboration with Defence, is inherently more likely to be designed for optimal integration within the Australian context. Furthermore, it considers compatibility with key allies, ensuring that the capability enhances coalition operations while prioritising Australia's unique sovereign requirements. |

The SDS provides the robust, detailed, and transparent framework needed to make truly informed decisions in defence procurement. It allows Australian-owned and operated suppliers to articulate their superior value proposition in terms that resonate with national interest, proving that the smartest investment is one that not only delivers a required capability but also builds a more prosperous, innovative, and secure Australia for generations to come.

## Complementary reforms to enable sovereign defence capabilities

Complementary workforce, cyber posture, IP, and other policy reforms are required to “enable” the development of the Australian defence sector alongside procurement framework reforms. Australia’s defence sector transformation is constrained by significant structural challenges centred on these critical enablers essential for sustaining and scaling sovereign capability. The workforce shortage—particularly in advanced trades, engineering, cybersecurity, and digital roles—poses a persistent risk to meeting project demands and sustaining long-term industrial capacity. This shortage stems from systemic underinvestment in vocational education and training, cultural biases favouring university pathways over trades, outdated qualification recognition systems, and restrictive skilled migration policies. Other vital enablers are cyber posture and technology readiness, securing and retaining intellectual property rights (IPR), and infrastructure deficits, including transport, energy, and digital connectivity, which hinder efficient supply chain integration and increase costs. Addressing these interconnected structural enablers requires a concerted, whole-of-government approach and aligned industry partnerships to unlock the full potential of Australia’s defence industrial base. Seeking national structural solutions to the current limited labour force, especially skilled labour, through a targeted and coordinated skills migration program would greatly assist Defence and all other parts of the Australian economy.

It will be difficult for Australian defence industry to meet the increased demand presented in Scenarios 1 and 2 without Australia simultaneously addressing these other factors. However, implementing the scenarios will send a clear, sustained demand signal that will encourage industry, state governments, universities, and Australian workers to commit to enacting the complementary reforms needed.

# Strategic Recommendations: A Framework for a Stronger Nation

Realising the full potential of the sovereign dividend requires urgent and decisive reform. We propose a new framework to ensure every dollar of defence spending delivers maximum value for Australia.

### Redefine 'Value for Money' by Mandating a Quantitative Weighted Economic Benefit Framework in Procurement

Too often, "value for money" is interpreted as the lowest upfront price, ignoring immense downstream benefits. The Australian Government should implement a central, standardised framework that quantitatively weighs broader economic benefits as a core component of value-for-money assessments. This system should include clear metrics for GDP contribution, local job creation, SME participation, spillover innovation, export potential, supply chain resilience, skills development, and ESG outcomes. Key non-price benefits must be assigned explicit weightings, aligning tender evaluation with national policy priorities and sovereign capability requirements. This would ensure assessment criteria considered by procurement officers support long-term strategic and economic objectives, not just immediate cost minimisation.

The recommended Sovereign Dividend Scorecard (SDS) for Defence procurement moves the assessment beyond the ticket price to a holistic "net benefit to nation" calculation. Any new framework must measure all benefit pillars and give explicit weighting to three core dividends:

- The Economic Dividend: The net cost to the nation after accounting for local taxes, job creation, and domestic income gains.
- The National Growth Dividend: The contribution to export potential, innovation, and Australia’s overall economic complexity.
- The Sovereign Capability Dividend: The direct benefit to national self-reliance through Australian ownership, resilient supply chains, and sovereign control of IP.

### Highlight the Superior Return on Investment and Identify Strategic Priorities for Sovereign Outcomes

- Our economic modelling shows that reallocating spending to Australian primes yields much higher multiplier effects, innovation spillovers, export potential, and ESG benefits, presenting a powerful, evidence-based argument for changing procurement behaviour.
- While prioritising Australian primes delivers the greatest net advantage per dollar, a balanced approach is essential. Australia's industrial base is not always sufficient to supply every advanced capability required by Defence. Some technologies, infrastructure, and expertise must be sourced from trusted international partners.
- Strategic procurement must therefore target increased domestic preference in priority areas—critical capabilities, innovation platforms, exportable technologies—while maintaining flexibility to access specific foreign technologies when necessary.
- Combining both approaches—expanding overall domestic spend, but favouring sovereign primes where feasible—maximises economic return and resilience, while mitigating capacity risks.

### Strengthen Australian Business Definition and Local Content Rules

The Government must establish a rigorous definition of an "Australian company" for strategic contracts, and identify areas in which to prioritise Australian-owned and -controlled entities that retain profits, decision-making, and IP locally. The Government should also make it clear when Defence should/must prioritise Australian primes and SMEs over foreign providers. The requirement for Defence to prefer Australian companies must be strengthened to ensure that contracts awarded in the national interest deliver genuine sovereign benefits, prioritising firms with Australian ownership, control, and IP retention, reflecting the definition included in the Department of Finance's CPRs, and use it for all future tender design, analysis and subsequent reporting.

The November 2025 reforms to some extent address the previous ambiguity which allowed foreign-owned subsidiaries to capture contracts intended to benefit our domestic industry. However, Defence must adopt a more rigorous, multi-dimensional definition that distinguishes genuinely sovereign companies from local branch offices as defined in the new CPR. This definition must go beyond an Australian Business Number (ABN) to include:

- Australian Ownership and Control: Prioritise entities with majority Australian ownership, an Australian-based board, and ultimate decision-making authority residing within Australia.
- Supply Chain Commitment: Measure the percentage of contract value flowing to Australian SMEs, rewarding bidders who actively build our domestic industrial ecosystem.
- IP Ownership: Place a premium on bids where critical IP is owned and controlled by Australian entities, ensuring our long-term freedom to modify, sustain, and upgrade capabilities.

### Empower Procurement Officials with Clear Tools and a Stronger Mandate

Policy intentions are failing at the operational level because procurement officers lack the tools and confidence to prioritise sovereign outcomes. Systemic changes are essential to empower these key decision-makers.

- Provide Practical Tools: Procurement decisions must move beyond the "ticket price." We propose a three-pillar framework—Economic Dividend, National Growth Dividend, and Sovereign Capability Dividend—be embedded into the decision-making process to quantify the comprehensive value of local procurement, including fiscal impact, supply chain resilience, and innovation potential. The Australian Government must develop and adopt user-friendly tools, such as the SDS with its simple spreadsheet format, to make assessing broader benefits straightforward and repeatable.
- Provide Unambiguous Guidance: Centrally issued guidance from Treasury and Finance is required that provides a clear methodology for quantifying and weighing non-price criteria, removing subjectivity and de-risking the decision to back Australian industry. Procurement officials also would need support and protection to feel able to make choices in preference of Australian business and the wider economy.
- Hold Defence Accountable for Local Content: Use evidence from Australian National Audit Office (ANAO) reports to demand robust verification and enforcement of Australian Industry Capability (AIC) plans, ensuring commitments made in tenders are delivered in practice.

### Adopt a Deliberate Whole-Of-Government Approach to Defence Procurement as a Key Driver of National Economic Strategy

For Defence to function as intended in a high-threat environment, procurement and preparedness can no longer be the domain of the Defence Department in isolation. The sustainability of military capability depends on seamless integration of civilian infrastructure, industrial base, and skilled workforce—all of which reside largely outside Defence. A truly whole-of-government approach is required, breaking bureaucratic silos and delivering accountable, funded national programs linking portfolios across government, supported by close industry engagement. Lessons from global crises—such as supply chain vulnerabilities revealed by COVID-19—make it clear that peacetime compartmentalisation and business-as-usual practices will be inadequate in contingencies where national survival and operational continuity are at stake.

The Australian Government must reframe Defence procurement as a primary instrument of national policy, not merely a cost impost. This requires a whole-of-nation approach to:

- Integrate Procurement with National Strategy: procurement decisions must be explicitly aligned with the Defence Industrial Development Strategy (DIDS), in particular its SDIPs, and national economic priorities, targeting investment in areas of strategic importance.
- Adopt a Whole-of-Government Approach: Defence procurement cannot operate in a silo. A coordinated, whole-of-nation strategy is essential to integrate industry policy, workforce development, and strategic priorities, ensuring Defence investment builds enduring national capability and prosperity.

By championing these reforms, the Australian Government can ensure that Australia's historic Defence investment delivers not only the capability our nation needs but also the resilient, innovative, and sovereign industrial base our future security and prosperity demand.

# Main Report

# 1. The project

SAPA requested DeltaPearl Partners to analyse the net economic returns of directing greater proportions of Defence procurement spending towards Australian-owned and operated companies.

The Australian Government introduced reforms to the CPRs in July 2025 and November 2025; the CPRs apply to all Commonwealth Government procurement but will have a particularly significant impact on Defence, which is the largest procurer by a considerable margin, accounting for almost 70% of Australian Government procurement.

The CPR reforms align with the emphasis on sovereign capability, supply chain resilience and enhancing the development of the domestic defence industry expressed in the National Defence Strategy (2024)[33] and related policy and strategic documents (e.g., the Defence Industrial Development strategy (DIDS) [34] and the Cyber Security Strategy[35]). They also align procurement with broader policy goals articulated in the Government's Future Made in Australia and Buy Australian policies. The CPRs reforms strengthen requirements to consider “broader economic benefits” by lowering the thresholds for high-value procurements that require this assessment, and increase commitments to source from SMEs, which are a significant component of the Australian defence industry, operating alongside large international primes, which have dominated Defence procurement to date. As of November 2025, the CPRs also incorporate a definition of an Australian business and requirements for procurers to consider Australian businesses first for procurements below specified thresholds.

This report for SAPA seeks to model and measure the “sovereign dividend”—the suite of economic returns and strategic benefits that accrue when defence contracts are delivered by Australian suppliers. The ultimate aim is to provide SAPA and the Government with a defensible evidence base to inform future policy discussions, procurement decisions, and potential refinements to the CPR framework that extend access to Defence spending for Australian defence firms in a way that strengthens national sovereign capability.

[33] Department of Defence, *2024 National Defence Strategy*.
[34] Department of Defence, *Defence Industry Development Strategy*.
[35] Department of Home Affairs, *2023–2030 Australian Cyber Security Strategy*.

# 2. Defence procurement in Australia

## 2.1. Scale and types of defence procurement

Defence is the largest Australian Government procurer by a considerable margin, accounting for 56.1% of Commonwealth entity contracting, valued at $58.76 billion during the 2024–25 financial year. The second largest procurer accounted for 6.0% ($6.26 billion) of Commonwealth contracts. Key defence policies, including the National Defence Strategy, IIP and DIDS, as well as the CPRs (discussed in more detail below), recognise Commonwealth procurement as a major economic lever for achieving sovereign capability and other defence goals.

*Table 6: Procurement contracts: Top 5 Commonwealth entities*[36]

| Entity | Value Billions | % of total value | Rank in Top 10 | | | |
|---|---|---|---|---|---|---|
| | | | 2023-24 | 2022-23 | 2021-22 | 2020-21 |
| Department of Defence | $58.76 | 56.1% | 1 | 1 | 1 | 1 |
| Department of Home Affairs | $6.26 | 6.0% | 5 | 4 | 2 | 4 |
| Department of Health, Disability and Ageing | $5.49 | 5.2% | 2 | 3 | 4 | 2 |
| Department of Employment and Workplace Relations | $3.90 | 3.7% | 11 | 2 | 3 | 10 |
| Services Australia | $2.66 | 2.5% | 4 | 6 | 5 | 3 |

The scale of Defence procurement means that procurement is a powerful tool for building local capacity and sovereign capability if correctly and diligently allocated in a way that clearly seeks to achieve those objectives.

> *The most direct way governments can use procurement to build domestic capability in a given sector is through selective procurement, which preferences domestic suppliers over foreign competitors.*[37]

Defence spending includes wide-ranging investments in equipment, capability upgrades, infrastructure, recruitment, sustainment and services. Broadly, spending can be divided into the categories in the box below. However, the allocation of defence funding is complex and not always clearly reported due to security issues.

[36] AusTender, *Contracts by Procuring Agencies*.
[37] Elizabeth Sheargold and Andrew D. Mitchell, "NATIONAL SECURITY AND PROCUREMENT UNDER AUSTRALIA'S INTERNATIONAL TRADE AGREEMENTS," *SOVEREIGN CLOUD SERVICES, Monash University*, 2023. p. 3.

*Text Box 6: Categories of defence procurement*

**Defence procurement categories**

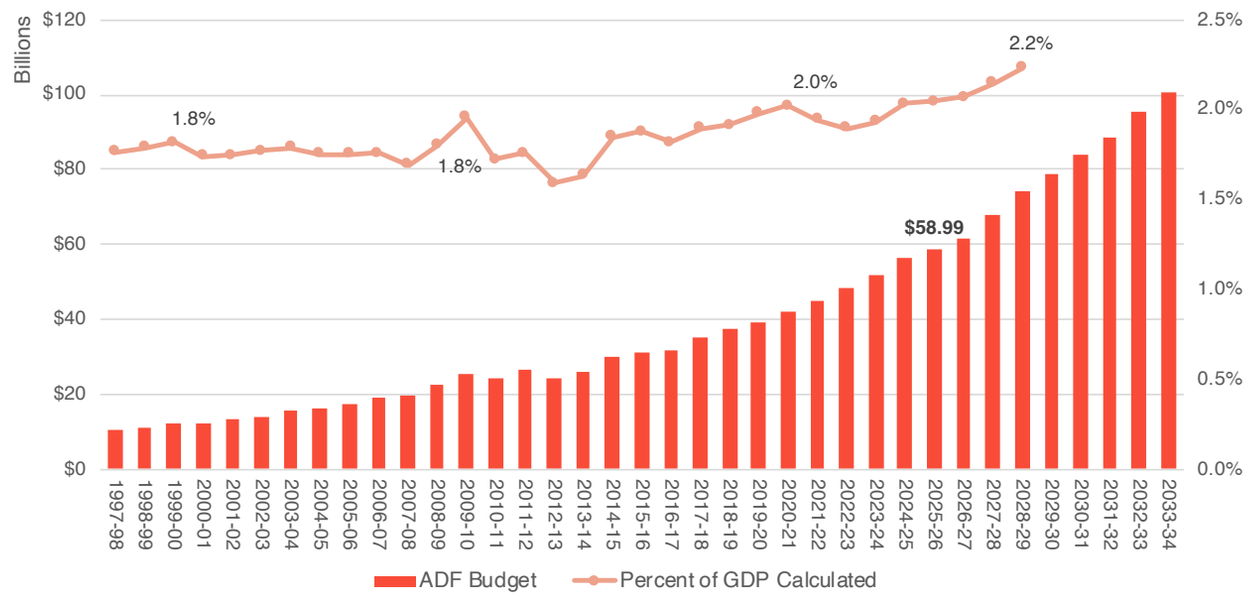
Defence procurement can be broadly categorised into the following:

- *Direct procurement / acquisition* (equipment and platforms) - fighter jets, submarines, armoured vehicles, and other weapons systems.
- *Sustainment procurements or MRO* (maintenance, repair, and operations) - this category focuses on the ongoing upkeep and repair of existing defence assets. It includes items such as spare parts, maintenance contracts, and other services necessary to keep equipment operational. This may also be considered to extend to medical services and cyber security services.
- *Indirect procurement (support services)* - logistics, training, and information technology services.
- *Commercial goods and services* – This category cover a wide range of non-materiel goods and services provided to Defence, including medical services, travel, and personal protective equipment.
- *Estate management and infrastructure services* - This category relates to the maintenance and construction of Defence facilities, training areas, other infrastructure and a range of construction services.
- *Innovative technology* - This category focuses on acquiring new and cutting-edge technologies that can enhance Defence capabilities, including AI and autonomous systems, space-based and dual-use technologies, and others.

Australian defence spending is approximately $161 million per day; by 2033-34, it is projected to exceed $275 million per day. In 2025-26, total defence funding is 2% of GDP ($59 billion), with planned funding growing to $100 billion in 2033-24 under the 2024 National Defence Strategy.[38] [39] [40] In recent years, the Australian government has accelerated defence spending, bringing new investment forward and earmarking more funds for strategic projects, capability development, and workforce growth.[41]

[38] Department of Defence, *2024 National Defence Strategy*. When accounting for wider defence-related expenditure, such as defence pensions, in line with international comparisons, Australia's defence spending is approximately 2.8% of GDP. This places Australia's share of defence spending ahead of many significant economies, including the United Kingdom, Germany, and France.
[39] Richard Marles, *Press Conference, Henderson*, Transcript (Defence Ministers, 2025), https://www.minister.defence.gov.au/transcripts/2025-09-14/press-conference-henderson.
[40] NATO, *Defence Expenditure of NATO Countries* (2024), https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.
[41] Richard Marles et al., *Albanese Government Grows and Accelerates Defence Spending*, Press Release (Defence Ministers, 2025), https://www.minister.defence.gov.au/media-releases/2025-03-25/albanese-government-grows-accelerates-defence-spending.

*Figure 12. Australian Defence Funding, FY1998-2034* [42] [43] [44] [45] [46]




When accounting for wider defence-related expenditure, such as defence pensions, in line with international comparisons, Australia's defence spending in 2024 is approximately 1.9% of GDP.[47] This places Australia's share of GDP defence spending ahead of many significant economies, including Canada, Japan, and Italy.

## 2.2. The Commonwealth Procurement Rules

All Commonwealth procurement (including by Defence) is governed by the CPRs issued by the Department of Finance. The CPRs are of particular significance to Defence given it is the major Commonwealth procurer of goods and services. The CPRs operate within the context of relevant national and international agreements and procurement policies to which Australia is a signatory, including free trade agreements and the Australia and New Zealand Government Procurement Agreement (see Appendix 2 for a brief overview).

The key criteria emphasised in the CPRs is value for money; this concept extends beyond consideration of price and encompasses financial and non-financial costs and benefits, including the quality of goods and services, fitness for purpose, and environmental sustainability.

[42] Includes funding the Department of Defence, Australian Signals Directorate, and Australian Submarine Agency.
[43] Department of Defence, *Portfolio Budget Statements: 2011-12 to 2025-26*.
[44] ASPI, *The Cost of Defence Public Database*.
[45] Department of Defence, *2024 National Defence Strategy*.
[46] Parliamentary Budget Office, *PBO Historical Fiscal Data: 2025-26 Budget Update*.
[47] Stockholm International Peace Research Institute, "Trends in World Military Expenditure, 2024," April 2025, https://www.sipri.org/sites/default/files/2025-04/2504_fs_milex_2024.pdf.

*Text Box 7: Department of Finance, Commonwealth Procurement Rules - Value for Money*

**Department of Finance, Commonwealth Procurement Rules - Value for Money, Paras 4.4-4.6**

4.4 Achieving value for money is the core rule of the CPRs. Officials responsible for a procurement must be satisfied, after reasonable enquiries, that the procurement achieves a value for money outcome. Procurements should:

a. encourage competition amongst potential suppliers[48];
b. use public resources in an efficient, effective, economical and ethical manner that is not inconsistent with the policies of the Commonwealth;
c. facilitate accountable and transparent decision making;
d. encourage appropriate engagement with risk; and
e. be commensurate with the scale and scope of the business requirement.

4.5 Price is not the sole factor when assessing value for money. When conducting a procurement, an official must consider the relevant financial and non-financial costs and benefits of each submission including, but not limited to the:

a. quality of the goods and services;
b. fitness for purpose of the proposal;
c. potential supplier's relevant experience, performance history and ethical conduct;[49]
d. flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement);
e. environmental sustainability of the proposed goods and services (such as energy efficiency, climate change impact, environmental impact, circularity of the goods and services and use of recycled materials); and
f. whole-of-life costs.

4.6 Whole-of-life costs could include:

a. the initial purchase price of the goods and services;
b. maintenance and operating costs;
c. transition out costs;
d. licensing costs (when applicable);
e. the cost of additional features procured after the initial procurement;
f. consumable costs; and
g. decommissioning, remediation and disposal costs (including waste disposal).

Although international trade rules prohibit discrimination,[50] those trade rules include exceptions to protect essential security interests. Many countries are far more proactive than Australia in employing these exemptions, . Recently, many countries have increased the, use defence procurement to boost their domestic defence industry and thereby secure supply chains and sovereign capability. These motives have grown stronger in light of global developments (e.g. supply chain disruptions, security concerns, and other powers' protectionist measures). By carefully navigating this space, Australia can reconcile its commitment to open, rules-based procurement with its strategic imperative to develop a resilient domestic defence industry and sovereign capability.

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[48] In the earlier version of the CPRs, this requirement was to encourage competition and be non-discriminatory;
[49] Ethical conduct was added in November 2025.
[50] The World Trade Organization (WTO) Government Procurement Agreement (GPA) and Australia's PTAs require most government departments and agencies not to discriminate between local and foreign suppliers in their procurement. However, they contain exceptions that provide that non-discrimination requirements and other obligations do not apply to procurement measures adopted to protect essential security interests.

In addition to the value-for-money considerations, in the context of determining value for money for higher-value procurements, officials are required to consider the 'broader economic benefit' of a procurement to the Australian economy (CPRs, para 4.7).

> *4.7 In addition to the value-for-money considerations at paragraphs 4.4 – 4.6, for procurements above $4 million (or $7.5 million for construction services) (except procurements covered by Appendix A and procurements from standing offers), officials are required to consider the economic benefit of the procurement to the Australian economy.*

Consideration of broader economic benefits has been a requirement since 1 March 2017 for high-value procurements, initially defined as those valued above $4 million.

The quantitative framework that we propose, the Sovereign Dividend Scorecard (SDS), provides officials with a framework that allows them to meet this existing requirement in a robust, evidence-based way.

In November 2025, various changes were introduced to give priority to Australian businesses in certain circumstances. A brief summary is provided in the box below, with more discussion in the following sections.

*Text Box 8: The November 2025 CPRs*

**The November 2025 CPRs[51]**

The latest reforms to the CPRs were introduced in November 2025, and represent a significant evolution in Australian Government procurement policy. These reforms included:

- a formal definition of an "Australian business" for procurement purposes, establishing criteria of Australian ownership of at least 50%, tax residency, and principal place of business within Australia.
- new requirements mandating that Australian businesses be given preference under certain circumstances. , reinforcing the Government's strategic priority to boost sovereign industrial capability and economic resilience.
- a specified goods and services (excluding construction services), the relevant procurement threshold is $125,000

These changes build on the July 2025 reforms that lowered procurement thresholds for broader economic benefits assessments and increased commitments to sourcing from SMEs.

However, while the November 2025 reforms mark progress, ambiguities remain—particularly around the definition of "Australian business," which risks allowing foreign-owned subsidiaries with Australian ABNs to capture contracts meant to favour genuinely sovereign companies. Furthermore, although the new requirements mandating that Australian businesses be given preference aligns with strategic priorities in spirit, the requirement only applies for contracts between $10,000 and $125,000. This threshold will make this reform irrelevant for Defence procurement because it is so low that it will exclude all significant Defence contracts,

The November 2025 CPR reforms constitute a meaningful but incomplete step towards leveraging Commonwealth procurement as a tool for fostering sovereign defence industrial capability and economic benefit. Their ability to work for Australian business hinges on enhancing definitional clarity, operational mandates, and decision-support tools to translate policy ambitions into measurable and enforceable procurement outcomes, and expanding the $125,000 cap.

[51] https://sellingtogov.finance.gov.au/guide/australian-business

## 2.3. Dominance of international primes in procurement spending

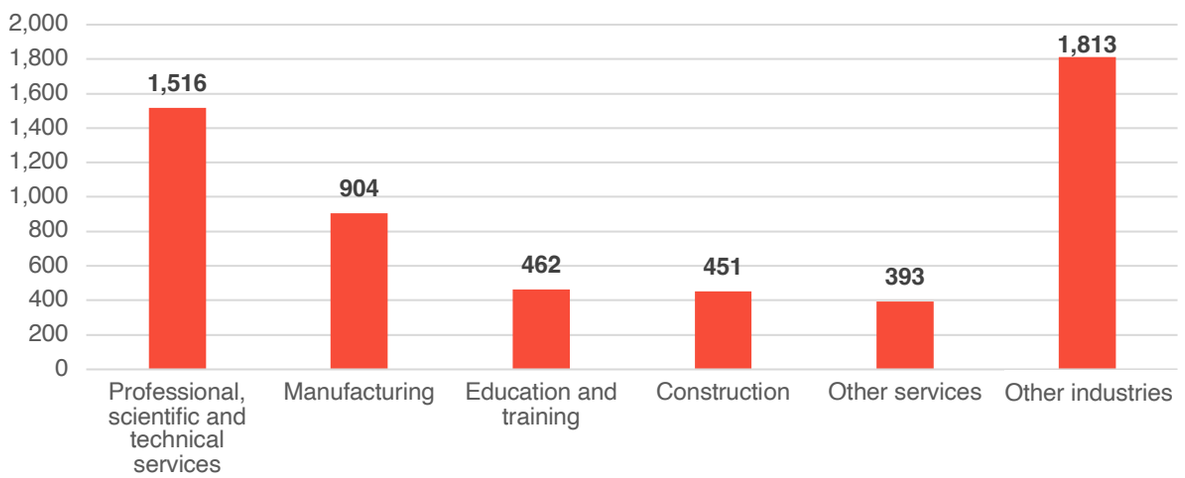
### 2.3.1. Australian defence firms

Australia's defence sector consists of many Australian SMEs at one end of the spectrum vs a much small number of local subsidiaries of large multinational companies, known as Defence "primes" at the other end of the spectrum.

The ABS estimates that there are around 5,500 Australian defence suppliers, and that the majority are SMEs involved in services such as logistics, sustainment, and systems integration rather than direct manufacturing; the sector employs just under 70,000 people.[52]

Around one fifth of the businesses (904) are manufacturing businesses supplying Defence.[53] These businesses employ around 11,400 workers. Typically, they are either a small (5 to 19 employees) or medium (20 to 199 employees) business enterprise.

*Figure 13. ABS Defence Industry business counts, 2023/24[54]*




The Australian SMEs include firms acquiring new and cutting-edge technologies that can enhance Defence capabilities, including AI and autonomous systems (e.g., Drone Shield), aerospace, space-based and dual-use technologies (Gilmour Space), biotechnology, and cybersecurity (e.g., Macquarie Technology), as well as firms manufacturing munitions (NIOA) and ships (Austal), and supplying medical services for combat zones (Aspen Medical).

> *Australia has a highly capable industrial base that produces powerful, innovative products across a wide span of sectors. Australia is highly capable in the world of technology, all things digital and something that is becoming more obviously critical to an effective military: developing and making 'the small, the smart and the many'—systems that have a real impact on the battlefield but can be made in numbers that let them be used, lost and rapidly replaced. We have highly capable space and counter-space firms, digital and health services, and manufacturing, from the small and the precise to complete armed surface ships.*[55]

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[52] Australian Bureau of Statistics, "Australian Defence Industry Account, Experimental Estimates 2023-24 FY," April 16, 2025, https://www.abs.gov.au/statistics/economy/national-accounts/australian-defence-industry-account-experimental-estimates/latest-release.
[53] Ibid.
[54] Ibid.
[55] NIOA Group et al., *Developing Australia's Defence Industrial Base: A Time for Urgency, Optimism and Action* (2023), https://www.nioa.com.au/uploads/documents/Suppliers/Developing-Australias-defence-industrial-base-December-2023.pdf.

In addition, we have many “defence-adjacent” firms, meaning that they have capabilities suitable to supplying Defence as well as the civil sector:

> *Many of our most advanced manufacturing sectors are ‘defence adjacent’. That’s because the civil sector is seeking many of the same capability types as the defence sector, such as trusted autonomy, space-based imaging and communications, specialist vehicles that can operate in challenging terrain, and reliable maritime propulsion systems. That means that there’s significant industrial capability and capacity here that can enter the defence sector*”[56]

These characteristics mean that the Australian SMEs offer valuable expertise and agility, which strengthens our sovereign capability and supply chain resilience.

> *modern defence increasingly relies on fast-moving dual-use technologies, such as artificial intelligence, drones, advanced sensors and autonomy. In these areas, start-ups and SMEs drive innovation. Without active inclusion of such firms, Australia risks hollowing out its innovation pipeline and supply chains at a time of intensifying strategic competition. (https://www.aspistrategist.org.au/australia-can-leverage-smes-to-build-national-resilience/)*

Alongside the Australia SMEs, there are a comparatively small number of defence industry primes operating in Australia, the majority with multinational (particularly US and European) parents (see the box below). Among these are a few Australian ‘homegrown’ defence primes fully headquartered in Australia, including Australian Weapon Systems (AWS), NIOA and Nova Systems, and ASC, which is Australian government owned.

[56] Ibid.

*Text Box 9: Defence Primes and locations of parent companies*

**Main Defence Primes and Parent companies**

'Home-grown' Australian primes / Fully headquartered in Australia:

- ASC Pty Ltd: Australian Government-owned; designs, builds, and sustains Collins-class submarines.
- AWS: Delivers innovative weapon integration, missile systems, and combat support technologies.
- NIOA: Specialises in munitions manufacturing and supply.
- Nova Systems: Providing systems integration, engineering, and advisory services.

Parent companies in the UK:

- Babcock: Naval sustainment and marine technology solutions, maintaining critical warship fleets and infrastructure support.
- BAE Systems: Major naval and aerospace platforms, including the Hunter-class frigates and significant sustainment programs for air, land, and maritime defence assets.
- Laing O'Rourke: Construction and engineering prime involved in defence infrastructure projects.

Parent companies in the US:

- Anduril: Specialises in autonomous systems, advanced AI, and networked weapons. Contracted to deliver and develop the Ghost Shark extra-large autonomous undersea vehicle (XLAUV) platform for the Royal Australian Navy.
- Boeing Defence Australia specialises in airborne early warning and control, advanced telecommunications, and integrated logistics support.
- Huntington Ingalls Industries: Provides shipbuilding expertise and support.
- L3Harris: Communications, electronic warfare, avionics, and battlespace networking technologies.
- Lockheed Martin: Advanced combat aircraft (e.g., F-35 Joint Strike Fighter), missile systems, and integrated air and missile defence solutions. Supports space, radar, and communications networks.
- Moog: Engaged in precision control systems and subsystems, supporting aerospace and guided weapons programs.
- Northrop Grumman: Provides unmanned systems, surveillance, networks, and integration of complex military technologies.
- Raytheon Australia: Specialises in advanced sensors, electronic warfare, missile defence, and command-and-control systems.

Parent companies in Europe:

- Airbus Australia Pacific: Active in aircraft maintenance, systems integration, and aerospace solutions (Parent company: Netherlands)
- Kongsberg: Supplies missile systems and defence electronics, and plays a role in complex maritime and coastal defence projects (Parent company: Norway)
- Rheinmetall: Delivers armoured vehicles (notably the Boxer CRV), ammunition, and simulation technology, supporting Australian Army's modernisation. (Parent company: Germany)
- Saab Australia is responsible for advanced command, control, and combat management systems, supplying technology for ships and submarines. (Parent company: Sweden)
- Thales: Thales Australia focuses on protected vehicles, communications, underwater systems, and munitions, with major operations in local manufacturing (e.g., Bushmaster vehicles). (Parent company: France)

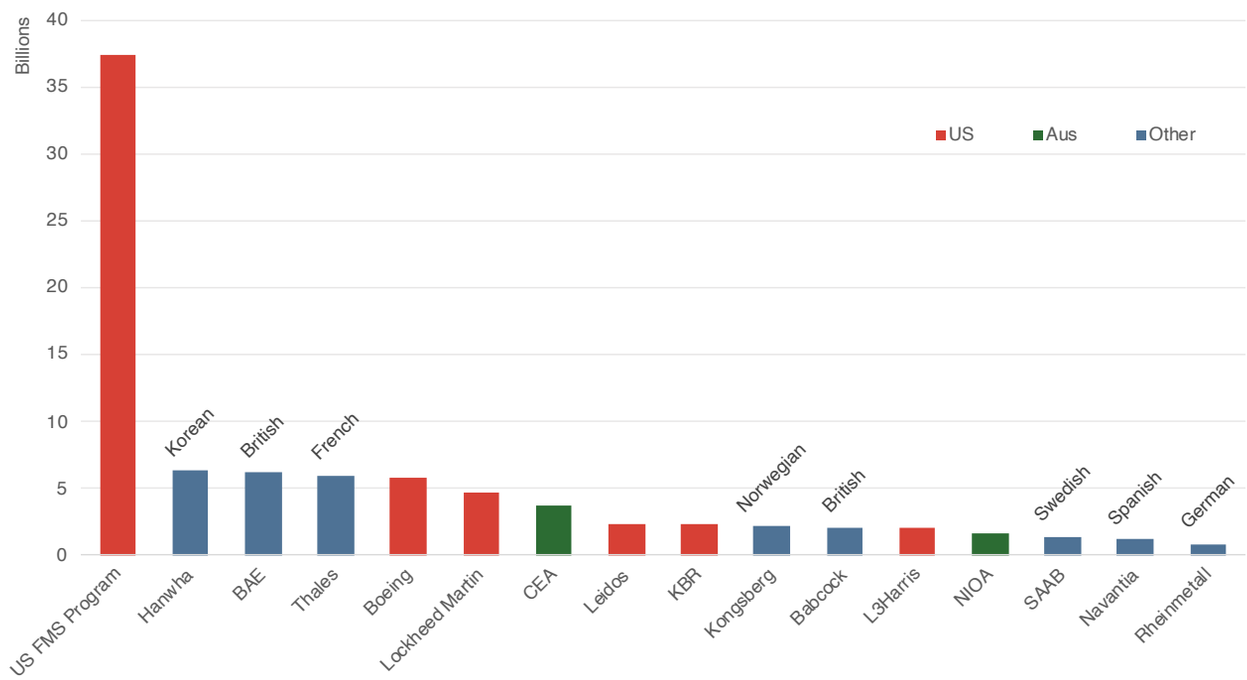
Parent companies in Asia: South Korea

- Hanwha Defence Australia: Active in armoured vehicles and land systems (Parent company: South Korea).
- Mitsubishi Heavy Industries Australia: delivering Mogami-class frigates (Parent company: Japan).

### 2.3.2. Dominance of international primes in procurement

Much of Defence's procurement spending is directed towards multinational primes rather than towards Australian SMEs. An analysis of Defence contracts estimated that although SMEs are awarded just over 52% of contracts by the number of contracts, they are awarded only 18.8% by value. In particular, large value defence projects above the $500,000 threshold mostly involve major suppliers, the platforms and prime contractors. [57]

*Figure 14. Value of Australian defence contracts awarded to the top 15 defence contractors, FY2021-2025[58]*

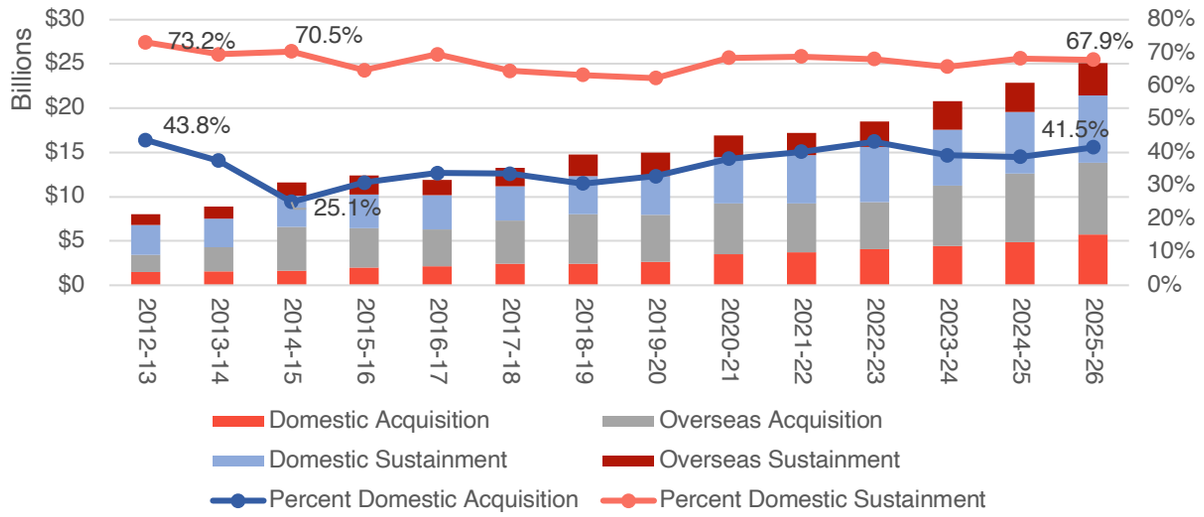



Below we provide a broad breakdown of the reported defence spending on acquisition and sustainment, separated by domestic vs overseas spending. In the reported spending categories, it appears that domestic acquisition has increased as a percentage and that domestic sustainment is stable. However, a key issue is that the reported "domestic" spending includes international companies that have an ABN and might partly operate in Australia, but are largely run from other countries. Therefore, the reported spending is not a true reflection of the domestic defence spending on these items or of the contribution to domestic capacity and the level of Australian control and security.

[57] David Uren, *You Call That a Defence Industry?* (The Strategist, 2025), https://www.aspistrategist.org.au/you-call-that-a-defence-industry/?

[58] DeltaPearl Partners, from; AusTender, *Contract Notices 2020-2025.*

*Figure 15. Reported spending and percent of domestic/overseas acquisitions and sustainment*




Historically, Defence has introduced policies to ensure that primes take on Australian firms as subcontractors and suppliers; for example, the Australian Industry Capability (AIC) program required that tenderers for significant Defence contracts develop detailed AIC plans illustrating how Australian industry will be engaged at all stages of the procurement and supply chain. However, a 2025 review of Defence contracts by the Australian National Audit Office (ANAO, 2025)[59] found that Defence had not maximised Australian industry participation through its contract administration in practice, and that it was unable to ensure suppliers met their local participation promises.

The government's goal for procurement must extend beyond mere local participation targets to achieving substantive, verifiable contributions to Australia's sovereign industrial capability, innovation capacity, and economic resilience—yet the 2025 ANAO review reveals that Defence has struggled even to meet basic local participation commitments. This highlights a systemic failure to translate policy ambition into operational reality and to fully capitalise on the strategic potential of domestic industry engagement.

*Figure 16. ANAO Review (2025) of Defence's implementation of local participation requirements*

| Contract | Did Defence effectively advise potential suppliers of DPIP requirements? | Has Defence contracted with suppliers in accordance with DPIP requirements? | Has Defence monitored industry compliance with contracted DPIP commitments? |
|---|---|---|---|
| 1. Missiles | ▼ | ▼ | ▼ |
| 2. DSS | ■ | ■ | ■ |
| 3. Utility | ■ | ■ | ■ |
| 4. Systems | ▲ | ▲ | ■ |
| 5. MSP | ■ | ▼ | ■ |
| 6. Monitoring | ▲ | ▲ | ■ |
| 7. Learmonth | ▲ | ▲ | ▼ |
| 8. Tindal[a] | ▲ | ▼ | ▼ |

Key: ◆ Effectively met all AIC requirements ▲ Largely met most AIC requirements ▼ Partly met the AIC requirements ■ Did not meet AIC requirements

Note a: This procurement occurred across two phases (started in 2018 and 2020 respectively) with an overall project LIC plan. As part of Defence's management of this project, the approved LIC plan was revised and re-approved after 2018. The plan has been reviewed since execution of the Delivery Phase contract in 2020.

Source: ANAO analysis of Department of Defence documents.

[59] Australian National Audit Office, *Maximising Australian Industry Participation through Defence Contracting*.

## 2.4. The CPR reforms and the definition of an Australian business

The Australian Government has recognised the importance of directing more procurement toward Australian defence firms in the CPR reforms and broader policies and strategies. In July 2025, the Department of Finance issued new CPRs, with alterations intended to direct purchasing power towards strengthening Australia's domestic industry and manufacturing capability.

### 2.4.1. 2024 CPR reforms

The 2024 CPR reforms:

- strengthened the requirements to consider the broader economic benefits to the Australian economy when assessing high-value procurements by lowering the thresholds for high-value procurements to above $1 million ($7 million for construction services)[60]; previously, the thresholds for high-value procurements were above $4 million ($7.5 million for construction services).
- raised the commitments to source procurement from SMEs to at least 25% and 40% of all procurement by value up to $1 billion and up to $20 million, respectively. Before July 2025, these thresholds were at least 20% and 35%.[61] The award of contracts for SMEs is important to building local capacity and sovereign capability because much of the local industrial base for the defence industry consists of SMEs.

The Government has also introduced reforms to define an Australian business for procurement purposes. In the 2024 Defence Strategy, an Australian business was defined in relation to the development of Australia's sovereign industrial base "*businesses with an Australian-based industrial capability and an Australian Business Number (ABN), providing products or services used in, or which can be adapted to be used in, the Australian Department of Defence supply chain and/or an international defence force supply chain.*"[62]

[60] There are some exemptions specified in Appendix A of the CPRs and procurements from standing offers (CPRs paragraph 4.7).
[61] The CPRs include other measures designed to benefit SMEs, including: an SME inclusion mandate, under which at least one SME must be included in every approach to market through the whole-of-government management advisory services and people panels; and an SME exemption threshold, which means that that Defence contracts valued up to $500,000 (raised from $200,000 in 2022) can be offered directly or tendered exclusively to SME suppliers.
[62] Department of Defence, *Defence Industry Development Strategy*, 3.

### 2.4.2. 2025 CPR reforms

In March 2025, in response to feedback from SAPA members and others on the revised CPRs, which lacked a definition of an Australian business, the Department of Finance issued the following definition, which extended beyond the basic criteria of an ABN: [63]

*Text Box 10: Draft Definition of an Australian business*

**Department of Finance - Definition of an Australian business (March 2025)[64]**

The proposed definition establishes three criteria for a business to be considered 'Australian':

- Ownership: At least 50% of the entity's ownership must be Australian, including any parent businesses, or its principal trading activity must take place on an Australian equities market.
- Tax residency: The entity must be an Australian tax resident.
- Principal place of business: The primary place of business must be in Australia.

Once the CPRs are updated, where a business meets the criteria in the definition, they may choose to self-declare their status as an Australian business for these purposes. A director, partner, trustee or appropriate officer, with the relevant authority and understanding of the business structure and operations, will need to make the declaration on behalf of the business.

This process culminated in the inclusion of a definition of an Australian business in the CPRs in November 2025 with ownership and control criteria.

*Text Box 11: November 2025 CPRs: Definition of an Australian business*

**Australian Business - definition included in the CPRs from November 2025**

In November 2025, the Government included a definition of an Australian business in the CPRs,[65] following the release of an earlier draft definition. [66] This definition extends the basic criteria of an Australian ABN and includes Australian ownership and control criteria. The definition in the CPRs is as follows:

The Australian business –

- is a business, including any parent business, that:
  - has 50% or more Australian ownership, or is principally traded on an Australian equities market; and
  - is an Australian resident for tax purposes; and
- is a business that has its principal place of business in Australia.

Note: Relevant entities must apply the guidance at www.finance.gov.au/australian-business when applying this definition. This provides more information about meeting the 50% criteria.

Furthermore, the new November 2025 CPRs now include paragraphs prioritising Australian businesses in procurement (5.4–5.5). In particular, paragraph 5.4 specifies that procurers must first consider Australian businesses and SMEs in certain circumstances.

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[63] Department of Finance, *Definition of an Australian Business* (2025), https://www.finance.gov.au/government/procurement/defining-australian-business-commonwealth-procurement/definition-australian-business; For background paper, see: Department of Finance, *Defining an Australian Business for Commonwealth Procurement: Public Consultation Paper* (2024), https://www.finance.gov.au/sites/default/files/2024-09/Australian-Business-Definition-Publication-Consultation.pdf.

[64] Department of Finance, *Guidance on the Definition of an Australian or New Zealand Business*.

[65] Department of Finance, *Commonwealth Procurement Rules*.

[66] Department of Finance, *Guidance on the Definition of an Australian or New Zealand Business*.

*Text Box 12: November 2025 CPRs: Consideration of Australian business paragraphs*

**Consideration of Australian Business - new paragraphs in the CPRs from November 2025**

In November 2025, the Government introduced new requirements for procurers to first consider Australian businesses and SMEs in the following circumstances.

5.4 For procurements with an expected value at or above $10,000 and below the relevant procurement threshold, excluding procurements from a standing offer, non-corporate Commonwealth entities must invite only Australian businesses to make submissions.

a. Where relevant, the requirements under the Indigenous Procurement Policy must first be satisfied, before an Australian business is approached.

b. If there are no submissions, or no submissions represent value for money, the procuring entity may undertake a procurement using a relevant procurement method.

c. An official responsible for a procurement may determine that approaching an Australian business, or Australian businesses is not appropriate for the procurement and that paragraph 5.4 does not apply. The basis for this decision must be documented.

5.5 For procurements with an expected value below $125,000 from the Management Advisory Services Panel, the People Panel, or any standing offer managed by the Digital Transformation Agency9 (DTA), non-corporate Commonwealth entities must invite only SMEs on the relevant standing offer to make submissions.

a. With respect to standing offers managed by the DTA, where relevant, the requirements under the Indigenous Procurement Policy must first be satisfied, before an SME is approached.

b. If there are no submissions, no submissions represent value for money, or the relevant standing offer does not include an SME, the procuring entity may invite other suppliers on the relevant standing offer to make submissions.

c. An official responsible for a procurement may determine that approaching an SME, or SMEs, is not appropriate for the procurement and that paragraph 5.5 does not apply. The basis for this decision must be documented.

## 2.5. International benchmarks

International benchmarking demonstrates that Australia's allied and partner states are reorienting procurement policy toward domestic resilience and supply security. The UK, the US, and many European countries, among others, are raising defence expenditures, emphasising the need for viable domestic defence industries, and re-evaluating procurement rules to give preference to local defence suppliers to achieve the desired outcome.

The focus on giving preference to domestic procurement marks a shift away from the past open procurement and encouragement of foreign bidders in general, and supports the direction of the Australian reforms to boost local defence industrial capability. A summary table of policies in the US, UK and the EU is provided below, with more detail in the appendices.

*Table 7: International procurement policies*

| Country / region | Policies promoting local preferences in procurement | Example investments |
|---|---|---|
| US | "Buy American Act" and related Defense Federal Acquisition Regulations require preference for US-manufactured goods and services in Defence procurement, unless a waiver is granted, | The US Department of Defense routinely awards massive supply contracts—such as the Defense Logistics Agency's $33 billion Special Operations Equipment Tailored Logistics Support program—where all major awardees are US companies committed to domestic manufacturing and logistics.<br><br>Recent large contracts for military equipment (such as the Joint Light Tactical Vehicle program and F-35 fighter jets) stipulate US content and manufacturing. |
| UK | The UK's Defence and Security Industrial Strategy promotes UK-based production | Recent major programs like the Type 26 and Type 31 frigates deliberately structured so that British shipyards (for example, BAE Systems and Babcock) are the primes, ensuring shipbuilding and outfitting takes place in the UK.<br><br>Infrastructure upgrades under the Future Defence Infrastructure Services program allocated £1.6 billion specifically to UK suppliers to maintain and upgrade MOD estates, a clear example of preference for local industry. |
| European Union | The European Commission has introduced a new defence procurement package (SAFE) that requires a minimum proportion of contract value (at least 65%) to originate from EU/European Economic Area (EEA) or Ukraine, and allows member states to restrict participation to companies headquartered in the EU; Germany's 2025 defence legislation explicitly allows excluding non-EU bidders and third-country subcontractors from major defence projects. | European joint procurement initiatives, such as the European Defence Fund, are structured to fund collaborative projects led by companies headquartered in EU member states and to develop fully European supply chains, with requirements for key components to be manufactured in Europe. |

# 3. Benefits of directing more procurement to domestic defence firms

Directing more defence procurement toward domestic firms is associated with a suite of considerable economic and social benefits that are not captured when defence goods and services are purchased from international firms that hold the IP and sensitive data, with limited roles for Australian firms. The broader impacts include strengthening supply chain resilience, thereby providing the sovereign capability to act independently in times of crisis, fostering high-value skills, technological spillover effects, and catalysing an advanced, innovative defence goods and services sector with high-quality export capabilities. The effects can be understood in terms of supply chain resilience and risk mitigation, economic multipliers, labour force development, technological spillover effects, and the creation of export potential.

There are offsetting cost and risks, the most significant of which are the potential "local premium" given that Australia has higher labour and governance costs than some other countries, in part owing to its commitment to valued ESG goals. However, perceptions of the extent of the local premium are often based on older traditional manufacturing case studies rather than on current modern technologies. A further risk is that of creating a protected 'infant industry' that is not viable without continued government support. Adopting enabling policies (e.g., workforce development), linking procurement preference to performance metrics and firms delivering spillovers may offset this risk.

*Text Box 13: Sovereignty verse Sovereign Capability*

**Sovereignty verse Sovereign Capability**

Sovereignty is the foundational, high-level political principle of national independence and the authority to make decisions free from external coercion. Sovereign capability, in contrast, is the practical, tangible industrial and technological means required to enact and uphold that sovereignty, especially in times of crisis.

Sovereignty

In the Australian context, sovereignty refers to the supreme and independent authority of the Commonwealth of Australia to govern itself.

- Core Concept: It is the right to decide and act. This authority is vested in the Australian Parliament and exercised by the Government of the day.
- Nature: It is a political, legal, and strategic principle. It is about authority, control, and independence.
- In a Defence Context: Sovereignty is the Government's exclusive right to:
  - Command and control the ADF.
  - Determine national security strategy and defence policy.
  - Commit the ADF to operations, both domestically and internationally.
  - Form alliances and security partnerships (e.g., AUKUS, ANZUS).

Analogy: Sovereignty is the authority of a homeowner to decide to build a security fence around their property. It is their right to make that decision for their own protection.

Sovereign Capability

Sovereign capability is a more recent and specific term, heavily emphasised in Australian strategic policy documents like the Defence Strategic Review (DSR) and the preceding Defence Industrial Capability Plan. It refers to the national capacity to independently design, produce, maintain, and sustain critical defence materiel and services without relying on foreign partners who may not be available or willing to assist during a conflict.

- Core Concept: It is the ability to do and deliver. It is the industrial muscle that gives substance to the political principle of sovereignty.
- Nature: It is a practical, industrial, and technological reality. It is about self-reliance, supply chain resilience, and operational independence.

**Sovereignty verse Sovereign Capability**

- In a Defence Context: Sovereign capability is the tangible possession of:
  - An Industrial Base: The domestic factories, shipyards, and facilities needed to manufacture and assemble defence platforms and munitions.
  - A Skilled Workforce: The engineers, technicians, software developers, and tradespeople with the expertise to operate, maintain, and upgrade complex defence systems.
  - Technology and Intellectual Property (IP): The national control over critical designs, software source codes, and data that allows Australia to modify and sustain its equipment without seeking foreign permission.
  - Resilient Supply Chains: Secure access to the raw materials, components, and sub-systems necessary for defence production and sustainment.
  - The Australian Government formalises this through its Sovereign Industrial Capability Priorities (SICPs), which identify specific industrial sectors (e.g., continuous naval shipbuilding, guided weapons production, critical munitions) deemed essential for national security.

Analogy: Sovereign capability is having the tools, materials, skills, and blueprints to build the security fence yourself, without having to rely on an overseas supplier for the posts or a foreign contractor for the installation, who might suddenly become unavailable.

| Feature | Sovereignty | Sovereign Capability |
|---|---|---|
| Core Concept | The authority to act independently. | The practical ability to act independently. |
| Nature | Political and legal principle. | Industrial and technological reality. |
| Focus | Decision-making and strategic control. | Self-reliance, industrial base, and supply chains. |
| Question it Answers | "Do we have the right to do this?" | "Do we have the means to do this ourselves?" |
| Defence Example | The Government's decision to acquire nuclear-powered submarines under AUKUS to protect Australia's interests. | The national effort to build the industrial base, workforce, and infrastructure in Adelaide to construct and sustain those submarines in Australia. |

Practical Example: Collins-class Submarine Sustainment

*Sovereignty*: The Australian Government's sovereign decision to operate a fleet of submarines and deploy them as it sees fit to protect our maritime approaches.

*Sovereign Capability*: The ability of Australian industry, primarily ASC Pty Ltd in South Australia, to conduct deep maintenance (full-cycle dockings), upgrades, and life-of-type extensions on the Collins-class fleet. This in-country capability means the ADF is not dependent on a foreign shipyard to keep its submarines operational, ensuring they are available when Australia needs them. This established capability is the foundation for the future SSN-AUKUS enterprise.

Sovereignty is the national will; sovereign capability is the national way. Without a credible sovereign capability, Australia's sovereignty in a contested strategic environment becomes a hollow concept, dependent on the goodwill and availability of international partners.

## 3.1. Building supply chain resilience and mitigating risk

*The amateurs discuss tactics: the professionals discuss logistics.*
*– Napoleon Bonaparte*

The single most important benefit of directing more procurement toward domestic defence is the strategic benefit of assured supply in a crisis. Resilient supply chains are essential inputs into a functioning economy and the well-being of its citizens in general.[67] In the case of defence, the importance of resilience is multiplied owing to the unique nature of defence vs commercial supply chains. Geopolitical instability, diplomatic friction, or even another global pandemic could sever international supply chains with little warning, as evidenced by the COVID-19 experience and crises that have blocked supply at key points of failure in supply chains. Globalisation has led to a focus on cost and efficiency above all other values in building supply chains (see box). However, defence supply chains must prioritise agility and operational readiness during conflict; the profit-driven motives of industry must be aligned with the security-driven imperatives of the nation.

For decades, globalisation—the process of interaction and integration among people, companies, and governments worldwide—has encouraged nations and industries to extend their supply chains across the world, seeking efficiency and access to specialised skills. In a modern global supply chain, an Australian-designed mining vehicle might use a German engine, a Japanese transmission, Swedish steel, and American control software, all assembled in a third country before being sold back into the Australian market. This model, championed for its economic efficiency, treats the world as a single factory floor, extending intricate and lengthy supply chains around the world and operating under "a just-in-time ethos" to optimise efficiency.

While this approach delivers economic benefits, it also creates dependencies that can become critical vulnerabilities during geopolitical instability or conflict. The COVID-19 pandemic and the blockage of the Suez Canal in 2021 exposed just how quickly optimised, just-in-time global value chains can shatter, leading to shortages of everything from medical supplies to semiconductors. As an island continent reliant on maritime trade and foreign inputs, these vulnerabilities pose a direct threat to economic stability and national security. The potential blockages range from deliberate geopolitical acts to unforeseen natural disasters, and each can sever the critical links that supply our industry and the Australian Defence Force. A 2021 review of the Australian economy by the Productivity Commission confirmed that Australia's reliance on imported inputs for critical industries exposes the nation to systemic risk during crises.[8] During the COVID-19 pandemic, Australian GDP is estimated to have lost approximately $158 billion compared with the pre-pandemic trajectory, indicating the criticality of supply chain resilience and the costs of supply chain failures.

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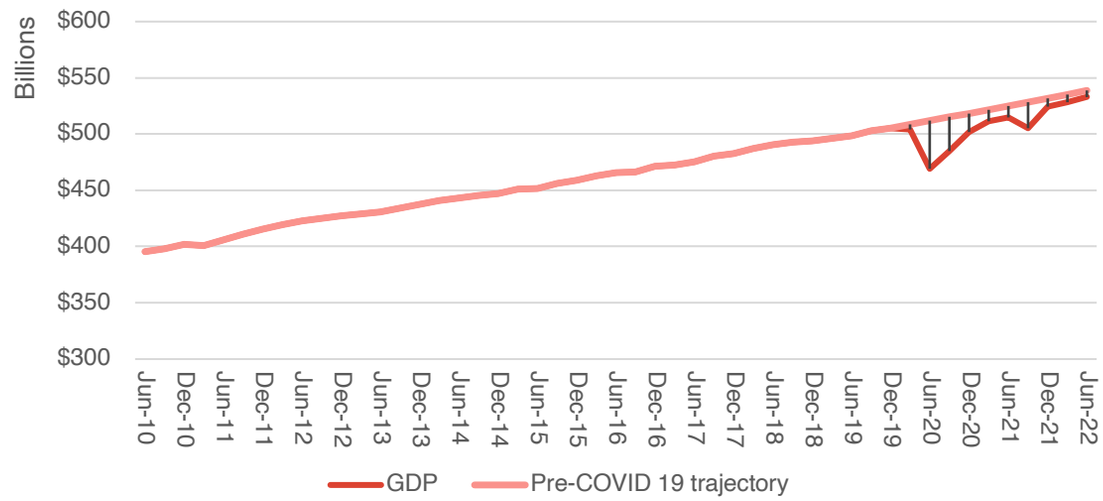
[67] Productivity Commission, *Vulnerable Supply Chains*, Study Report (2021), https://www.pc.gov.au/inquiries/completed/supply-chains/report/supply-chains.pdf.

Figure 17. GDP, actual and pre-COVID-19 trajectory, chain volume measures, seasonally adjusted[68]




In contrast with standard commercial supply chains, which may be driven almost entirely by the pursuit of efficiency and profit, defence supply chains must serve as instruments of national security and statecraft. In the defence sector, supply chains are strategic assets, and it is critical that they ensure operational viability—accessibility and operational readiness - during conflict. "*the defining attributes for defence supply chains during wartime are agility and effectiveness … commercial supply chain often lack the robustness required when the defence forces are on high alert … the defence industry must be adaptable, capable of operating in both peace and wartime modes and able to switch between these modes at short notice.*" [69]

For a nation such as Australia, reliance on global supply chains presents a direct challenge to our defence sovereignty and our ability to build and sustain critical capabilities. This vulnerability strikes at the heart of defence sovereignty—a nation's ability to independently build, sustain, and operate its military capabilities without being beholden to the political or economic interests of another state.

Geopolitical tension represents one of the most acute risks to a nation reliant on global supply chains. In an era of great power competition, a state can deliberately deny another nation access to critical inputs as a tool of economic coercion or strategic leverage. For Australia, this risk became reality during recent trade disputes where key export markets for commodities such as barley and wine were suddenly restricted through non-tariff barriers. The inverse of this threat is even more concerning for defence sovereignty: a foreign state could restrict Australia's access to essential imports, such as specialised electronic components, refined fuels, or chemical precursors needed for munitions manufacturing. This "weaponisation of interdependence" turns a commercial relationship into a national security vulnerability, directly threatening our ability to sustain defence capabilities in a crisis.

Navigating this complex interplay is not an academic exercise; it is a core component of our national defence strategy. Developing robust and resilient Australian defence capabilities requires more than just securing reliable supply chains for components and materiel. It demands a deliberate strategy to build a sovereign defence value chain—one that fosters local innovation, cultivates a skilled workforce, and masters the high-value design, integration, and sustainment activities essential for long-term self-reliance.

The US is the world's largest defence manufacturer. However, recent military activity in Ukraine has demonstrated that the US's military equipment manufacturing capacity is lower than expected by many observers. It has been reported that the US missile stockpiles would run out in a matter of days in a major

[69] Roland Hellberg, "Swedish Public Procurement and the Defence Industry: Obstacles and Opportunities," *Journal of Defense Analytics and Logistics* 7, no. 2 (2023): 103–37, https://doi.org/10.1108/JDAL-12-2022-0015.

conflict[707172]. Australia should consider the implications of this seriously because it indicates that the ADF would not be able to rely on supplies from the US-based or -owned firms if the US forces were running low on supplies during a period of conflict and high domestic demand. Indicatively, it is taking years to take delivery of US missiles because US production is insufficient to meet its own needs let alone Australia's needs. Within the international system, each state seeks to maximise its national security relative to other states and each state has significant control over the decisions of businesses in the defence sector. The state decides who receives military equipment that is in short supply and will prioritise its own military over that of other countries.

The fact that Australia may be denied access to critical supplies even by allies—simply because the ally does not have sufficient supply to meet their own needs, or it may assess that there are other partners whose need is greater than Australia's need—emphasises the criticality of developing Australian defence capabilities.

From this perspective, preferencing local supply and building domestic capacity through strategic procurement practices is an economic insurance policy. It reduces exposure to global shocks and enhances our ability to operate independently in crises, thereby ensuring operational continuity for the ADF during crises and mitigating the systemic risk of international supply chains.

> *For many platforms and systems, particularly those with high technology levels that require scale for production, procuring direct from foreign suppliers has increasingly become the norm. However, Australia's evolving strategic environment means that this approach will carry additional operational risks in the future. Allied supply chains for defence goods and services are already strained in the wake of the war in Ukraine, and during a major conflict in the Indo-Pacific this situation will be significantly exacerbated. Adaption, improvisation and battle-damage repair in wartime will have to rest on locally available industry. … an increased level of capacity in Australian defence industry would be desirable for multiple reasons. It would help alleviate current pressures on supply chains, helping to meet Australia's needs and relieve pressures on allies. It would provide the foundation for the development of more advanced capabilities. In the event of a conflict or near-conflict scenario in the Indo-Pacific, it would also ensure continuity in supply and provide near-theatre production that can help meet Australian and allied surge requirements.*[73]

Directing procurement spending toward domestic firms means that Australian has greater control and freedom of action—the ability to operate without seeking permission or relying on the goodwill of others—which is critical to national sovereignty. We retain control, with key decisions made in Australia, guided by Australia's unique strategic needs, not by a board in a foreign capital. A domestic industry enables the ADF to tailor platforms and systems to our specific operational environment and means that the IP and sensitive data associated with our most critical capabilities are managed and protected under Australian law.

A reliance on offshore suppliers and global value chains for critical defence components and sustainment creates a strategic risk. An Australian prime contractor, driven by commercial imperatives, might integrate a critical sub-system from a global supplier to reduce costs, without fully accounting for the sovereign risk that this dependency creates. Conversely, a foreign-owned subsidiary operating in Australia, while contributing to our local industrial base, may face directives from its home government that conflict directly with Australia's national interest during a crisis. In this context, directing more procurement spending toward Australian firms is a valuable tool for a nation to build a resilient sovereign military value chain.

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[70] Bill Gertz, *Pentagon Alert: U.S. Runs out of Missiles in a 'Matter of Days' in China War, Can't Match Production* (The Washington Times, 2024), https://www.washingtontimes.com/news/2024/dec/5/congress-u-defense-industry-unable-supply-weapons-/.
[71] Agence France-Presse, *US Ammunition Supplies Dwindle as Ukraine War Drains Stockpiles* (ABC News, 2022), https://www.abc.net.au/news/2022-10-08/us-running-out-of-ammunitions-to-send-to-ukraine-war/101515370.
[72] Roxana Tiron and Billy House, *America's War Machine Can't Make Basic Artillery Fast Enough* (Bloomberg, 2024), https://www.bloomberg.com/features/2024-us-global-war-weapons-race/.
[73] Stephan Frühling et al., *Defence Industry in National Defence: Rethinking the Future of Australian Defence Industry Policy* (Australian Industry Group and Strategic and Defence Studies Centre, Australian National University, 2023), https://www.aigroup.com.au/globalassets/news/reports/2023/ai-group-sdsc-dind-report.pdf.

## 3.2. Economic multipliers and high-quality job creation

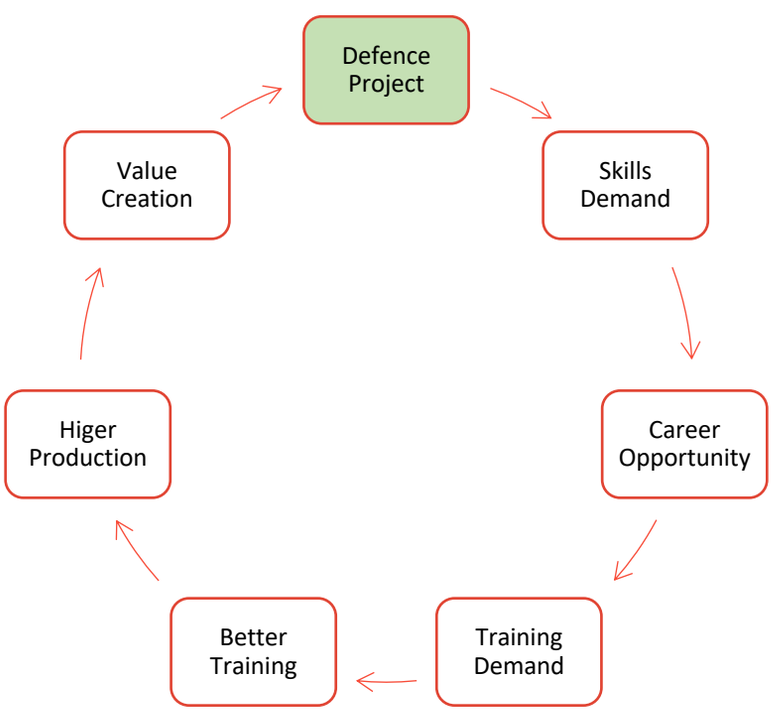
Domestic defence spending generates economic benefits in terms of employment, sales and added value, providing a powerful stimulus to the economy. Crucially, domestic investments minimise 'economic leakage'—the portion of expenditure that would otherwise flow overseas.

Every dollar invested directly in a local defence supplier circulates through supply chains and the economy, creating a multiplier effect. The spending supports not only direct jobs for engineers, technicians, and project managers but also a vast ecosystem of indirect jobs in the supply chain—from steel fabrication and software development to logistics and professional services. Furthermore, the jobs created are typically high-skilled, high-wage jobs that contribute to a stronger national tax base and foster a more advanced labour force.

The investment circulates through the economy, supporting a vast ecosystem of Australian SMEs in the supply chain. The resulting tax revenue from businesses and employees further strengthens the national balance sheet, creating a virtuous economic cycle.

Directing investment onshore acts as a powerful economic catalyst maximising domestic employment, creating thousands of high-skilled, high-wage jobs for engineers, technicians, and project managers. Creating long-term demand for high-skilled and high-paid jobs in Australia sends strong labour market signals to encourage students to demand education and training in those areas of study, which in turn creates demand at university and TAFE. Universities will develop courses to enable students to seek work with the defence industry. Even though not all students will work directly with defence industry, the knowledge development will allow them to lead careers and develop new businesses that use the same technology to expand the production possibility fronter of the Australian economy. The additional skilled labour will increase Australian productivity and national welfare for generations to come.

*Figure 18. Virtuous circle of defence projects*



## 3.3. Fostering innovation and positive externalities (technology spillovers)

Defence procurement often sits at the cutting edge of technological advances, involving investment in areas such as hypersonics, AI, quantum computing, and advanced materials for military application. Government investment in sovereign projects through procurement de-risks private R&D and creates a demand for cutting-edge solutions; knowledge inevitably spills over into other sectors of the economy, boosting national productivity and driving a more complex, high-value industrial base.

When defence sector innovations diffuse into civilian markets, they create large positive externalities across the economy. Recent studies highlight large long-term spillover effects, especially when spending is directed toward defence R&D. Antolin-Diaz and Surico (2025)[74] demonstrate long-run multipliers ranging from 1.2 to 2.0, driven primarily by productivity gains and innovation spillovers.

> *government spending on defence- particularly defence R&D – can have significant economic spillovers … When defense spending is viewed systemically, its impact extends far beyond a single contract.*
>
> *A fighter jet can spark activity across the entire value chain.*

Defence procurement positive impacts on GDP are extensively explored in economic literature, which finds that expenditures typically yield short-term multipliers ranging from 0.6 to 1.0. Several more recent studies suggest a higher multiplier of about 1.5,[75] Increases in defence spending in the US and the OECD countries have been shown to crowd in private investment and boost innovation, especially when R&D is involved. Studies from the US and Europe have shown that defence procurement has one of the highest economic multiplier effects of any category of government expenditure.[76] The high multiplier impact is because defence research tackles ambitious, high-risk problems, but can achieve game-changing payoffs. Recent evidence also emphasises that government spending on defence has "crowding in" rather than "crowding out" effects, particularly where it involves R&D. Moretti et al. (2025) find that on average a 10% increase in government-financed R&D generates a 5% to 6% additional increase in privately funded R&D.[77]

> *Our findings imply that in some industries, defense-related R&D is responsible for a significant portion of private R&D investment. ... If we take the total amount spent by the US government, we estimate that private R&D investment is $85 billion higher than the counterfactual with no government-funded defense R&D.*

The internet, GPS, and advanced composite materials are well-documented examples of transformative civilian technologies that originated in defence applications. Other examples of dual-use technologies include advances in autonomous defence systems which have accelerated robotics applications in mining and logistics, two areas of strength in Australia's economy. This technological diffusion is a critical, long-term economic benefit that is difficult to achieve by simply purchasing equipment from overseas.

> *spillover is a way for countries to mitigate the guns versus butter trade-off, the core issue in the political economy of security (PES). If advancements in defence can increase productivity in the civilian economy through spillover, then a dollar invested in guns will no longer be a dollar less for butter; instead, it could catalyse innovation in both guns and butter, thus mitigating the trade-off."*[78]

Contracting with smaller defence contractors, particularly SMEs, offers significant advantages in terms of spillovers. Small defence contractors and start-ups are often at the forefront of technology development,

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[74] Juan Antolin-Diaz and Paolo Surico, "The Long-Run Effects of Government Spending," *American Economic Review* 115, no. 7 (2025): 2376–413, https://doi.org/10.1257/aer.20231278.
[75] Tobias Mueller, "Drivers and Impact of European Defence Market Integration: A Literature Meta-Synthesis with Economic Focus," *Defence and Peace Economics* 36, no. 5 (2025): 577–612, https://doi.org/10.1080/10242694.2024.2396416.
[76] Chris Ketter, *Future of Australia's Naval Shipbuilding Industry: Final Report* (Senate Economics References Committee, 2018).
[77] Enrico Moretti et al., *The Intellectual Spoils of War? Defense R&D, Productivity and International Spillovers*, LSE Research Online Documents on Economics 119703 (London School of Economics, 2025), https://ideas.repec.org/p/ehl/lserod/119703.html.
[78] Raymond Wang, "Guns and Butter: Measuring Spillover and Implications for Technological Competition," *Journal of Strategic Studies* 48, no. 3 (2025): 571–601, https://doi.org/10.1080/01402390.2024.2445001.

particularly in fast-moving fields like AI, drones, and advanced sensors. These firms tend to be more agile and capable of quick innovation compared with large primes, enabling rapid prototyping and adaptation. [79]

> *Smaller defense contractors are more likely to have dual-use technologies and lead to larger spillovers to the private sector. Further, the doctrine of "dual sourcing" whereby the government contracts multiple suppliers for the same project or different parts thereof may foster competition and knowledge spillovers.*[80]

Australia successfully delivered a humanitarian defence package to Ukraine in October 2023 that included advanced gear from various Australian SMEs: counter-drone jammers from DroneShield; ultrafast metal 3D printers from SPEE3D; mine-clearing detectors from Minelab; and portable X-ray units from Micro-X. [81] These companies developed cutting-edge technologies with clear defence applications, and their sales and investment demonstrate that they are capable and globally competitive.

Defence could assist in developing Australian civilian technology into higher levels market readiness and potential use in Defence service. There would be great value in Defence actively seeking out and funding Australian civilian primes and SMEs to improve their product and service technology for Defence use.

*Text Box 14: SMEs maximise spillovers: Case study*

***SMEs maximise spillovers***

Howell et al. (2021) utilise a natural experiment whereby the US Department of Defense used both conventional and open competitions for procurement. The former specifies a specific military product and allows firms to bid for contracts to design the product. The latter specifies a military necessity and allows private firms to propose solutions. They find that open competitions reached a broader set of firms that are smaller, younger, and more technology oriented. These firms proposed better solutions for the military's needs, as evidenced by their higher probability of winning contracts and securing future procurement. The open contracts also led to more patents and dual-use spillovers.

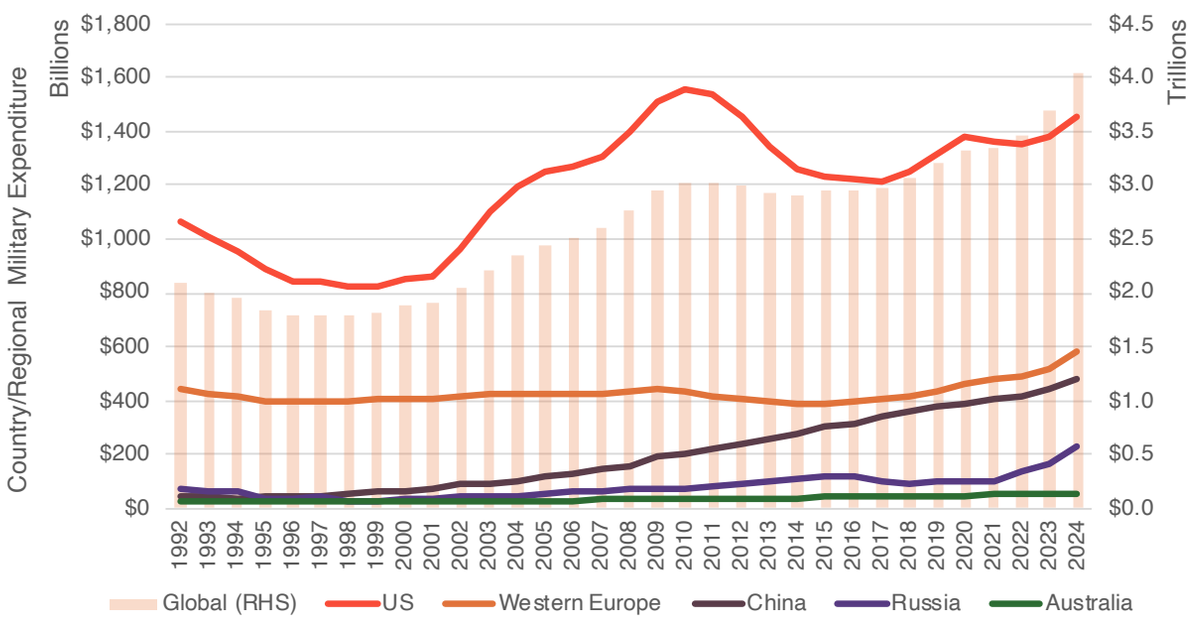
Internationally, programs such as the US Air Force's Small Business Innovation Research program and the UK's Defence and Security Accelerator aim to harness the innovative power of small firms for national capability development. The US program (which has been operating longer) actively guides SMEs from prototype to prime-contract sub-release (and export) and has been demonstrated to facilitate rapid technological advancements and competitiveness among innovative SMEs.

[79] Ilzetzki, "Guns and Growth: The Economic Consequences of Defense Buildups.", p.19
[80] Ibid.
[81] AuManufacturing, *SPEE3D, Micro-X, DroneShield and Minelab Headed for Ukraine* (2023), https://www.aumanufacturing.com.au/spee3d-micro-x-droneshield-and-minelab-headed-for-ukraine.

## 3.4. Developing export potential

The global defence market is valued at over US$2.7 trillion (approx. AUD4.16 billion) in cumulative spending for the top 40 countries in 2024[82]. Capturing even a small portion of the global defence export market would add significantly to Australia's GDP, transforming the sector into a genuine engine of economic growth. This shift would see Australia move from being primarily a defence cost centre to becoming a strategic economic asset, where the domestic industry contributes not just to national security but also to national prosperity.

*Figure 19. The extent of the global military market, Australian dollars, real terms (2023 prices)[83]*




Defence exports create direct financial returns for Australian companies, allowing them to scale operations and invest in R&D, while also generating substantial export income and supporting broader economic growth. Growing export opportunities underpin thousands of highly skilled jobs in advanced manufacturing and technology sectors, fostering the development of local talent and supporting supply chains. Export-driven growth enables a more resilient and innovative defence industrial base, ensuring Australia can meet domestic and international defence needs with confidence. Expanding defence exports deepens partnerships with allies, provides operational feedback, and supports collaborative R&D, benefiting both Australia and its customers.

A mature and competitive domestic defence industry can become a significant source of export income by leveraging world-class capabilities developed for the ADF to attract allied and partner nations as customers. Exports bring direct revenue while driving higher capacity utilisation, which reduces unit costs through economies of scale and learning-by-doing. They also strengthen geopolitical partnerships, increase market reach, and encourage joint ventures with global primes, boosting both technological capability and labour productivity.

The economic literature underscores the close link between arms exports, productivity, and economic growth.[84] Reaping these benefits is increasingly critical as defence products and services become more R&D-intensive and costlier to develop. With the global defence market valued at over US$2.6 trillion in cumulative spending between 2023 and 2032, even marginal gains in market share can yield substantial economic dividends for Australia.

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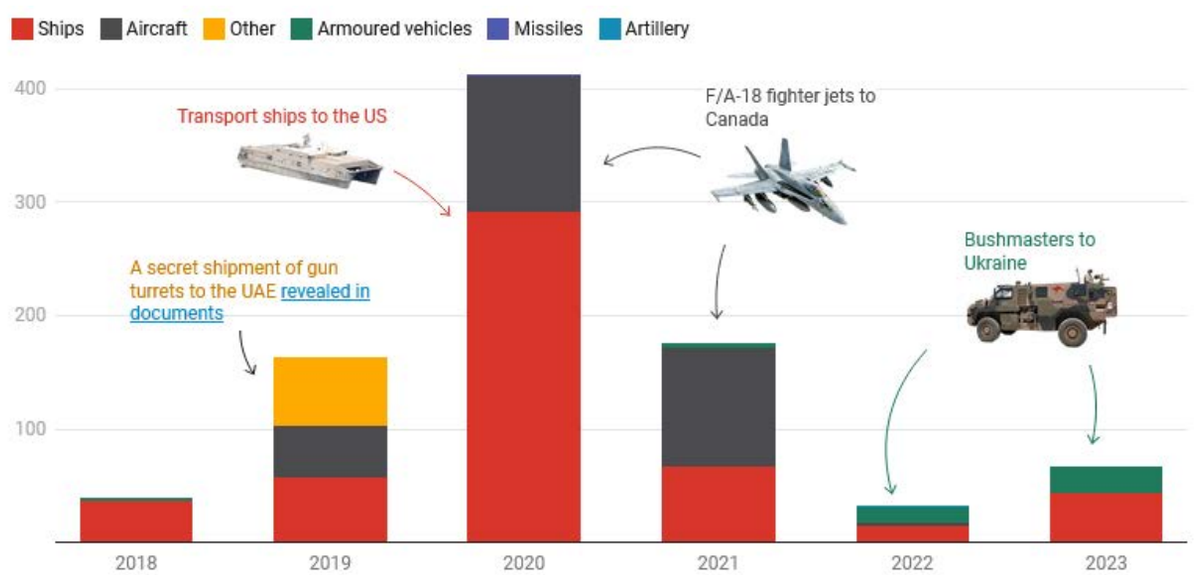
[82] Stockholm International Peace Research Institute, "Trends in World Military Expenditure, 2024."
[83] DeltaPearl Partners, from; Stockholm International Peace Research Institute, "SIPRI Military Expenditure Database."
[84] Francisco José Callado Muñoz et al., "An Empirical Analysis of Arms Exports and Economic Growth Spillovers: The Case of the United States," *Defence and Peace Economics* 34, no. 7 (2023): 893–913, https://doi.org/10.1080/10242694.2022.2087324.

Australia's defence budget remains modest globally—about 1% of total worldwide military spending, compared to 62% collectively held by the US, China, Russia, Germany, and India. This relatively small scale highlights the need to tap export opportunities to fully realise industrial potential. Australia has already demonstrated its ability to compete internationally with exports such as Bushmaster and Hawkei vehicles, CEA radar systems, and advanced training solutions, as well as dual-use technologies like computing components for weapons systems. From 2019–23, Australia ranked among the top 20 global arms exporters, with its share rising from 0.3% in 2014–18 to 0.6%—similar to Canada—while the US dominated at 42%. Increasing even slightly beyond this share would deliver a measurable GDP uplift and strengthen Australia's role within allied supply chains.

Australia has successfully exported both military-specific and dual-use goods and technologies, such as computer components used in weapons. Successful exports include the Bushmaster and Hawkei vehicles, CEA radar systems, and advanced training solutions. SIPRI collates an Arms Transfers Database, which contains yearly information on all transfers of major conventional weapons from 1950. SIPRI's trend indicator value represents the transfer of military resources; the SIPRI value of Australia's exports in recent years is shown below.

*Figure 20. Value of Australian defence exports 2018-2023*[85]




** Exports are measured not in quantity, but by a value. "Value" is how much the transfer of military capability is worth, rather than just the financial value of the arms. It's calculated by the Stockholm International Peace Research Institute*

Australia's defence exports are valued at approximately $1.5–$2.5 billion annually, according to the latest government estimates.[86] Australia was one of the top 20 arms exporters in the world from 2019–23, though its share of total global arms exports was just 0.6%, similar to Canada, up from 0.3% in 2014–18. By comparison, the US accounted for 42% of global arms exports in 2019–23. Capturing even a small portion of this export market would add significantly to Australia's GDP.

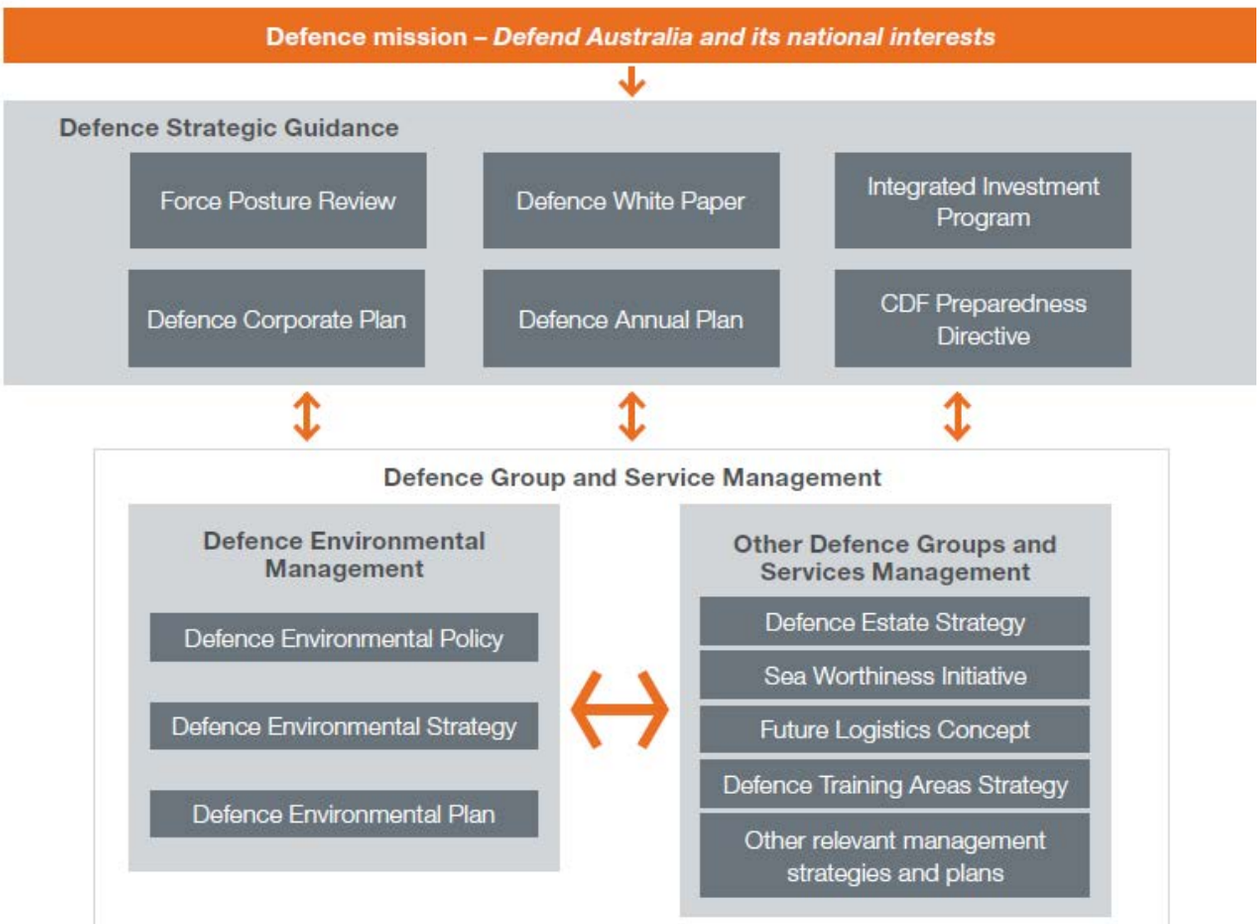
Australian primes and SMEs are likely able to compete internationally with ADF support in very specific high technology and innovative elements to the global defence market. Given the small scale of Australia and relatively high cost of delivery, targeting high value components or smaller scale export opportunities would likely be lower risk achievable goals.

[85] Con Chronis, *What We Know about Australia's Arms Exports: We've Analysed the Data* (The Conversation, 2024), https://theconversation.com/what-we-know-about-australias-arms-exports-weve-analysed-the-data-238563.
[86] Note: DPP is aware the defence export estimates are not accurate as much of the data is not publicly available, some estimates are based on export permits and others are based on materiel and don't include services or components and include disposals – for example the F/A-18s

## 3.5. Environmental, social and governance benefits

Recent policy direction by the Australian Government is in the direction of increasing the ESG requirements by the whole Australian economy, including Defence.[87] Global ESG targets are targeted at meeting the United Nations agreed Sustainable Development Goals, which are built into Australian Government procurement rules. Currently, the ADF has an environmental strategy that sets out the direction and implementation of how they will achieve the desired outcomes.

*Figure 21. ADF Environmental Strategy 2016-2036[88]*




The strategy focuses on five strategic aims to manage challenges and opportunities:

- Deliver a sustainable estate across Defence maritime, land and aerospace areas, activities and operations;
- Understand and manage its environmental impacts;
- Minimise future pollution risks and manage existing contamination risks;
- Improve the efficiency of its resource consumption and strengthen resource security; and
- Recognise and manage the Defence estate heritage values.

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[87] Treasury, *Australia's Net Zero Transformation: Treasury Modelling and Analysis* (2025), https://treasury.gov.au/publication/p2025-700922.
[88] Department of Defence, *Defence Environmental Strategy 2016-2036* (2016), https://www.defence.gov.au/about/strategic-planning/defence-environmental-strategy-2016-2036.

Australia's robust ESG regime imposes significant costs—energy, labour, land, waste management—which can drive up the cost of local production. Yet offshoring procurement to lower-cost, lower-regulation suppliers produces global environmental and social harm, undetected by domestic measurement but measurable in global carbon emissions, water depletion, worker exploitation, and wealth inequality.

This "regulatory arbitrage" erodes local industrial capability, weakens ESG outcomes across the global supply chain, and undermines Australia's stated values. Real ESG impact requires procurement choices that do not merely externalise pollution and social risks through international supply chains; instead, it demands commitment to local production standards and transparent value-for-money calculations that properly account for full ESG externalities.

Below, we briefly summarise ESG benefits for the three measures, with more detail provided in the appendices.

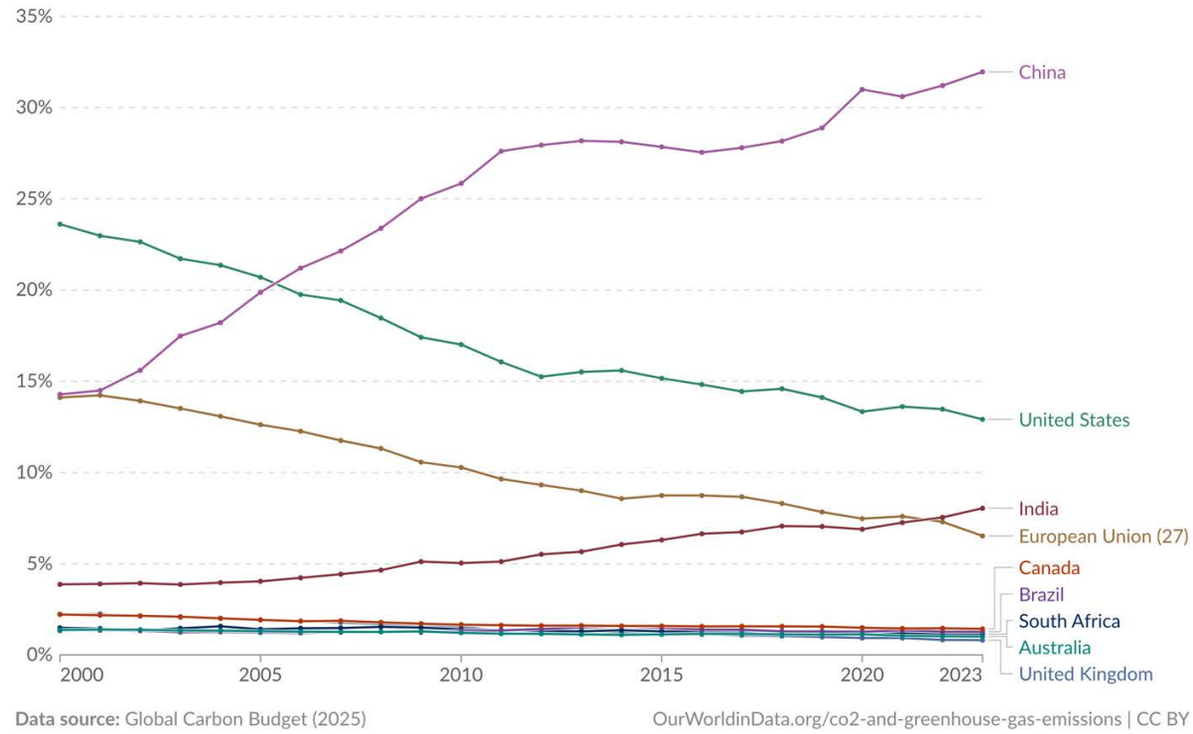
### 3.5.1. Environmental benefits

Australian defence procurement operates within one of the world's most robust regulatory landscapes for environmental performance. National commitments, including the Climate Change Act 2022, legally mandate aggressive emissions reduction targets: 43% below 2005 levels by 2030 and net zero by 2050. Additional federal and state legislation governs pollution, biodiversity, water use, and waste management, requiring corporations to minimise harm and report transparently on their emissions.

Compared to key international suppliers, Australia demonstrates exemplary outcomes on several high-impact environmental indicators:

- Emissions Intensity: Australian firms produce 30% less CO2-e per dollar of GDP compared to US-based suppliers, which are the largest source of Defence imports. The US has recently removed major emissions restrictions, while Korea is only targeting a 1% reduction by 2030.
- Environmental Performance Index: Australia ranks above the US and near the top globally, outperforming major suppliers in critical categories such as air quality and water management. Only select EU countries have slightly stronger regulatory outcomes.
- Water Stress: Despite being the driest inhabited continent, Australia's water stress levels are lower than all key supplier countries other than Germany and Japan. Imported products from water-stressed trading partners, such as the US and UK, indirectly worsen global water scarcity.
- PM2.5 Pollution: Air pollution levels from fine particulates (PM2.5) are substantially lower in Australia than in Japan and Germany, safeguarding national health and reducing secondary disease burdens.

*Figure 22. Share of global CO2 emissions by selected countries, 2000-2023*[89]




The Department of Finance is directing the implementation of the Commonwealth Climate Disclosure policy, which requires Commonwealth entities and companies to publicly report on their climate-related risks, opportunities, and the actions they are taking to manage them.[90] Aligned with the Australian Sustainability Reporting Standard (AASB S2) but tailored for the public sector, this policy aims to provide transparent and consistent climate information to the public. Its goals are to make government bodies more prepared for climate change and to support Australia's national climate targets, including the Paris Agreement and the goal for the Australian Public Service to reach net zero emissions by 2030.

Since the mid-1980s with the deregulation of the Australian economy and the floating of the Australian dollar, our country has moved from a small domestic producer to a largely export of minerals and import of manufactured goods/services. In a purely financial sense, the economy can be maximised by focusing on only producing goods/services Australia has a comparative advantage and importing the remaining goods/services. However, Australia importing lower-cost goods/services from other countries, especially lower socio-economic countries, is simply exporting out ESG negative impacts. That is, Australia makes money selling coal and iron ore in exchange for importing the lower-cost goods/services that are produced without the ESG protections that exist in Australia.

Given ESG is a global impact, the export of our ESG damage to other countries might be out of sight but are still having the same or likely worse impact as if they were being made in Australia. Therefore, if the Australian Government is serious about achieving the stated ESG and related emissions targets, it will need to find ways to reduce the global impacts.

Defence spending is a significant part of the Australian Government purchase program, which could be used to assist the whole Australian economy to move towards meeting all the stated ESG goals. The inclusion of ESG factors into procurement assessments would assist in the development of Australian-based products and services in the defence space as these companies are leaders in the production of these products and services while meeting the highest ESG standards. However, the defence budget

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[89] Ritchie and Roser, *CO2 Emissions*.
[90] Department of Finance, *Commonwealth Climate Disclosure* (2025), https://www.finance.gov.au/government/climate-action-government-operations/commonwealth-climate-disclosure.

would need to increase to pay for the higher financial cost of buying high ESG products and services to achieve higher economic outcomes.

### 3.5.2. Social benefits

Australia's defence industry upholds world-leading standards in worker safety, equal opportunity, and human rights compliance. Key social benefits of procuring from Australian firms include:

- Workplace Safety: Domestic procurement supports significantly lower workplace fatality rates than US or French imports, two of the largest non-Australian ADF suppliers. Australian firms are governed by strict OHS and industrial relations frameworks, including mandatory reporting and proactive prevention mechanisms. The US, France, and most low-cost manufacturing hubs have much higher fatality rates and weaker regulatory enforcement.
- Labour Standards: Fair Work principles ensure minimum wage protection, collective bargaining rights, and robust anti-discrimination mechanisms. These standards are not matched by offshore competitors, making Australian procurement a direct economic support for fair labour.
- Indigenous Rights and Modern Slavery: Australia mandates rigorous due diligence in supply chains, with entities over $100 million in revenue required to report modern slavery risks. Suppliers abroad frequently fall short, making domestic purchasing substantially less likely to contribute to exploitative labour conditions.
- Diversity and Gender Representation: Australian defence companies and the wider Australian economy have greater female representation in the workforce than Japan or the US. Local contracts bolster employment for underrepresented groups and deliver targeted socio-economic benefits.
- Life Expectancy and Early Childhood Mortality: Social outcomes, as measured by these metrics, are generally as good or better in Australia compared to France, Germany, and the UK, and drastically better than the US.

### 3.5.3. Governance benefits

The higher cost structure of Australia's defence industrial base is often attributed to 'regulatory arbitrage', where domestic firms operate under stricter—and more expensive—legal and ethical standards than many international competitors. This perspective, however, frames a critical national advantage as a simple financial liability. A more sophisticated analysis reveals that this premium is not a cost to be minimised, but a strategic investment. It purchases verifiable adherence to superior ESG standards, delivering a whole-of-nation return that a purely transactional offshore purchase cannot replicate. The robust governance framework underpinning Australian industry is, in fact, a core component of its value proposition.

Governance standards among Australian defence firms are shaped by comprehensive laws and active enforcement. Corporate reporting requirements, anti-bribery and corruption regulations, and whistleblower protections are more advanced than in peer supplier countries:

- Transparency and Disclosure: The Corporations Act demands comprehensive risk reporting and material disclosure. ASX-listed entities provide ESG reports and gender diversity metrics on a "comply or explain" basis.
- Directors' Duties and Oversight: Management is held to high standards for monitoring material ESG risks, with board-level responsibility for major disclosures including Modern Slavery Statements. Australian prudential and competition authorities (APRA, ASIC, ACCC) are increasingly focusing on enforcement, especially against greenwashing and misleading claims.
- Regulatory Bodies and Enforcement: Australian companies are policed by a multitude of active regulators, including the Environment Protection Agency (EPA) for environmental compliance, Fair Work Ombudsman for workplace standards, and the Border Force for supply chain monitoring, exceeding enforcement capabilities in most ADF trading partner countries.

- Investor and Activist Influence: Superannuation funds and shareholder activists promote continuous improvement in ESG targets (climate action, board diversity), leveraging proxy votes far more effectively than is typical in the US or Asia.

Australian governance not only protects national interests, but also ensures that taxpayer funds are channelled to firms with verifiable commitment to ethical practices, transparency, and sustainability.

Australian defence procurement from local firms measurably enhances ESG outcomes across all three pillars—environment, society, and governance—when compared to international alternatives. Any future policy or procurement decision should integrate these comprehensive ESG metrics as central, not peripheral, criteria for contract award and supplier selection.

Ultimately, the evidence demonstrates that Australia's stringent regulatory environment is not a liability or deficiency, but an integral feature. It systematically de-risks defence supply chains from ethical, social, and environmental hazards while ensuring the responsible stewardship of taxpayer funds. The conclusion is therefore inescapable: assessments of 'value for money' in defence procurement must evolve beyond a narrow focus on upfront price. To ignore the measurable ESG benefits delivered by the domestic industrial base is to ignore a fundamental contributor to national resilience and social licence. This is not merely ethical procurement; it is a strategic investment in a more transparent, sustainable, and capable sovereign industrial base.

## 3.6. Risks and costs of preferencing local supply

There are significant benefits of a domestic-first approach, but it is not without costs and risks. It is important to acknowledge and actively manage these challenges as failure to do so could lead to budget overruns, capability gaps, and a failure to reap sovereign capability benefits.

### 3.6.1. The local premium

Cost is often raised as the most significant counterargument to directing more procurement spending toward domestic defence. Global defence primes in the United States and Europe[91] benefit from immense economies of scale, established supply chains, and decades of production experience. Consequently, purchasing military hardware 'off-the-shelf' can be cheaper and faster than developing and building it in Australia. An Australian production run by comparison tends to be smaller and bespoke, with higher upfront costs. Many Australian firms are SMEs, which often face challenges in scaling up to defence capability and competing with legacy primes due to complexity and resource constraints. Estimates of the premium for Australian-made defence products ranges between 15%-40% depending on industrial productivity.[92]

However, it is important to note that not all defence products and services involve local premiums; in some cases, Australian businesses offer cheaper, lower-cost goods and services. Estimates of past premiums have been based on a foreign prime producing in Australia its good or service that has been designed and produced in the prime's home country. By contrast, when an Australian company designs and builds an original good or service, Australian procurement may involve lower costs than international procurement and be highly cost effective. Gilmour Space commented that its hypersonic vehicles are at least 30% lower cost than US counterparts, its satellites at least 50% cheaper than foreign competitors, and its launch vehicles at least 25% cheaper than its US competitors. Local industry may match or exceed the cost efficiency of foreign primes in multiple domains (space, cyber, advanced manufacturing). Another case study example is provided in Text Box 15.

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[91] In a meta-analysis of the economic literature on European defence spending, Mueller argued that economies of scale were lower in Europe than in the US because of a lack of European-wide cooperation. He concluded that European defence integrations would significantly contribute to making spending on defence more efficient. "European defence integration has significant economic benefits as it generates economies of scale, increases competition and eventually reduces prices for defence equipment. Even compared to the US and China, the sum of EU member states' defence expenditure is high, but its efficiency is comparatively low. … Unlike the US in the 1990s, the defence industrial landscape in Europe did not experience major consolidation and is characterised by a high level of fragmentation across the leading Western European defence industrial nations. See Mueller, "Drivers and Impact of European Defence Market Integration."

[92] Rob Bourke, *Defence Projects and the Economy*, ASPI Special Report (2019), https://ad-aspi.s3.amazonaws.com/2019-08/SR%20144%20Defence%20projects%20and%20the%20economy_1.pdf.

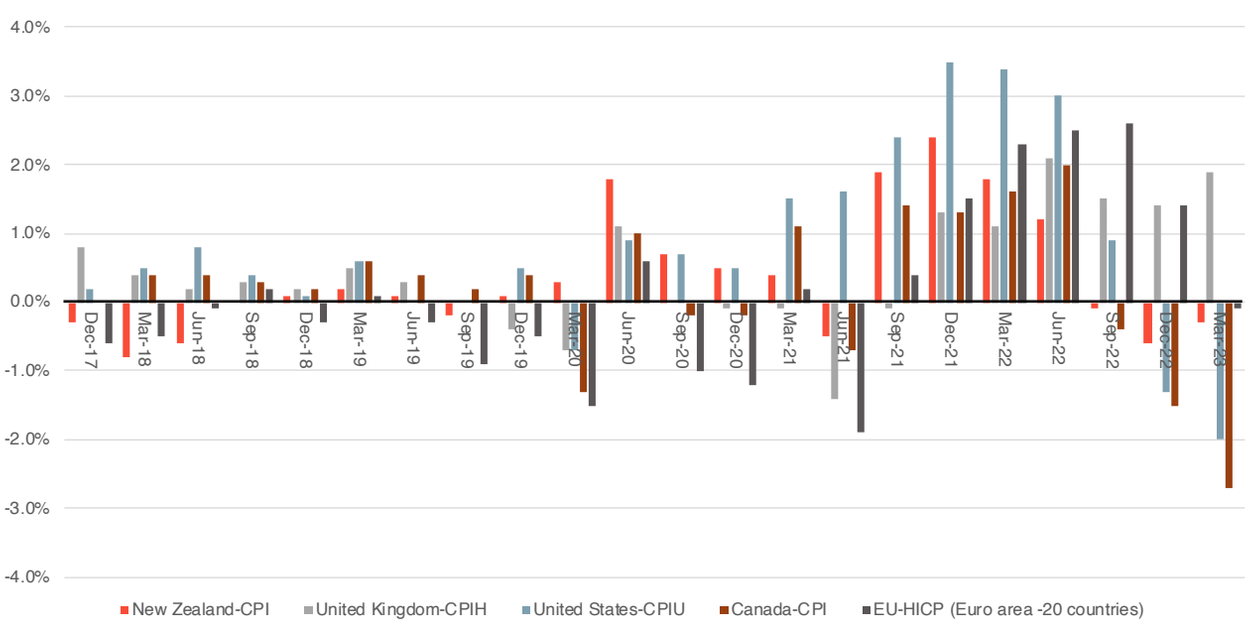
*Text Box 15: Foreign-owned primes are not always lower cost*

**F-111 Mission Simulator example**

An example was provided by a SAPA member of lower cost production in Australia. As a Squadron Leader, the member of SAPA received project approved and worked on the program for the Air 5208 'F-111 Mission Simulator' over 1991-97. Several international (US and Canadian) primes bid for the project, but the selected contractor was an Australian (based at Dee Why north of Sydney) ,Wormald Advanced Systems Engineering, which had never designed or built an aircraft simulator before. This simulator featured a complex tactical environment simulation and an Australian-developed Image Generator that relied on 200,000 square nautical miles of digital terrain data. The data required for the simulator databases did not exist. Despite this lack of experience within the Australian context, the project was a great success. The Wormald bid was significantly less than the quotes of the international primes.

One approach to understanding the possible differences in costs between countries is to observe the general price changes over a long period of time, which is shown in measures of inflation. The graph below shows the ABS estimates of the difference of inflation of several countries that Australia trades with in defence products and services. As shown, major trading partners consistently have higher price level increases compared to Australia.

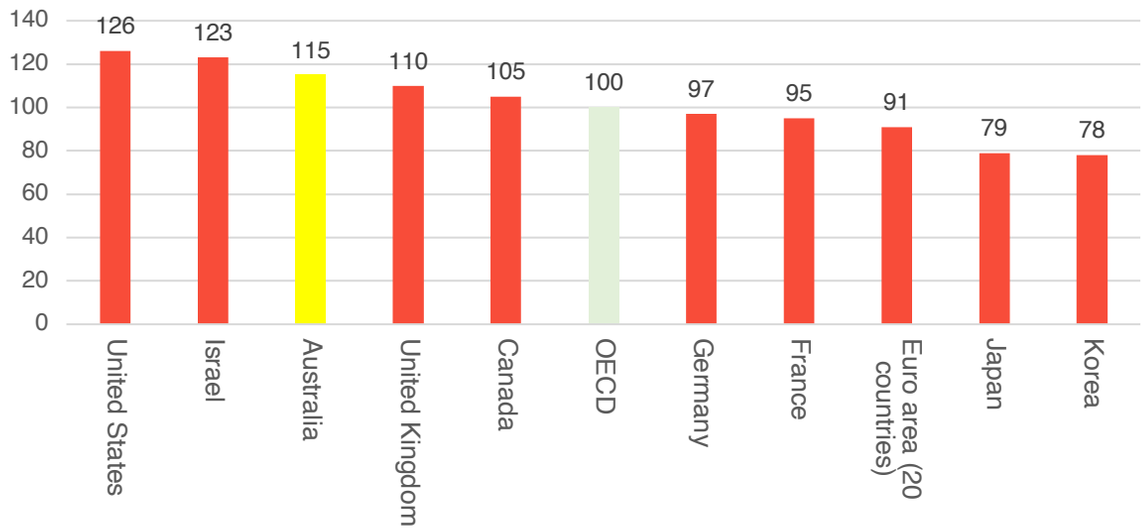
*Figure 23. Annual inflation percentage change difference to Australia over the past five years*[93] [94]




Using another metric to understand the general cost of production of each country we observe the prices levels in recent years adjusted for some factors in the graph below. As observed, Australia is a high-priced country but not the highest. The USA is a major supplier of military equipment and services to the ADF and is measured as having a higher price level than Australia.

[93] Australian Bureau of Statistics, *CPI International Comparisons*.
[94] DPP calculated the percent difference of each country to Australia

*Figure 24. Price level indices national currency per US dollar, 2024 (reference point 2020)*[95,96]




Where there are local premiums in some circumstances, it is important to note that this does not necessarily mean foreign suppliers should be selected instead because this ignores other benefits beyond the "ticket price" of a good or service. Efficiency is not measured only at purchase price: lifecycle cost, sustainment, responsiveness, and upgradeability also matter. Moreover, foreign primes often appear efficient because global subsidies and sunk R&D costs are effectively hidden. The ability of domestic suppliers to avoid long supply chains, shipping costs, foreign export controls, and schedule delays can make them more efficient in real operational terms.

Thus, even when there is a local premium in terms of purchase price, it must be weighed against the sovereign dividends.

> *When procurement needs are urgent, substantial imports of munitions may be inevitable. However, a long-run procurement strategy may call for domestic capacity building, with a greater home-bias of procurement. Policymakers should consider the trade-off between the short-term benefit of cheaper imported materiel and benefiting from dynamic economies of scale (learning by doing) whereby an economy can develop a comparative advantage in the long run that it doesn't possess at the onset."*[97]

The Australian Government should be strategic in identifying priority areas in which to target domestic procurement.

### 3.6.2. Market distortions

There are two key market distortion risks that are relevant. First, a large government project might unfairly crowd out private sector competition or innovation. Second, there is a danger of subsidising a domestic capability that fails to become globally competitive, the "infant industry risk".

#### Crowding Out Higher-Value Economic Activity

A policy favouring domestic defence production actively directs scarce national resources—namely skilled labour and capital—towards the defence industry. This can "crowd out" more productive, innovative, and commercially competitive sectors of the economy.

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[95] OECD, *Price Level Indices* (2025), https://www.oecd.org/en/data/indicators/price-level-indices.html.
[96] Definition: Price level indices reflect the relative price levels of countries by comparing purchasing power parities to market exchange rates. At the level of GDP, these indices provide a measure of differences in general price levels across countries, indicating how the cost of goods and services compares internationally.
[97] Ilzetzki, "Guns and Growth: The Economic Consequences of Defense Buildups."

- Competition for Skilled Labour: The defence industry requires highly specialised and sought-after professionals, including engineers, software developers, project managers, and advanced manufacturing technicians. In a country already facing significant skills shortages, the defence sector competes directly with other high-growth industries like renewable energy, medical technology, and mining. By offering government-backed contracts, the defence industry can draw talent away from sectors that might otherwise generate greater innovation, export revenue, and productivity gains for the broader economy. The market, if left to its own devices, would typically allocate this scarce talent to its most highly valued use; government intervention in favour of defence can lead to a less efficient allocation.
- Diversion of Capital: Capital investment channelled into defence projects, which often have a single government buyer and limited export potential, may offer lower long-term economic returns than if it were invested in industries with scalable commercial applications. Private investors and financial markets may be drawn to the security of government defence contracts, diverting investment away from riskier but potentially more transformative commercial ventures that could become future pillars of the Australian economy.

Strengthening Australia's sovereign defence capability is a valid and necessary goal, policymakers must transparently acknowledge and weigh the substantial economic opportunity costs. The decision to prioritise domestic defence procurement entails direct trade-offs with essential public services, imposes an efficiency cost on the economy through taxation, and risks distorting the market by crowding out potentially more productive and innovative industries. A prudent approach requires a clear-eyed assessment of whether the security benefits gained from this strategy truly outweigh the economic prosperity forgone.

### The 'infant industry' trap: inefficiency and dependency

A central pillar of the Australian Government's push for sovereign defence capability is the argument that direct, substantial investment will nurture a nascent or 'infant' domestic industry until it can stand on its own. The strategic intention is to build a resilient industrial base, secure supply chains, and foster local innovation. However, this approach carries the significant risk of falling into the 'infant industry' trap, where protectionism and guaranteed funding create a permanently dependent and inefficient sector, rather than a globally competitive one[98].

Dependent companies not only represent a poor return on public funds but also means Australia may miss out on the economic benefits, such as export revenues and economies of scale, that a truly competitive defence industry could provide. Consequence is often delayed projects, significant budget overruns, and a perpetual reliance on taxpayer subsidies to remain afloat.

True military effectiveness in the 21st century is measured by the ability to operate seamlessly as part of a coalition. Requiring deep integration of command-and-control systems, data links, sensors, and weapon platforms. When a nation develops unique systems, it places a heavy burden on itself and its allies to create costly and often imperfect technological 'patches' to bridge the gap.

The experience of some European nations provides a stark cautionary tale. A lack of coordination and harmonised requirements among EU member states has often hampered collective capability[99][100][101]. The current war in Ukraine has put the spotlight on the EU main battle tank choices and the uncoordinated efforts of many countries to develop a range of options with little ability to achieve an optimal solution[102].

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[98] Patrick Walters, *The End of the Road*.
[99] European Commission, "A Competitiveness Compass for the EU," January 29, 2025, https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en?filename=Communication_1.pdf.
[100] Sebastian Clapp et al., *Building a Common Market for European Defence* (European Parliamentary Research Service, 2025), https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/775924/EPRS_BRI(2025)775924_EN.pdf.
[101] European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *Joint White Paper for European Defence Readiness 2030* (2025), https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf.
[102] José Alberto Molina, *EU Tank Standardization: Current Situation and Future. Success or a Bridge Too Far?* (Universidad de Navarra, 2024).

This fragmentation, driven by disparate national requirements, dramatically increased costs and complexity while severely limiting the interoperability and economies of scale the project was designed to achieve. It demonstrates that even collaborative development can fail if it lacks a unified vision and disciplined adherence to common standards.

For Australia, this lesson is critical. Developing a unique combat system for our surface fleet or a bespoke communication network for our land forces might meet a specific local requirement, but if it cannot seamlessly share data with a US Navy carrier strike group or a Royal Air Force squadron, its strategic utility is severely diminished.

It is important to note that the proposal for a procurement framework that recognises the benefits of local procurement in terms of sovereign capability is not a proposal for a protected defence industry. The objective is not to create a protected enclave, but to foster a defence industry that is genuinely innovative, efficient, and competitive enough to succeed, alongside continued foreign partnerships and acquisitions

#### Avoiding protectionism

The goal must be to foster a domestic industry that is a vital contributor to our alliances and sovereign capabilities, not one that risks creating an isolated, technologically lagging force. To mitigate the risks associated with developing an infant defence industry that may not become self-sustaining without continuous government support, policymakers can adopt a range of strategies focused on encouraging competitiveness, fostering innovation, and gradually reducing reliance on direct protection.

Options include tying procurement preferences to performance metrics, such as export growth, technology adoption, or productivity increases, to encourage firms to achieve benchmarks for self-sustaining competitiveness. Targeting support to industries where there are positive externalities (e.g., technological spillovers, supply chain development) accruing to wider sectors is also likely to maximise broader economic benefits and offset the risks of reliance on government support. In addition, the "enabling" policies discussed later in the report, e.g., investing in workforce skills, supply chain innovation, and SME development to grow resilience and competitiveness, will help to mitigate the infant industry risks.

### 3.6.3. Immature supply chains and limited experience in mega-projects

A successful prime contractor relies on a deep and resilient industrial ecosystem of smaller suppliers. While Australia has many capable SMEs, our domestic supply chains for complex defence manufacturing are largely immature. Some local companies lack the scale, quality assurance processes, and financial resilience to reliably meet the stringent demands of a major defence project. intensive investment, certification, and mentoring—all of which adds to the project's timeline and cost. Schedule delays and cost blowouts are not merely administrative problems. A delayed frigate or submarine creates a "capability gap," forcing the ADF to operate older, less effective equipment for longer and leaving Australia more vulnerable.

Given these execution risks, the imperative is to leverage and strengthen Australia's core industrial strengths, particularly in advanced manufacturing, cutting-edge R&D and exportable IP. Strategic, forward-looking procurement policies must deliberately support Australian companies excelling in these areas, fostering industrial depth, innovation, and global competitiveness. This aligns with Defence priorities to transition Australian defence supply chains from passive assemblers of foreign-designed components to active developers and producers of sovereign technologies. It plays to Australia's strengths in the defence sector and helps avoid the risks of immature supply chains and limited experience in mega-projects.

We recognise that Australian firms cannot yet deliver the full spectrum of Defence needs. Forcing Defence to accept subscale or immature capabilities would be counterproductive. The argument for directing procurement towards Australian primes and SMEs is not an argument for replacing all foreign capability, but for a strategic reallocation towards Australian entities with a focus on areas where Australian industry is already competent or can realistically scale its production. Many sovereign capabilities are maturing, including shipbuilding, space, cyber, munitions manufacturing, drones, and medical services. Procurement should be utilised to nurture this local growth using a structured, quantitative framework that weighs the full spectrum of costs and benefits.

### 3.6.4. Mitigating supply risks and uncertainty

There are no simple solutions to resolve the supply risk, uncertainty, and ways to mitigate the risk. Australia as a large geographic and relatively small population country that operates a high cost and high-value economy, the choices are complex and need to be carefully considered. However, long delays in decision and action are as bad for strategic defence capability as relying on external parties for our products and services. Less than optimal choices made quickly are likely going to enable fast learnings and better long-term outcomes[103].

Furthermore, it is important to note that relying on foreign over domestic does not necessarily mitigate capability risks despite their mature supply chains and experience. Capability risk is extremely high if foreign supply chains fail, are delayed, reprioritised, or politically restricted. In this regard, strengthening Australian industry reduces long-term vulnerability and mitigates capability risk.

Australia's small population leads to consideration about where to spend the taxpayers funds to maximise defence capabilities. Although there would be great supply certainty if the country could produce its own large defence products, the limited government capacity to support continued industry subsidies would likely see a never-ending flow of funds towards supporting production of items that are not internationally competitive in cost or technology.

Examples of the focus Australia needs to take are many and complicated, which means the choices need to be considered in a structured framework. This report establishes a wholistic assessment process to assist decision-makers in comparing options for each specific projects or service investment. Here, we identify some key considerations:[104]:

- Flexibility: the ability to respond to long-term or fundamental changes in the supply chain and market environment by adjusting the configuration of the supply chain.
- Redundancy: involving the strategic and selective use of spare capacity and inventory that can be invoked to cope with a crisis, such as demand surges or supply shortages.
- Agility: the ability to efficiently change operating states as a response to environmental uncertainty or volatile market conditions.
- Collaboration: the ability to work efficiently with other entities for mutual benefit in areas such as forecasting, postponement, and risk sharing.

#### Flexibility: Architecting for Long-Term Adaptation

Flexibility refers to the ability to make significant, structural adjustments to the supply chain in response to fundamental or long-term changes in the strategic or market environment. Not about reacting to a short-term crisis but about having the inherent design and architecture to adapt over time. For Defence, this means moving beyond the procurement of static, 'black box' systems and investing in capabilities that are inherently adaptable[105].

Modular Design and Open Architectures: When assessing competing tenders for major platforms—be it a naval vessel, an armoured vehicle, or a command-and-control system—Defence investment criteria must heavily favour solutions built on modular designs and open system architectures. An investment in a frigate, for instance, should not be viewed as a 30-year commitment to a single radar or missile supplier. Instead, it is an investment in a platform whose subsystems can be readily upgraded or replaced with components from different providers as technology evolves or as geopolitical alignments shift. This approach prevents vendor lock-in and gives Australia the flexibility to integrate domestically developed technologies or systems from a wider pool of trusted international partners, fundamentally reconfiguring the platform's supply chain over its lifespan.

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[103] Greenwood Aerospace, *How Military Supply Chains Impact Each Branch of Our Armed Forces* (2023), https://www.governmentprocurement.com/news/military-supply-chains.
[104] Thomas Ekström, "Supply Chain Resilience – An Empirical Exploration of Barriers and Enablers in Military Settings," *Scandinavian Journal of Military Studies* 8, no. 1 (2025): 119–36, https://doi.org/10.31374/sjms.350.
[105] S. Sani et al., "Strategies for Achieving Pre-Emptive Resilience in Military Supply Chains," *Procedia CIRP* 107 (2022): 1526–32, https://doi.org/10.1016/j.procir.2022.05.186.

Investing in Sovereign Industrial Capability: The most profound application of flexibility is the strategic decision to invest in developing or expanding Australia's Sovereign Industrial Capability Priorities. This is a direct investment in reconfiguring the nation's supply chain from being entirely dependent on offshore sources to having a viable domestic alternative. For example, an investment decision might favour a local manufacturer for uncrewed autonomous systems, even at a higher initial unit cost, because it provides the long-term flexibility to surge production, modify designs, or sustain the capability without reliance on foreign-controlled supply lines during a conflict. The investment is not just in the product itself, but in the national infrastructure and skilled workforce that provides this strategic flexibility.

### Redundancy: A Calculated Insurance Against Disruption

Often misconstrued as waste or inefficiency in a commercial context, redundancy is a critical and deliberate component of military resilience, that involves the strategic and selective creation of spare capacity—in inventory, manufacturing, or logistics—that can be activated to cope with a crisis, such as a sudden surge in operational tempo, a supply disruption, or the loss of a key facility.

Strategic Stockpiles of Critical Materiel: Investment decisions must extend beyond the acquisition of primary systems to include the deliberate procurement and secure storage of strategic reserves. Stockpiles go far beyond simply holding more ammunition, it requires a sophisticated analysis of supply chain vulnerabilities to identify critical chokepoints. Investments should be directed towards building stockpiles of long-lead-time spare parts, critical sub-components (e.g., microelectronics, specialised bearings), and even essential raw materials (e.g., exotic alloys, chemical precursors for munitions) that are sourced from a limited number of, or potentially unreliable, international suppliers. The business case for such investments must frame the cost not as an expense, but as an insurance premium for assured operational readiness.

Funding Spare Production Capacity: Procurement contracts can be structured to build redundancy directly into the industrial base. Rather than simply contracting a company to produce 100 units of a particular item, Defence could invest in a contract for 100 units plus a retainer to maintain the tooling, workforce skills, and qualified supply chain necessary to surge production to 150 units on short notice. The investment in ‘warm’ production capacity ensures that industry can respond to a surge in demand far more quickly than if it had to reconstitute a production line from a cold start. A direct investment in supply chain redundancy that provides a powerful deterrent and sustainment advantage.

### Agility: Enabling a Rapid and Efficient Operational Response

Where flexibility is strategic and long-term, agility is its operational and tactical counterpart, the ability to change operating states quickly and efficiently in response to volatile conditions or immediate, unforeseen events. An agile supply chain can rapidly re-route, re-plan, and re-source to overcome disruptions with minimal impact on operational output.

Advanced and Point-of-Need Manufacturing: Defence should prioritise investment in services and technologies that enable agile, decentralised production. A prime example is investment in additive manufacturing (3D printing) capabilities, including the requisite digital design files, material science expertise, and certification processes. By investing in deployable 3D printing hubs for metal and polymer components, the ADF can manufacture certain non-critical spare parts at or near the point of need—be it on a naval vessel or at a forward operating base. Reducing dependence on long and vulnerable logistics chains, shortens repair times, and provides immense operational agility.

Digital Supply Chain Visibility: A critical enabler of agility is information. Defence must therefore invest in integrated digital platforms that provide a real-time, end-to-end view of its supply chain, includes systems for asset tracking, inventory management, and predictive analytics. When a disruption occurs—for example, a shipping lane is closed or a supplier’s factory is knocked offline—a common operating picture allows logistics planners to immediately understand the impact and agilely re-task assets, draw from alternative stocks, or activate contingency plans. The investment in this digital backbone is as crucial as the investment in the physical goods themselves[106].

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[106] Wired Consulting, *The Military’s next Mission? Reinvent Logistics* (n.d.), https://www.wired.com/sponsored/story/military-logistics-are-more-difficult-and-dangerous-than-ever-can-tech-help-microsoft/.

### Collaboration: A Force Multiplier for Resilience

In a complex world, no single organisation can achieve supply chain resilience alone. Collaboration—the ability to work efficiently and transparently with other entities for mutual benefit—is essential. For the ADF, this means fostering deep, trust-based partnerships with industry, allied nations, and other Australian government agencies.

Strategic Industry Partnerships: Investment and contracting models must evolve from being purely transactional to being relational. Defence should invest in long-term, strategic alliances with key domestic and international suppliers. Including openly sharing demand forecasts, conducting joint risk assessments, and co-investing in process improvements or research and development. For example, a sustainment contract for a fleet of aircraft should incentivise the industry partner to share risk and actively collaborate on strategies to improve supply chain resilience, rather than simply penalising them for failing to meet a delivery target. Partnership fosters a shared sense of mission and unlocks innovative, collaborative solutions.

Allied Logistics and Interoperability: Increasing procurement from local suppliers will require a high level of focus on what is possible, sustainable, and minimises harm to the wider non-military economy. Integrating flexibility, redundancy, agility, and collaboration into the core of Defence's investment decision-making process is no longer an option, but a strategic imperative. By deliberately investing in modular systems, strategic reserves, advanced manufacturing, exportable IP, digital visibility, and robust partnerships, the ADF can build a supply chain that is not merely efficient in benign conditions, but robust, responsive, and reliable in the face of the uncertainty and risk that will define the strategic challenges of the future. Such investments are the fundamental building blocks of true national security and self-reliance.

# 4. Net impacts of increased procurement from Australian firms

## 4.1. Economic Evaluation Results Summary

Our economic evaluation demonstrates that increasing local content in Defence procurement delivers substantial and quantifiable benefits to the Australian economy. Using a robust framework combining IO analysis and CGE modelling, we assessed the net impact of changes to the CPRs through to 2035. The findings clearly show that prioritising genuinely Australian-owned prime contractors provides a superior economic return for the nation compared to spending with foreign-owned subsidiaries based in Australia. We modelled two key scenarios to measure the economic impact against the current baseline.

## 4.2. Scenario 1: A 5% reallocation to domestic procurement

This scenario modelled a conservative 5% increase in the share of Defence acquisition and sustainment contracts awarded to Australian-based companies (including foreign-owned subsidiaries). Our analysis projects that by 2035, this policy shift will generate significant annual economic contributions:

- Increased Domestic Activity: An additional $4.6 billion in defence spending will be directed to Australian-based companies each year.
- GDP Contribution: This activity will add between $3.4 billion and $5.6 billion to Australia's GDP annually.
- Job Creation: It will support 17,131 to 23,278 full-time equivalent (FTE) jobs across the national economy.
- Increased Value: For every dollar reallocated from imports and procured with Australia-based companies, the incremental return to the economy is between $0.75 and $1.23.

## 4.3. Scenario 2: Prioritising Australian Primes over foreign subsidiaries

This scenario is the critical measure of sovereign economic benefit. We held the total domestic spend constant and modelled the reallocation of 10% of the domestic budget from foreign-owned Australian subsidiaries to genuinely Australian-owned primes. This highlights the impact of reducing economic "leakage"—where profits, dividends, and supply chain costs are sent offshore.

The results are compelling. By simply changing from *whom* we procure domestically, we generate a powerful economic dividend:

- Increased Domestic Activity: An additional $3.9 billion annually in defence spending is redirected from foreign-owned Australian subsidiaries to Australian business.
- National GDP Contribution: Adds between $1.4 billion and $2.3 billion to Australia's GDP annually.
- Job Creation: Supports an additional 7,558 to 12,474 FTE jobs across the national economy.
- Multiplier Effect: Every dollar reallocated from a foreign subsidiary towards Australian primes and SMEs increases Australia's GDP by $0.35 and $0.58.

## 4.4. Scenario 3: Scenarios 1 + 2 combined

Scenario 1 and Scenario 2 are not mutually exclusive. The government can unlock returns to the Australian economy by both increasing the share of Defence procurement awarded to domestic content, and by increasing the share of domestic procurement awarded to Australian primes and SMEs. Implementing both measures together would increase Australian GDP by $5.0 billion to $8.2 billion annually and generate between 25,569-43,205 FTE jobs in a year within Australia.

*Figure 25. Annual GDP added and job creation from reallocating Defence spending*

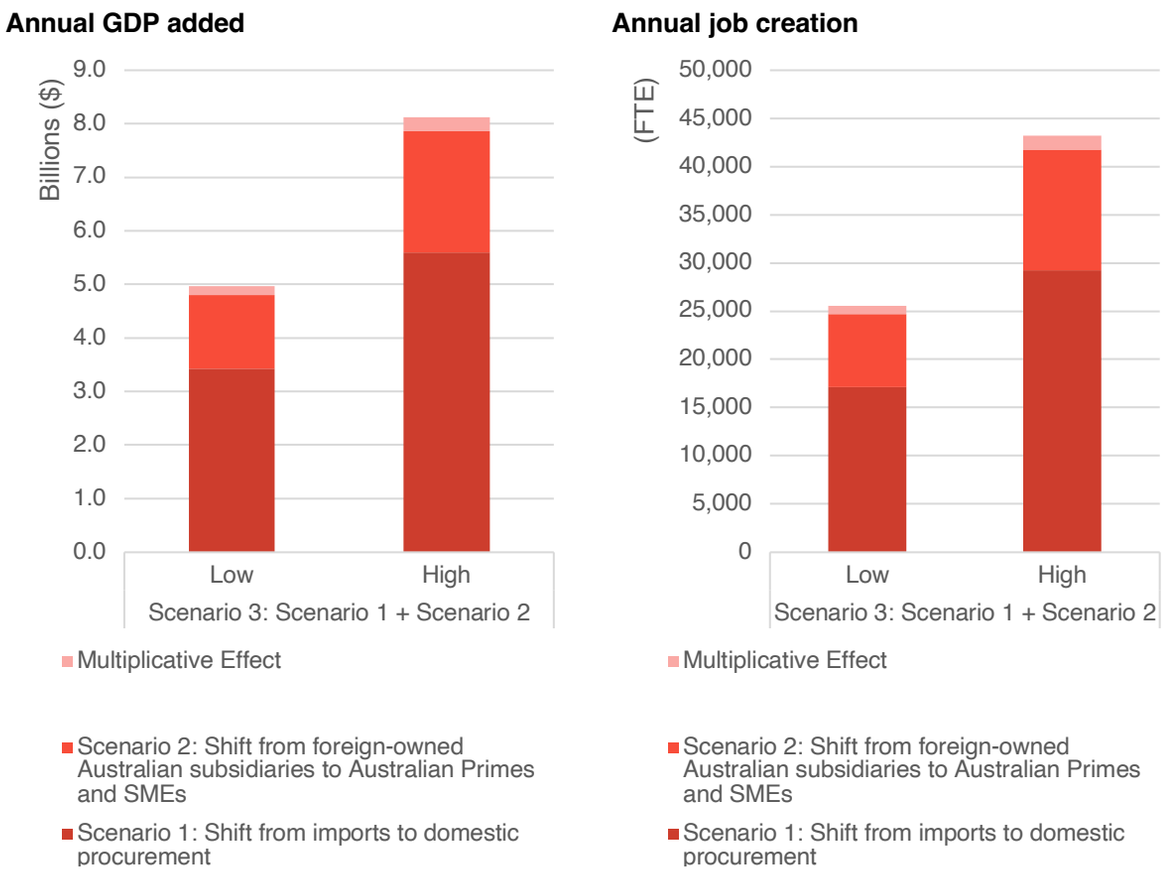


*Table 8. Annual GDP added and job creation from reallocating Defence spending*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | Job Creation (Annual) |
|---|---|---|---|
| Scenario 1: Shift defence spending from imports to domestic procurement (from Australian-based entities, including foreign subsidiaries in Australia) | 5% of total Defence procurement | $3.4-5.6 billion | 17,131-29,278 FTEs |
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian Primes and SMEs | 10% of local Defence procurement | $1.4-2.3 billion | 7,558-12,474 FTEs |
| Scenario 3: Scenario 1 + Scenario 2 | 1 + 2 | $5.0-8.1 billion | 25,569-43,205 FTEs |

Our economic modelling confirms that while any increase in local content is beneficial, the strategic decision to procure through Australian-owned primes delivers can deliver a greater economic return. This approach minimises offshore leakage and maximises the circulation of investment within our domestic economy, delivering superior outcomes for national income, jobs, and overall prosperity. Every $1 million of Defence procurement redirected from imports to foreign-owned Australian subsidiaries increases Australia's GDP by $610,000 to $1 million. Each $1 million redirected from imports to Australian-owned primes and SMEs instead delivers an increase to Australia's GDP of between $960,000 and $1.57 million.

*Figure 26. Annual GDP added and job creation per $1 million reallocated*

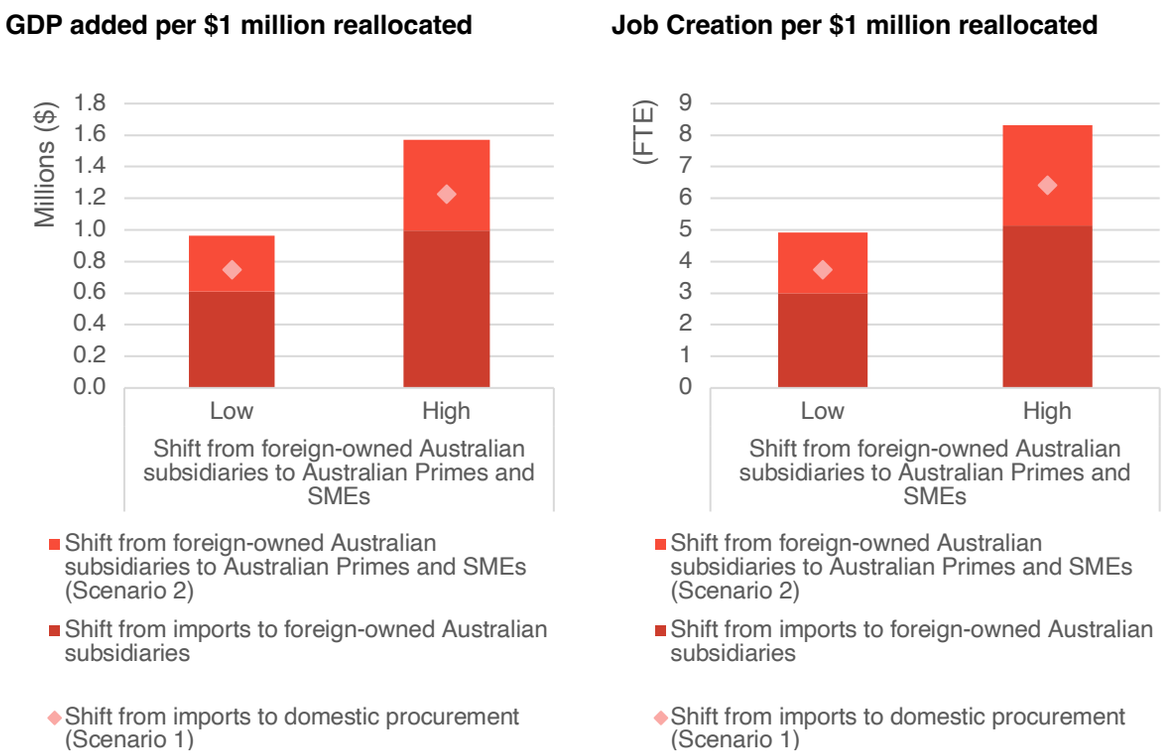


*Table 9. Economic gains per $1 million reallocated*

| Reallocation option | GDP Added per $1mn reallocated | Job Creation per $1mn reallocated | Economic Leakage |
|---|---|---|---|
| Scenario 1: Shift from imports to domestic procurement | $0.75-1.23 million | 3.8-6.4 FTEs | Medium |
| ○ Shift from imports to Australian Primes and SMEs | $0.96-1.57 million | 4.9-8.3 FTEs | Low |
| ○ Shift from imports to foreign-owned Australian subsidiaries | $0.61-1.00 million | 3.0-5.1 FTEs | High |
| Scenario 2: Shift from foreign-owned Australian subsidiaries to Australian Primes and SMEs | $0.35-0.58 million | 1.9-3.2 FTEs | Reduced |

# 5. Will the CPR reforms increase Australian procurement?

Although the CPRs and Defence policies and strategies recognise the need to increase domestic procurement of defence goods and services, the current procurement framework, despite reforms, does not adequately direct procurement spending toward Australian defence firms because of the following issues.

The current structure of Australian defence procurement reveals critical shortcomings that undermine both the economic and strategic objectives of government policy. Despite recent reforms to the CPRs, the values and intentions set at the policy level are not consistently reflected at the level of operational decision-making. Procurement officers, lacking robust guidance and measurable frameworks, tend to default to headline cost rather than consider whole-of-life value, strategic dividends, or broader economic impacts.

## 5.1. Ambiguity in Defining an 'Australian' Company

In any discussion of sovereign capability, what we mean by an ‘Australian’ business is a fundamental question because the answer carries significant weight for policy and procurement decisions. A simplistic label can be misleading, potentially funnelling taxpayer funds to organisations that offer little substantive benefit to the national interest.

The current framework does not adequately distinguish between a foreign-owned company performing some work in Australia and a genuinely sovereign, Australian-owned and operated entity. The strategic and economic benefits delivered by these two models are profoundly different. A sovereign prime retains its profits in Australia, pays taxes to the Australian Treasury, reinvests in local R&D, and is subject solely to Australian law and national interest—benefits that are significantly diluted with an offshore parent company.

This ambiguity has allowed the majority of high-value contracts to flow to multinational primes that may maintain Australian addresses and ABNs but are ultimately foreign-owned. As a result, profits, IP, and critical decision-making remain offshore, while genuinely Australian firms are relegated to low-value roles in the supply chain. This marginalisation not only weakens local industry capability but also suppresses innovative technological development and export potential.

### 5.1.1. Case Study – Thales Australia and the Hawkei Project

Thales Australia, and the LAND121 Phase 4 Hawkei project, exemplifies the complex reality of foreign ownership within Australia’s defence industry, with nominally ‘Australian’ primes operating as subsidiaries of foreign multinationals. Originally Australian Defence Industries, Australia's largest Indigenous defence contractor with revenues of $656 million in 2005, the company was wholly acquired by French defence multinational Thales Group in 2006.[107] [108] Despite maintaining Australian operations, corporate presence, and local industry participation, Thales Australia became a foreign-owned and controlled subsidiary.

Thales Australia’s parent corporation, Thales Group, is partially owned by the French state, which holds 26.6% of shares and 36.4% of voting rights. Combined with Dassault Aviation's 26.6% shareholding and 29.9% voting rights, this French consortium controls 66.3% of voting rights, meaning French interests make all major strategic decisions about Thales' global operations, including its Australian subsidiary.[109]

In 2015, Defence awarded Thales Australia a $1.3bn contract to develop and deliver 1,100 Hawkei light protected mobility vehicles (PMV-L) and 1,058 companion vehicles, provide through-life-support, and act

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[107] Gregor Ferguson, *Defence Business: Thales Cleared to Become the Biggest Australian* (Australian Defence Magazine, 2006), https://www.australiandefence.com.au/CD30E9D0-F806-11DD-8DFE0050568C22C9.

[108] Originally a commonwealth owned entity, Australian Defence Industries the was privatised in 1999 through a joint venture between French Thomson-CSF (later Thales) and Australian Transfield Holdings. In 2006, following government approval, Thales acquired Transfield's 50% stake, making ADI Limited a wholly-owned subsidiary of the French multinational.

[109] Thales Group, *Share and Shareholding*, Investor Relations (2025), https://www.thalesgroup.com/en/investor-relations/share-and-shareholding.

as the Prime Systems Integrator for the LAND121 Phase 4 project.[110] Thales delivered the final vehicle in 2025, at an approximate final contract value of $1.5bn.[111] [112]

Although Defence sought to assess local development for production of PMV-Ls, this was limited to a foreign multinational and two Australian subsidiaries of foreign multinationals. The initial developmental assessment considered Force Protection Europe (then a UK subsidiary of US-based Force Protection, Inc.), General Dynamics Land Systems–Australia (Australian subsidiary of US-based General Dynamics), and Thales Australia.

The Hawkei contract required "a minimum fifty percent of the production or manufacturing costs to be incurred in Australia",[113] and was undertaken at Thales' Bendigo facility where Thales was already producing the Bushmaster protected military vehicle. Thales estimated that Hawkei production sustained approximately 210 direct jobs, with an additional 180 domestic jobs as part Hawkei's supply chain, and independent analysis found that Thales contracted from 206 Australian suppliers as part of the combined Hawkei and Bushmaster supply chain. However, this local industry participation was limited to low-value and low-margin inputs, with 77% of the local supply chain being SMEs. An economic impact study commissioned by Defence concluding that there would be limited regional economic benefit and that "most of the high-value materials would be sourced from outside Bendigo." The fifty percent target for production and manufacturing participation was therefore likely achieved through lower-value fabrication, assembly, and ancillary services.

The impact study also found that, "in the long term, Thales' profits were likely to be sent to overseas shareholders". Thales Group has demonstrated consistent dividend payments to its shareholders, with a 40% payout ratio in FY2022, FY2023, and FY2024 (€3.70 per share dividend in 2024). As a subsidiary of Thales Group, the surplus value captured by Thales Australia in production of the Hawkei LMV-Ls would likewise flow to Thale's groups shareholders.

Local development and production for LAND121 Phase 4 attracted a premium over alternative options. The economic impact study estimated that the local option would incur $452 million premium, with Defence calculations estimating that the Hawkei option costing 1.3 the US Joint Light Tactical Vehicle. In the case of the Hawkei project, this premium, ostensibly paid to support Australian industry and sovereign capability, is in large part lost overseas through management overhead, high-value inputs, and margins flowing to French shareholders. Rather than building genuine Australian capability, high-value technological capabilities remained offshore.

The Hawkei project's trajectory through its development also revealed the longer-term structural leakage of procurement being awarded to foreign-owned primes contractors, through a cycle of dependency. Due to a gap between commencement of Hawkei production and cessation of Bushmaster production, Defence was concerned of the loss of production capacity at the Bendigo facility. To address this concern, Defence purchased an additional 214 Bushmasters from Thales at a cost of $221.3 million, despite acknowledging there was limited strategic requirement for the vehicles. Australia's previous failure to develop its industrial base, is underscored in this additional cost, the benefits of which again flowed to French-owned Thales. Further, during production of the Hawkei, the insolvency of Steyr Motors Australia threatened supply of Hawkei fleet. Steyr Motors Australia was the Australian supplier for the Austrian diesel engines integral to the Hawkei vehicles. To guarantee continued capacity, Thales Australia purchased Steyr Motors Australia, resolving the immediate crisis, but further consolidating critical supply chain components under foreign ownership.

Finally, Thales Australia is now exploring export opportunities for the Hawkei PMV-L. While the Australian government owns the IP for the design of the Hawkei, and would receive royalties under any export deal, Thales Australia controls the production infrastructure, supply chains, marketing relationships, and commercial networks as Prime Systems Integrator, essential for export success. Any export profits beyond the government's IP royalty would accrue to Thales, meaning that successful international sales, built on Australian taxpayer-funded development and production, would flow to Thales Group's French shareholders. This pattern demonstrates how Defence procurement through foreign subsidiaries erodes

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[110] Australian National Audit Office, *2023–24 Major Projects Report*, AUDITOR-GENERAL REPORT NO.20 OF 2024–25 (2024), https://www.anao.gov.au/work/major-projects-report/2023-24-major-projects-report.

[111] Department of Defence, *Critical Capability Boosted by Hawkei* (2025), https://www.defence.gov.au/news-events/news/2025-09-19/critical-capability-boosted-hawkei.

[112] Final contract value estimate at time of publication of: Australian National Audit Office, *2023–24 Major Projects Report*.

[113] Ibid.

the sovereign industrial base. Instead of building Australian capability, production capacity concentrates within foreign-controlled entities.

*Text Box 16: Bushmaster case study*

**Bushmaster Project**

Project History

The 1991 Defence Force Structure Review identified the Australian Army's need for a new Infantry Mobility Vehicle (IMV). Subsequently, the 1994 Defence White Paper confirmed that the government would acquire new land force vehicles, establishing Project Bushranger (Land 116) to procure both protected and unprotected variants.

Defence released the draft IMV specification in February 1994 and invited expressions of interest in July. The project received 17 proposals, including the Bushmaster from Australian company Perry Engineering and the Taipan (a derivative of the South African Mamba) from Australian Specialised Vehicle Systems. In September 1995, Defence issued a request for tender to the five shortlisted proponents.

In early 1996, an Australian company, Perry Engineering, produced a prototype Bushmaster in under seven months.

In September 1996, the government-owned Australian Defence Industries (ADI) purchased the IP rights from Perry Engineering, with the agreement of Timoney Technologies and Stewart & Stevenson.

By January 1997, after other bidders withdrew, the Bushmaster and Taipan were the only contenders remaining. That November, ADI launched a re-engineered Bushmaster proposal featuring a redesigned hull to withstand greater blast forces.

The Australian Government awarded the Bushranger contract to ADI in March 1999, designating its Bendigo facility for production. The government privatised ADI in November 1999, with French company Thales and Australian company Transfield each taking a 50% share. In 2006, Thales acquired the remaining stake in ADI and renamed the company Thales Australia.

In October 2016, the Australian and Indonesian governments announced a partnership to jointly develop a vehicle based on the Bushmaster for the Indonesian military. Pindad now manufactures this vehicle, known as the Sanca, in collaboration with Thales[114].

By 2012, there were approximately 1,052 Bushmasters in service in the ADF[115].

The Australian Government has continued to invest in the Bushmaster platform with several significant procurements. In May 2023, the government placed a A$160 million order for 78 vehicles. This procurement will replace the Bushmasters gifted to Ukraine and ensure production continuity.

A further order in July 2025, valued at $45 million, secured 15 Bushmasters for delivery in 2026. These vehicles will serve as command-and-control platforms for the Australian Army's new High Mobility Artillery Rocket System, which is scheduled for acquisition from 2025.

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[114] Australian National Audit Office, *Defence's Project Bushranger: Acquisition of Infantry Mobility Vehicles*, Auditor-General Report No.59 2003–04 (2004), https://web.archive.org/web/20060917202519/http:/anao.gov.au/WebSite.nsf/Publications/C96AAB7803272D56CA256EC200793001.

[115] Australian National Audit Office, *2016–17 Major Projects Report: Project Data Summary Sheets*, ANAO Report No. 26 2017–18 (2018), https://www.anao.gov.au/sites/default/files/ANAO-MPR-2016-17-PDSS12-BushmasterVehicles.pdf.

## Bushmaster Project

On 24 March 2025, Thales announced the addition of "dedrone counter-drone capability" being integrated into the Bushmaster Protected Mobility Vehicle (PMV), adding counter-uncrewed aerial system (C-UAS) capability[116]. Dedrone is owned by Axon Enterprise Inc (Axon), who is a manufacturer and distributor of conducted energy devices and accessories headquartered in Scottsdale, Arizona, USA[117].

Further Investment in Bendigo with new Bushmaster order[118]

On 8 January 2025, the Albanese Government announced it will build more than 40 Bushmaster PMVs to lock in over 250 local jobs at a cost of $100 million, continuing its commitment to defence and a future made in Australia.

Australian Defence Export Catalogue

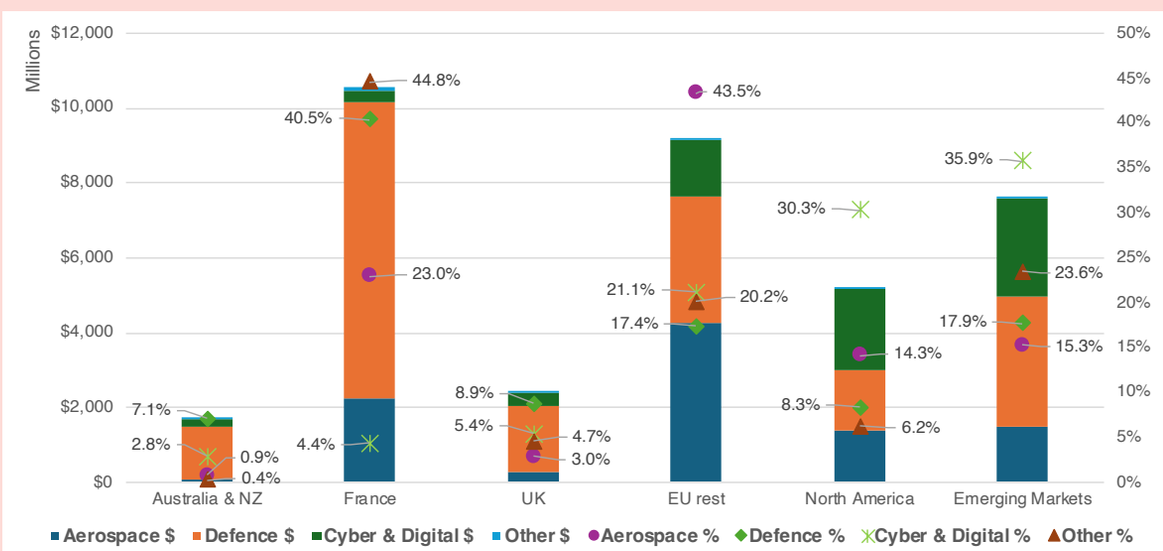
Defence Export Catalogue is the flagship publication to promote Australian defence industry on the international stage, showcasing over 300 Australian businesses highlighting the products, services and innovation within Australia's defence industry sector.

The Bushmaster is listed as: Platform - Bushmaster Protected Mobility Vehicle, Origin – Australia, Original equipment manufacturer / through-life support partner - Thales Australia[119].

### Thales Company

However, Thales Australia is just a small subsidiary of a very large French business that operates globally seeking to make profit from the defence and other expenditure of other countries. The graph below shows the reported Thales order intake for 2024, where Australia is such a small portion of the total it is added to New Zealand (NZ) spending. Over 40% of Thales defence revenue is from France and 7.1% is from Australia and NZ. Other major areas of spending in Australia and NZ include aerospace 0.9% and cyber & digital 2.8%[120].

*Thales Global Order Intake by Country/Region and Activity Type 2024*




[116] Thales Group, *Bushmaster Protected Mobility Vehicle Evolves after Successful Tests of Dedrone Counter-Drone Capability* (2025), https://www.thalesgroup.com/en/news-centre/insights/australia/bushmaster-protected-mobility-vehicle-evolves-after-successful-tests.
[117] GlobalData, *Axon Enterprise Inc - Company Profile* (2025), https://www.globaldata.com/company-profile/axon-enterprise-inc/.
[118] Conroy, *Further Investment in Bendigo with New Bushmaster Order*.
[119] Department of Defence, *Australian Defence Export Catalogue* (2025), https://www.defence.gov.au/business-industry/exporting/opportunities-services/australian-defence-export-catalogue.
[120] Thales Group, *Investor Relations*.

**Bushmaster Project**

Thales “Australia”?

Although Thales Australia appears to meet the governments interpretation of the definition of an Australian company, it is difficult to see how that is possible given the tiny portion of its activity that is based in Australia and its ownership structure. Thales appears to use some small portion of the Australian Government funding for the Bushmaster to pay people working in Australian to complete the low-value parts of the production. Thales ownership, leadership and core business activities are all based in other countries and it is very likely that most profits are being directed to other nations.

Australian Alternatives

The key industries Thales operates in are defence, aerospace, and cyber/digital. An Australian engineering firm did the original design of the Bushmaster, and the development of the technology was funded by the Australian Government. However, the company has sold out to this French company that only keeps a small subsidiary in Australia to keep the contract. Even the development of the new technology solution for anti-drone technology being added to the Bushmaster is being provided by a USA company.

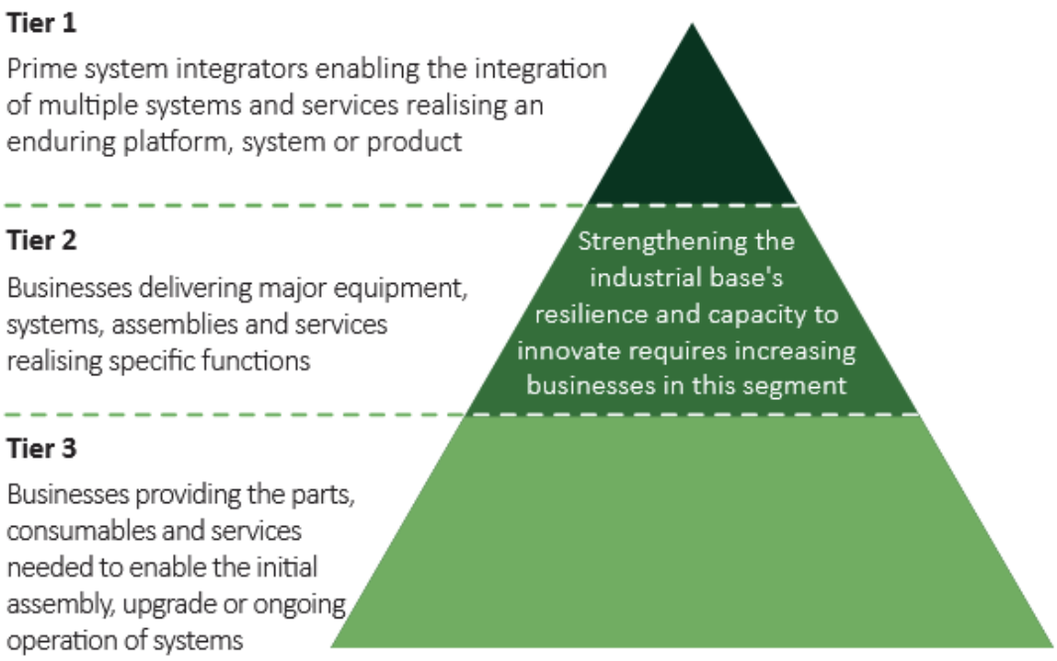
An alternative to the Australian Government paying a French company is that it pays Australian-owned and operated companies. The Prime Minister’s recent announcement of spending some $300 million since coming to office and a $100 million in January 2025 to support 250 local jobs[121], dodges the potential local impact if the funds were spent on an Australian prime, rather than a French one. The real question is, how many local jobs and net economic benefit would be created if an Australian prime was selected to deliver the contracts?

Given Thales is a French company most profits and related shareholder dividends would be paid to people in France. Again, if an Australian prime was selected, the majority of profits and dividends would likely be kept in Australia.

The case study of the Bushmaster protected mobility vehicles is indicative of the potential benefits that Australia misses out on by investing in a company that may have an Australian presence, but has its leadership, ownership and core business activities in other countries. While the government investment may be creating local jobs, by investing in an ostensibly “Australian” company that is not Australian-owned or operated, with genuinely Australian companies overlooked or relegated to low-value tasks, we are missing out on more jobs, value-added, and the creation of what the National Defence Industry Strategy terms “Tier 2 businesses” (see below) which limits broader economic benefits.

[121] Conroy, *Further Investment in Bendigo with New Bushmaster Order*.

*Figure 27: Defence Industry Development Strategy: Tiers of a defence industrial base*[122]




## 5.2. An Incomplete Definition of 'Value for Money' and 'Broader Economic Benefits'

The central mechanism governing the evaluation of tenders and market responses is the CPRs, which mandate that procurement decisions are based on achieving "value for money". Theoretically, this value for money extends beyond the ticket price and encompasses "broader economic benefits" to the Australian economy. However, there is no practical guidance provided to the procurement officer on weighing the financial cost of a procurement against a range of non-financial factors, including the broader benefits.

The problem is not the emphasis on value for money but that in practice, it is too often narrowly interpreted as the lowest upfront tender price or "ticket price". This fails to account for the wholistic, whole-of-life costs and benefits to the nation. It overlooks the fiscal dividend of taxes returned to the Treasury, the economic stimulus of local wages and supply chain spending, and the strategic premium of supply chain security. The ESG impacts of projects is typically limited to a very low bar measure of no modern slavery. However, our assessment shows the key ADF trading countries have significant failings in their supply chains that are not clearly evaluated in the value for money definition.

The Department of Finance has issued a "Guidance note" on the broader economic benefits definition in the CPRs. However, the guidelines lack any prescription for quantifying specific benefits and, crucially, offer no weighting system to direct procurement decisions towards achieving the government's strategic policy goals.

[122] Department of Defence, *Defence Industry Development Strategy*, 10.

*Text Box* 17*:* Broader economic benefits in the CPRs

**Consideration of Broader Economic Benefits in Procurement - Extracts from the CPRs[123]**

*What is a domestic economic benefit?*

In general terms, economic benefits to the Australian economy result when the goods or services being procured:

- make better use of Australian resources that would otherwise be underutilised (for example employing people who would otherwise be under or unemployed, using spare industrial capacity, or freeing government funds for other spending);
- otherwise increase productivity (for example by adopting new know-how or innovation, or enabling more people to acquire in-demand skills, or ensuring that resources are allocated to sectors in which Australia has a comparative advantage); or
- provide broader benefits that support the development and sustainment of industry capabilities;
    - for example, enhancing key industry sectors through the Department of Defence's Sovereign Industrial Capability Priorities.

An increase in productivity-enhancing technology development and adoption can also deliver economic benefit, for example through:

- research and development related activities and investments (including those undertaken with universities);
- transfer of technology to Australian businesses such as through licensing arrangements for IP;
- Indigenous workforce participation;
- engaging a business that provides services of persons with a disability;
- traineeships or apprenticeships in areas of skills shortage; or
- boosting a supplier's international competitiveness (e.g. through greater efficiency or product innovation).

*How can a supplier provide a domestic economic benefit?*

Some examples include, but are not limited to:

- providing skills and training that benefit Australian communities;
- employing workers in Australia;
- employing apprentices or trainees in Australia;
- paying taxes in Australia;
- using SMEs in delivering goods and services;
- developing and adopting innovative products or practices that benefit Australian communities;
- sharing knowledge, skills and technology with SMEs;
- creating export opportunities for Australian goods and services;
- developing Australian industry capabilities or industrial capacity

The definitions in the CPRs are broad, open to interpretation and do not provide a practical, repeatable framework for decision-making. The guidance provided to procurement officers on how to define, measure, and weigh the "broader benefits" is inadequate. The definitions in the CPRs are broad, open to interpretation and do not provide a practical, repeatable framework for decision-making. There is no clear linkage between the government's stated objectives—building sovereign capabilities or improving ESG outcomes—and the analytical methods provided to procurement officers.

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[123] Department of Finance, *Consideration of Broader Domestic Economic Benefits in Procurement* (2022), https://www.finance.gov.au/sites/default/files/2024-07/consideration-of-broader-economic-benefits-in-procurement_july-2024.pdf.

Similarly, the instruction to assess “broader benefits that support the development and sustainment of industry capabilities” requires further definition to guide procurement decisions in line with policy objectives. A true economic analysis of broader benefits, guided centrally by Treasury and Finance, should empower non-economist procurement officers to consider non-market benefits to society, the environment, health, and culture. Without specific guidance on what to include, how to value contributions from different types of bidders (e.g., SMEs vs. primes), and how to weigh these benefits against costs, the value-for-money calculation becomes a theoretical exercise rather than a robust tool for implementing policy.

Without a strong framework to support local procurement based on broader economic benefits, procurement officers are likely to default toward large international primes because there is a general perception that large well-known firms are lower risk and that government may have recourse to legal action in the event of failure to deliver specified goods or services in specified time frames. This disadvantages Australian SMEs even when they are lower cost than international primes.

To bridge this chasm, the solution does not lie in retraining every procurement officer to be a professional economist. It lies in fixing the system they are forced to use. Central agencies like Treasury and the Department of Finance must provide a clear, prescriptive, and weighted framework for assessing economic benefits. This framework must define what is included, provide methodologies for valuing non-market outcomes, and assign explicit weightings that directly reflect the government's policy priorities. Only by transforming "value for money" from an ambiguous concept into a rigorous, policy-aligned equation can Australia ensure that the billions spent on defending the nation also contribute to building its long-term prosperity and resilience, finally fulfilling the social contract on which the government was elected. [124].

High-level guidance is provided to procurement officials (see below), stating that procurements must “Consider what economic benefit information will be collected, how it will be collected and how it will be used as an evaluation criteria to assess value for money” and that “Where feasible, quantitative and qualitative economic benefits considered in tender submissions should be verified at the appropriate stage of the procurement.” However, no guidance is issued on quantifying the broader economic benefits.

*Text Box 18: CPR Guidance Note on Procurement*

**CPR Guidance Note (2020)**

*What do procurement officials need to do?*

10. During planning, consider how the Australian economy may benefit from the procurement activity. Consider what economic benefit information will be collected, how it will be collected and how it will be used as an evaluation criteria to assess value for money.

11. The type and amount of information collected should be commensurate with the scale, scope and risk of the procurement. It should not introduce excessive red tape and cost for tenderers bidding for government contracts.

12. Procuring officials should be careful to ensure that the requirement to demonstrate economic benefit does not inadvertently disadvantage SMEs. For example, officials should be mindful that additional requirements in tender documentation could result in a greater burden on SMEs than larger businesses. This could be due to the SME possessing fewer resources to demonstrate their capability to meet the requirements, compared to established large suppliers to the Government. All potential suppliers must be treated equitably and must not be discriminated against based on their size, location or ownership (paragraph 5.4 of the CPR refers).

13. Officials should make clear in tender documentation that only direct effects, or first round economic effects to the Australian economy are considered in the evaluation of a tender’s economic benefit. This will help to provide clarity around the requirement and reduce the likelihood of tenderers including claimed benefits that will not be considered. Where feasible, quantitative and qualitative economic benefits considered in tender submissions should be verified at the appropriate stage of the procurement.

[124] NIOA Group et al., *Developing Australia’s Defence Industrial Base: A Time for Urgency, Optimism and Action*.

## 5.3. Failure to Quantify Strategic Imperatives

The Government's key objectives—resilience, innovation, sovereign capability, and ESG performance—are treated as qualitative aspirations rather than core, measurable criteria in tender evaluations. Without a formal mechanism to assign a concrete value to these factors, they are inevitably outweighed by the more easily quantifiable metric of headline cost.

Strategic policy goals must filter down through departmental layers to the final tender process. In the process, the broad, nation-building objectives are often diluted into a narrow interpretation of 'value for money'.

This traditionalist approach, focused on securing the lowest possible cost for a specified product or service, systematically undermines the strategic goals it is meant to serve. Without a clear mechanism at the procurement-officer level to integrate sovereign capability, supply chain resilience, and spillover innovation, Australia continues to forgo national value in pursuit of short-term savings.

The outcome is a procurement paradox where the process actively works against the policy, creating a cascade of unintended consequences that diminish Australia's long-term security and economic prosperity.

To direct more procurement toward Australian defence firms, the procurement framework requires reforms that recognise the benefits of local procurement beyond the "ticket value" and incorporates economic, strategic growth and sovereign capability dividends. This framework needs to be extended beyond the CPRs to the decision-making level of procurement officers.

*Text Box 19: The policy-procurement chasm*

**Illustrative example of the Policy-Procurement Chasm: Why Australian Defence Spending Fails to Deliver on its Full Promise**

The Australian Government, upon being elected, operates under a clear social contract with its people. This contract is built on promises to enhance national prosperity, security, and well-being. In recent years, this has translated into specific, high-level policy objectives: fostering a robust domestic manufacturing base to ensure sovereign capability, improving ESG outcomes to build a sustainable future, and, critically, funding a technologically advanced and potent ADF to safeguard the nation's interests. Billions of dollars are allocated to the Department of Defence with the implicit understanding that this monumental expenditure will serve all these objectives simultaneously. Yet, a fundamental and systemic disconnect exists between these national aspirations and the practical realities of Defence procurement, a chasm created by a cascade of diverging priorities and ambiguous definitions.

The government allocates vast sums to the Department of Defence, whose primary mandate, rightly so, is to maximise the ADF's strategic objectives. Defence leadership translates this funding into large allocations for Army, Navy, Air Force, and other strategic domains. The core driver at this level is military capability: ensuring the ADF has the platforms, systems, and personnel to meet its operational requirements. While government policies on industry and ESG are acknowledged, they are secondary to the pressing need for military effectiveness.

The focus narrows further as these allocations are passed down to the individual services. The Army, Navy, and Air Force each receive their packets of funds and immediately begin a process of internal prioritisation based on their unique operational needs, existing platform lifecycles, and future force structure plans. An Army project office focused on acquiring a new armoured vehicle, or a Navy team procuring a new class of frigate, is laser-focused on the technical specifications, delivery timelines, and through-life support costs that will maximise their specific force objectives. At this stage, the government's broader socio-economic goals, while noted in policy documents, become increasingly abstract compared to the concrete demands of delivering a warfighting capability.

The process reaches its critical point of failure when it lands on the desk of the procurement officer. This individual, or team, is tasked with translating the force's requirements into tender documents and evaluating market responses. The central mechanism governing this process is the CPRs, which mandate that procurement decisions are based on achieving "value for money". In theory,

**Illustrative example of the Policy-Procurement Chasm: Why Australian Defence Spending Fails to Deliver on its Full Promise**

value for money is a holistic concept, intended to weigh the financial cost against a range of non-financial factors, including the broader benefits to the Australian economy.

This systemic ambiguity has a predictable effect on the market. Companies bidding for tenders are rational actors. Faced with vague guidelines, they will craft compelling narratives that align with the ambiguous language of the tender. Bids become filled with glossy sections on "Australian Industry Capability" and "Socio-Economic Benefits" that are rich in rhetoric but often poor in verifiable, quantifiable commitments. The procurement process risks devolving into a contest of who can write the most persuasive story, rather than who can deliver the most genuine, measurable value to the Australian people.

For example: how does the Army procurement officer assess the value of the USA having 30% higher CO2-e emissions and 174% higher workplace deaths compared to Australia? There is a potentially measurable net gain of less workplace deaths to the world if the Army procurement officer selects the Australian firm, but that value is not likely to make it into the decision-making criteria under the current value-for-money framework.

Ultimately, a contract is issued to the bidder assessed to have the highest "value for money." However, because the definition of value for money is fundamentally flawed, the outcome is often a lottery. It may align with government intent by chance, but it is not designed to do so systematically. More often, when non-cost factors are subjective and difficult to defend under audit, the decision reverts to the most easily justifiable metric: price. The "cheapest, compliant" bid is likely to win, hollowing out the very domestic industrial base and ESG progress the government pledged to build.

### Procurement Paradox: How Process Undermines Policy

The root of the problem lies in an institutionalised mindset inherited from a different era. The traditional training of finance, economics, and procurement professionals has historically emphasised cost minimisation as the primary driver of efficiency. This model is perfectly suited to procuring standardised ‘widgets’ in a stable, globalised market. However, it is profoundly ill-suited to the strategic task of building a sovereign industrial capability in a contested geopolitical environment. Government objectives are not merely commercial; they are foundational to the national interest. The current procurement framework struggles to price these broader strategic outcomes.

This disconnect manifests in several critical ways that structurally disadvantage Australian business and stifle domestic innovation.

#### Marginal Cost Asymmetry

Defence tenders are often broken down into relatively small, discrete packages of products or services. This is done in the name of efficiency and market competition, but it creates a deeply uneven playing field. A large international defence prime, already producing vast volumes of a product for a global market, can bid for an Australian contract at an extremely low price. For them, the contract represents a minor marginal increase in production, easily absorbed by existing overheads and economies of scale.

In stark contrast, an Australian SME may be attempting to build its entire business around that single contract. Its marginal cost of production is effectively its total cost, including significant fixed setup expenses. It is not likely to compete on price with an incumbent global giant, not because it is inefficient, but because the procurement structure is biased towards scale that does not yet exist in the domestic market. The "value-for-money" assessment, in this context, becomes a self-fulfilling prophecy that favours offshore incumbents.

#### Burden of Capital Risk and Short-Termism

The practice of offering limited, short-term contracts creates immense risk for domestic firms. To fulfil a contract, an Australian business must often invest heavily in specialised plant, technology, and skilled personnel. Without a long-term contract or a clear pathway to future work, securing the necessary capital for this investment becomes difficult and expensive.

Financial markets correctly perceive the risk. A short-term, one-off contract offers no guarantee of a sustainable revenue stream. Consequently, the cost of capital for the Australian SME is significantly higher than for an established international firm with a multi-billion-dollar global order book. This forces the SME to factor higher financing costs into its bid, further widening the price gap and making it less competitive. This cycle actively discourages the very private sector investment in sovereign capability that the government's strategic policy seeks to encourage. A well-designed procurement process, by contrast, would offer a pathway contract: an initial opportunity for a paid R&D phase, followed by a long-term (10-20 year) manufacturing or service agreement upon successful delivery. This model de-risks innovation and provides the certainty needed to secure investment, grow a business, and ultimately create a global exporter.

### National Cost: A Cascade of Strategic Failures

The persistent gap between strategic goals and procurement outcomes is not a minor inefficiency; it is a significant impediment to Australia's national development and security. The cumulative effect is a failure to build a resilient, sovereign military-industrial and support services ecosystem.

The consequences are severe and far-reaching:

- Erosion of Sovereign Capability: Australia fails to develop the domestic capacity to produce and sustain critical defence materiel and services, leaving it reliant on extended and potentially fragile international supply chains.
- IP and Innovation Drain: When contracts are consistently awarded offshore, the associated R&D, innovation, and resulting IP are developed and retained in other countries. Australia effectively subsidises the technological advancement of other nations.
- Underdeveloped Skills Base: Without a consistent pipeline of advanced manufacturing and technology work, the incentive to invest in vocational training, university programs, and research in critical defence-related fields diminishes, leading to a skills deficit.
- Suppressed Economic Complexity: The failure to build high-tech sovereign industries means Australia's economy remains less complex and resilient, forgoing opportunities to develop high-value exports and create high-skilled, high-wage jobs.
- Compromised National Security: Ultimately, the procurement model compromises the core objective of national security. In a crisis, Australia may find itself unable to source, repair, or adapt critical equipment, placing the ADF personnel and the nation at unacceptable risk.

### A Path Forward: From Procurement to Strategic Commissioning

Closing the strategic-procurement gap requires a fundamental shift in mindset: moving from transactional 'procurement' to holistic 'strategic commissioning'. This involves redefining "value for money" to encompass a weighted assessment of a bid's contribution to the national interest.

A recalibrated framework should explicitly value and measure contributions to:

- Sovereign Industrial Capability: The extent to which a project builds domestic manufacturing, maintenance, and supply chain resilience.
- IP Ownership and Control: The retention of IP within Australia.
- Human Capital Development: The creation of apprenticeships, graduate roles, and upskilling programs.
- Economic Flow-on Benefits: The use of local suppliers and services, contributing to regional development and national prosperity.

This approach would transform defence expenditure from a cost centre into a powerful engine of national development. By offering long-term, strategic partnerships instead of short-term, transactional contracts, the Commonwealth can provide the certainty needed for Australian industry to invest, innovate, and scale. This is not about protectionism; it is about strategic co-investment to build the sovereign, secure, and technologically advanced Australia that our national security demands.

Defence can avoid the errors of the medical procurement of COVID-19 vaccines in 2020 as discussed in the case study below. Delays in procurement and a focus on a narrow interpretation of value for money

cause Australia to incur one of the largest economic losses in its history, amounting to some $50 billion. The procurement of defence products and services could face similar challenges in the event of any global military actions, which can only be resolved with massive expenditures.

For example, if Russia decided to invade France, it is very likely large French based military manufacturers that have operations in Australia would stop all activity in Australia and turn all their attention and resources to assisting the French government and people. This situation would leave Australia without the planned production of key military items in a time when global conflict is likely. The costs of restarting those production facilities at that time would far outweigh any of the earlier financial gains from the narrowly focused procurement process.

*Text Box 20: Case study of procurement mismatch to strategic outcome - Pandemic Vaccines*[125]

**Case study of procurement mismatch to strategic outcome - Pandemic Vaccines**

Scientia Professor Richard Holden and Assistant Professor Steven Hamilton's book *Australia's Pandemic Exceptionalism: How we crushed the curve but lost the race* explores the range of issues experienced by Australia during the COVID-19 pandemic, including policy approaches, fiscal underpinning of economic activity, and the failure of the Australian Government procurement system to meet the strategic intent of the government.

The USA President Donald Trump announced on 15 May 2020 a public-private partnership dubbed "Operation Warp Speed" to coordinate and accelerate the COVID-19 vaccine development with funding of US$11 billion to eight companies to develop and test vaccines. The investments included advanced purchase agreements from the US Government for set amounts of vaccines approved by the Food and Drug Administration, Pfizer received a purchase order for 100 million vaccines for US$2 billion on 22 July 2020.

Bill Gates said on 12 April 2020:

*"We aren't sure which vaccines will be the most effective yet, and each requires unique technology to make. That means nations need to invest in many different kinds of manufacturing facilities now, knowing that some will never be used. Otherwise, we'll waste months after the lab develops an immunisation, waiting for the right manufacturer to scale up."*

Australia could have ordered vaccines from a wide range of possible providers, like the USA, to reduce risk and ensure citizens were able to access the vaccine early to allow the economy to open quicker. However, the vaccine purchasing strategy was selective, initially focused on 4 but then only 2. The agreements for these two were announced in September and October 2020 respectively, compared to other countries making agreements as early as July 2020. The Pfizer vaccine was not agreed until November 2020. Even then, Australia did not have sufficient vaccines agreements to meet the need until 13 May 2021.

On every dimension that mattered for vaccine procurement, Australia got the cost-benefit analysis badly wrong. The cost of buying all available 8 vaccines might appear expensive through the lens of normal procurement practice, as just buying one would be cheaper and there is no guarantee they all work. We pinched pennies instead of buying insurance at a time when insurance was incredibly cheap and the risks**,** we faced were extremely large. We confused industry policy with health policy.

Although the delays in vaccine contracting appears not to be extensive, in this context the costs of not achieving the desired outcome came at massive costs to the economy, fiscally, and in the additional deaths of hundreds of people.

Hon. Professor Jane Halton AO PSM the Secretary of the Australian federal health department from 2002 to 2014 and head of the 2022 Review of COVID-19 Vaccine and Treatment Purchasing and Procurement, said:

"*It was a race. It was always a race. Manifestly, we had longer lockdowns than we actually needed to have because we didn't have supply and rollout as quickly as others."*

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[125] Steven Hamilton, *Australia's Pandemic Exceptionalism: How We Crushed the Curve but Lost the Race*, 1st ed, with Richard Holden (NewSouth Publishing, 2024).

**Case study of procurement mismatch to strategic outcome - Pandemic Vaccines**

Australian Treasury estimated the economic cost of nationwide lockdowns was $3 billion per week. The lockdowns between March and December 2021 could have been avoided had the vaccination strategy and rollout been up to scratch, which would have avoided some $31 billion in direct economic costs. Adding in indirect economic costs the total cost of the lockdowns caused by the slow procurement of vaccines is estimated as $50 billion and likely well higher than that number given the lives lost. The vaccine debacle caused around 10% loss of GDP, likely the single most costly economic event in Australian history.

# 6. A proposed framework to increase domestic procurement in practice

The CPRs, despite recent reforms, are not sufficient to foster a domestic defence industry and enhance sovereign capability because the current framework inadequately distinguishes truly Australian firms, often awarding high-value contracts to foreign-owned primes and limiting local economic return; and there is insufficient guidance on quantifying broader benefits of procurement, meaning that procurement officers frequently default to lowest upfront cost and lowest perceived risk, which frequently favours large well-known international primes at the expense of less well-known Australian SMEs.

In this section, we propose:

- a stronger definition of an Australian business for procurement purposes for the CPRs and at the procurement level to ensure contracts deliver true sovereign benefits; and
- a Sovereign Dividend Scorecard as a procurement framework to guide decision-making at the procurement-officer level that recognise the benefits of local defence suppliers beyond the “ticket value” and incorporates economic, strategic growth and sovereign capability dividends. A three-pillar framework (Economic Dividend, National Growth Dividend, Sovereign Capability Dividend) is proposed to quantify the comprehensive value of procurement beyond price, including fiscal impact, job creation, innovation potential, export growth, ESG benefits, local ownership, supply chain resilience, and IP control.

We argue that Australia must adopt a whole-of-government and whole-of-nation approach to procurement, integrating Defence, other government departments, and industry to achieve enduring capability development. Complementary workforce, cyber posture, IP, and other policy reforms are required to “enable” the development of the Australian defence sector alongside procurement framework reforms.

## 6.1. Defining an Australian business for procurement purposes

A stronger and more sophisticated definition of an Australian business that aligns with sovereign capability goals is required for procurement. Ultimately, defining ‘Australian’ is not about applying a rigid label. It requires a sophisticated assessment that weighs multiple dimensions. To make informed decisions, we must move beyond a binary definition and assess companies on a spectrum of contribution, using a multi-dimensional framework. We recommend an assessment based on the following four dimensions.

### 6.1.1. The ABN Test: A Legal Presence

At the most basic level, a company must have an ABN to operate and engage in commerce in Australia. The government rightly uses this as a minimum threshold for participation in its supply chains. However, we must recognise this for what it is: a necessary but wholly insufficient indicator of a company’s national character. Any foreign entity can register for an ABN to establish a local branch or subsidiary. While it signifies a legal and tax presence, the ABN test tells us nothing about a company's ownership, control,

investment strategy, or contribution to the Australian economy. It is merely the ticket to entry, not a measure of commitment.

### 6.1.2. The Ownership Test: Where Profits Flow

A more substantive measure is the percentage of Australian ownership. This metric determines where the financial returns of a company's success ultimately flow. A 100% Australian-owned company, for instance, directs its profits back into the Australian economy, either through reinvestment or as dividends to Australian shareholders, including our vital superannuation funds. Maximum Australian ownership is a powerful and direct economic benefit. However, this test also has its limits. In a globalised world, many large, publicly listed companies have diverse international share registries. Conversely, a foreign-owned company might be mandated to reinvest 100% of its Australian-generated profits back into its local operations, thereby growing its onshore capabilities. Ownership is a crucial indicator, but it does not paint the complete picture.

### 6.1.3. The Supply Chain Test: Where Investment is Directed

The supply chain metric interrogates a company's operational behaviour and tangible economic impact. We can measure an organisation's 'Australianness' not just by who owns it, but by how it spends its money. A company that actively cultivates a deep and resilient domestic supply chain provides far greater economic and strategic benefit than one that simply acts as a local storefront for imported goods. This test assesses the percentage of contract value that flows to other Australian businesses, particularly SMEs. A foreign-owned prime contractor that commits to building a robust local supply chain, transferring skills and creating hundreds of indirect jobs, can often deliver a greater net economic benefit than a locally owned 'shelf company' that imports finished products. This test measures a company's real contribution to building our national industrial ecosystem.

### 6.1.4. The Leadership and Control Test: The Acid Test for Sovereignty

The leadership and control test is the most critical for a sovereign defence industry. It asks a simple question: where are the key decisions made? A company may have an ABN, local staff, and even some Australian ownership, but if its strategic, financial, and operational decisions are ultimately made in a head office in Washington, London, or Paris, its alignment with Australia's sovereign interests can be compromised. True sovereignty resides in having local leadership with the authority to act, to control the IP, and to direct the company's resources in a crisis without needing foreign approval. This test of decision-making power and IP control is the ultimate determinant of whether a company is merely in Australia or truly of Australia, capable of being a trusted partner in safeguarding our national security.

## 6.2. The 'Sovereign Dividend Scorecard'

We propose a three-pillar SDS for procurement officers to guide them in making clear, quantitative, and comparative assessments of procurement options. The SDS systematically measures the value for money of a procurement beyond the ticket price and includes quantitative measures of the broader economic and strategic benefits to the Australian economy. In doing so, it levels the playing field for Australian-based SMEs competing with the large international primes by ensuring that procurers can justify investing in less well-known entities than the large foreign primes.

### 6.2.1. Three-pillar approach

The proposed SDS is structured around three core pillars:

- the Economic Dividend
- the National Growth Dividend, and
- the Sovereign Capability Dividend.

By systematically assessing a project against these criteria, decision-makers can gain a true understanding of the return on investment for the Australian taxpayer and the lasting contribution to building a resilient, innovative, and self-reliant national industrial base.

#### 6.2.1.1. Economic Dividend

This first pillar of the SDS focuses on the direct and measurable financial and economic impacts of a project on the Australian economy, providing a transparent assessment of how the taxpayer's investment circulates within and strengthens our domestic economic system.

1.1 Fiscal Impact: metric assesses the net cost to the Commonwealth budget, starting with the tender price but immediately analyses the fiscal circularity of the investment. For an Australian-owned prime, a significant portion of the project expenditure is returned to government coffers through company tax on profits, PAYG income tax from a locally based workforce, payroll taxes, and GST levied on domestic supply chain transactions. In contrast, profits generated by foreign-owned entities are often repatriated offshore, representing a permanent loss of tax revenue to the Australian Treasury. The SDS captures this vital distinction, calculating a more accurate "net cost to nation."

1.2 Economic Efficiency: the project's contribution to domestic value-add (DVA) and its effect on the broader economy. DVA measures the proportion of a project's total value that is genuinely generated within Australia through local labour, resources, and innovation. Furthermore, it considers the concept of the excess burden of taxation—the economic distortion caused by levying taxes to fund government expenditure. Australian-made products and services potentially have a higher financial cost due to the very high domestic standards. However, a project with high fiscal circularity and high DVA reduces this burden, as the government recoups a larger share of its initial outlay, requiring less taxation from the wider economy to fund the capability.

1.3 Job Creation: quantifies the employment impact within Australia, distinguishes between direct domestic jobs (engineers, technicians, project managers, and factory workers directly employed by the prime) and secondary domestic jobs (employees within the local supply chain, from steel fabricators and software developers to logistics providers). A fully sovereign project anchors both direct and secondary employment in Australia, fostering stable, high-skill careers and regional development, a benefit that is significantly diluted when key roles and supply chain contracts are directed offshore.

1.4 Domestic Income: linked to job creation, this metric measures the increase in Australian household income. By employing a local workforce, a sovereign project channels wages and salaries into Australian communities, which in turn drives consumer spending and stimulates broader economic activity. The SDS evaluates the degree to which project expenditure translates into disposable income for Australian families, providing a tangible measure of its contribution to national prosperity.

### 6.2.1. National Growth Dividend

The second pillar moves beyond immediate economic returns to assess the project's long-term contribution to Australia's industrial maturity, innovation capacity, and global standing. It measures how a defence investment can be leveraged to build enduring economic strength.

2.1 Export Potential: the realistic potential for the capabilities, products, and IP developed for the ADF to be exported to allied nations or converted into civilian export opportunities. An Australian prime, owning the IP and controlling the technology, is best positioned to pursue and secure these exports, which not only generates significant economic returns but also enhances Australia's international standing and deepens strategic relationships. The SDS also requires a sober assessment of the risks involved, ensuring that export strategies are credible and achievable.

2.2 Economic Growth Potential: evaluates the project's role as a catalyst for advancing Australia's economic complexity. It asks: do the technologies have dual-use, civilian applications? Is new, sovereign IP being created? Will the project generate spillover innovation into adjacent sectors like space, medical technology, or advanced manufacturing? A project that fosters a domestic ecosystem of systems integration, advanced software engineering, and R&D helps transition the national economy from simple manufacturing to producing highly complex, technology-intensive goods, which is the cornerstone of long-term prosperity.

2.3 Market Failure Risk: potential negative economic impacts of market distortion, where a large government project might unfairly crowd out private sector competition or innovation. It also evaluates the "infant industry risk"—the danger of subsidising a domestic capability that fails to become globally competitive. Seeks to guide government investment towards building genuinely sustainable and efficient industries, not protectionist enclaves.

2.4 ESG Impact: demonstrating how the project assists the Australian Government to achieve its SDS mandates a thorough evaluation of a project's ESG footprint. An Australian-based prime and its domestic

supply chain operate under Australia's stringent regulatory frameworks for WH&S, gender equality, and environmental protection (including emissions, water usage, and air quality). This provides a higher degree of assurance and transparency compared to complex global supply chains where labour practices, environmental standards, and governance can be opaque and difficult to verify, thereby leveraging Defence procurement to champion improve global outcomes.

### 6.2.1. Sovereign Capability Dividend

The third pillar assesses the project's direct contribution to Australia's self-reliance, national security, and strategic autonomy by considering the degree to which a project builds genuine, enduring sovereign control over capabilities critical to the defence of the nation.

3.1 Australian Ownership: the corporate structure of the prime contractor is important. Is it a registered Australian entity with a majority Australian board, controlled by Australian interests? Critically, it investigates whether the company is subject to the direction or control of a foreign government or organisation, which could create a conflict of interest in a time of crisis. True sovereignty requires that the ultimate decision-making authority for a critical defence capability resides in Australia.

3.2 Supply Chain Resilience: considers a project's ability to deliver and sustain a capability, particularly during a crisis, throughout the entire supply chain, from acquisition to whole-of-life support. Key questions include: what percentage of the acquisition and, more importantly, the sustainment supply chains originate in Australia? Can the capability be produced, repaired, and upgraded if international trade is disrupted? Surge capacity: in a time of urgent national need, can production be rapidly scaled up, how long would it take, and at what cost? An Australian prime with a localised supply chain offers a fundamentally more resilient and assured solution than one reliant on lengthy and potentially vulnerable global logistics.

3.3 IP Ownership: how much of the key IP, including for critical subsystems, will be owned by Australian entities. Where IP is licenced, it considers the permissiveness of these agreements. Do they allow Australia to modify, upgrade, and integrate the system with other ADF assets without seeking permission from a foreign entity? This metric guards against the strategic risk of technological dependency, where future sustainment costs can be dictated by an offshore IP owner, and our freedom of action is constrained.

3.4 Compatibility: interoperability of the proposed system, how seamlessly the product or service integrates with existing and future ADF platforms, networks, and command-and-control systems. A capability developed by an Australian firm, in close collaboration with Defence, is inherently more likely to be designed for optimal integration within the Australian context. Furthermore, it considers compatibility with key allies, ensuring that the capability enhances coalition operations while prioritising Australia's unique sovereign requirements.

The SDS provides the robust, detailed, and transparent framework needed to make truly informed decisions in defence procurement. It allows Australian-owned and operated suppliers to articulate their superior value proposition in terms that resonate with national interest, proving that the smartest investment is one that not only delivers a required capability but also builds a more prosperous, innovative, and secure Australia for generations to come.

### 6.2.2. Sovereign Dividend Scorecard example with quantitative metrics

An example of the SDS metric outputs is provided below, indicating how it will convey information to procurement officers and decision-makers to assist with measuring project value and comparing procurement options. The SDS can be used by companies developing tender responses or negotiating with Defence for contracts. Our assumption is the company developing the SDS will already have significant internal business case assessment processes and methods for demonstrating the value of their products and services. The SDS is designed to sit alongside the standard value demonstration measures to provide a broader and deeper understanding of the value. In addition, Defence procurement officers should be encouraged to fully adopt the SDS or a similar approach to understand value for money from the perspective of Defence and Australian Government stated objectives.

The SDS will be provided in an Excel document that users can adjust to meet their needs but can also provide automated outputs given the users' requirements and selected assumptions.

This report has developed some of the key metrics that can be built into the SDS as an automatic estimate of the values given the inputs from the user. Each category can be given weights to allow the user to better emphasise the priority areas for that project. The outputs could be added to any tender response or negotiation with Defence to support the proposed solution.

#### 6.2.2.1. Sovereign Dividend Scorecard detailed explanation of quantitative metrics

The scorecard is built on three core pillars:

1. The Economic Dividend

This pillar assesses a project's direct and measurable impact on the Australian economy. Key metrics include:

- Fiscal Impact: Calculates the 'net cost to nation' by accounting for taxes (company, PAYG, GST) that are returned to the government from local expenditure, a benefit lost when foreign companies repatriate profits.
- Economic Efficiency: Measures the project's contribution to DVA and how it reduces the burden of taxation by circulating investment within the local economy.
- Job Creation: Quantifies the direct and indirect Australian jobs created by the project and its domestic supply chain.
- Domestic Income: Measures the increase in Australian household income, which stimulates local spending and economic activity.

2. The National Growth Dividend

This pillar evaluates a project's long-term contribution to Australia's industrial maturity, innovation, and global competitiveness. Key metrics include:

- Export Potential: Assesses the realistic opportunity to export the technology or IP, which is best realised when an Australian company owns the IP.
- Economic Growth Potential: Measures how the project builds Australia’s economic complexity through dual-use technologies, sovereign IP creation, and innovation spill over into other sectors.
- Market Failure Risk: Ensures investment fosters sustainable, globally competitive industries rather than creating market distortions or propping up uncompetitive businesses.
- ESG Impact: Leverages procurement to support positive ESG outcomes, capitalising on the high standards and transparency of Australian-based supply chains.

3. The Sovereign Capability Dividend

This pillar focuses on a project's contribution to Australia's self-reliance, security, and strategic independence. Key metrics include:

- Australian Ownership: Verifies that the prime contractor is genuinely Australian-controlled, ensuring decision-making authority resides in Australia, free from foreign influence.
- Supply Chain Resilience: Assesses the ability to produce, sustain, and upgrade a capability locally, particularly during a crisis, and the capacity to surge production if required.
- IP Ownership: Determines the extent of Australian ownership over critical IP, ensuring we can modify and integrate systems without foreign approval.
- Compatibility: Ensures the system integrates seamlessly with existing and future ADF platforms and enhances interoperability with key allies.

The SDS is designed as a practical tool that allows companies to clearly articulate their value proposition in tender responses. It provides a robust framework for making procurement decisions that not only deliver essential capabilities but also build a more prosperous, innovative, and secure Australia.

## 1) Economic Impacts

a) Fiscal Impacts

These metrics calculate the project's true cost to the Australian taxpayer by tracking the flow of funds. A genuine Australian prime circulates a significant portion of the project's expenditure back into our economy. We assess the total project cost as a baseline, then critically analyse the tax revenue generated through company tax on locally retained profits, PAYG from a domestic workforce, and GST on local supply chain transactions. This allows us to determine the net fiscal impact—the initial cost minus the revenue returned to the Treasury. This measure clearly distinguishes an Australian prime, whose profits are taxed here, from an international prime that repatriates profits offshore, representing a permanent loss of tax revenue for Australia.

b) Economic efficiency

This evaluation measures the project's direct contribution to strengthening the national economy. We quantify the DVA, which represents the proportion of project value generated within Australia through local labour, materials, and innovation. A higher DVA from an Australian prime reduces the excess burden of taxation, as the government recoups more of its initial investment, requiring less tax from the wider economy to fund the capability. By combining these factors, we determine the net economic impact and the overall economic-fiscal impact, providing a complete picture of how an Australian prime generates a superior return on investment by building the domestic economy, unlike an international prime whose value chain often extends offshore.

c) Job creation

We analyse the project's contribution to the Australian workforce by quantifying the number and quality of jobs created. This includes direct domestic jobs—the engineers, technicians, and managers employed by the prime—and secondary domestic jobs within the local supply chain. Crucially, we also assess the percent of domestic jobs that are high-skilled, as this indicates a commitment to building a sustainable, advanced industrial base. An Australian prime is more likely to anchor these high-value roles and long-term careers in Australia, fostering regional development and sovereign expertise. In contrast, an international prime may establish a local assembly workforce while retaining the high-skilled design, research, and executive roles in its home country.

d) Domestic income

This metric provides a tangible measure of a project's social and economic contribution by calculating the domestic household income gain. By employing a local workforce and engaging a domestic supply chain, an Australian prime channels wages and salaries directly into Australian communities. This income drives consumer spending, supports local businesses, and stimulates broader economic activity. This directly contrasts with an international prime, where a larger portion of the project's financial benefit is realised through offshore profits and executive remuneration, delivering a diluted impact on Australian household prosperity.

## 2) Indirect Economic Impact

a) Export potential

We assess the project's capacity to generate future national income by evaluating the future export potential of the capabilities, products, and IP developed for the ADF. An Australian prime that owns and controls its IP is uniquely positioned to pursue and secure export opportunities with allied nations, bringing new wealth into Australia. We also conduct a sober analysis of the export potential risk, recognising that an international prime's local branch may be restricted by its parent company from competing in global markets, making any stated export ambitions less credible.

b) Economic growth potential

This measure evaluates the project's role as a catalyst for advancing Australia's long-term economic complexity and innovation. We ask if the capabilities have civilian applications, if the project will develop new domestically owned IP, and what the potential for spillover innovation into adjacent sectors like space or medical technology is. A project driven by an Australian prime that fosters a local R&D ecosystem makes a genuine contribution to the economic complexity of the domestic industrial base. This transforms our economy from simply consuming technology to creating it, a strategic benefit rarely offered by an international prime that implements technology developed elsewhere.

c) Market failure risk

This assessment ensures that government investment builds genuinely sustainable and competitive industries. We evaluate the market distortion risk, where a large contract might unfairly crowd out private sector competition, and the infant industry risk—the danger of subsidising a domestic capability that fails to become globally competitive. While this applies to any tenderer, the analysis differs for a local prime, where the government has greater visibility and influence to partner in building a sustainable industry, versus an international prime whose long-term commitment to the Australian market may be subject to global corporate strategy.

d) ESG Impact

This metric leverages Defence procurement to uphold Australian values and achieve national ESG objectives. We evaluate the project's impact on CO2-e emissions, OH&S, gender equality, water resources, air quality, and even public health outcomes like life expectancy. An Australian prime and its domestic supply chain operate under our nation's stringent regulatory frameworks, providing a high degree of assurance and transparency. This contrasts sharply with complex global supply chains where environmental standards, labour practices, and governance can be opaque and difficult to verify, allowing us to preference partners who are demonstrably committed to Australia's high standards.

### 3) Sovereign Capability

a) Australian ownership

We scrutinise the corporate structure of the prime contractor to determine where ultimate control resides. We ask: Is the prime contractor an Australian entity with a majority of Australian ownership and a board based in Australia? Critically, we investigate if people or entities from other countries have control, which could create a conflict of interest in a time of crisis. True sovereignty requires that the ultimate decision-making authority for a critical defence capability resides in Australia. An international prime, even with a local ABN and office, is ultimately beholden to its foreign headquarters and government, posing a strategic risk that a genuine Australian prime does not.

b) Supply chain resilience

This assessment measures a project's ability to deliver and sustain a capability, especially during a crisis. We analyse the percentage of the acquisition and sustainment supply chains originating in Australia and determine if production can continue if international trade is disrupted. Furthermore, we evaluate surge capacity: can production be rapidly increased in a national emergency, how long would it take, and at what cost? An Australian prime with a localised supply chain offers a fundamentally more resilient and assured solution, able to respond to national needs, unlike a contractor reliant on lengthy and vulnerable global logistics.

c) IP ownership

This metric assesses our long-term freedom of action by examining who controls the technology. We determine how much of the key IP will be owned by Australian entities or, if licenced, how permissive those agreements are. This guards against technological dependency, where future upgrades or integration with other ADF assets require permission from a foreign entity. It also mitigates the risk that IP constraints will impact future sustainment costs, as an offshore IP owner can dictate terms. An Australian prime that owns the IP provides the ADF with sovereign control over its own equipment, a critical advantage not offered by international primes licensing foreign technology.

d) Compatibility

We evaluate how seamlessly the proposed system integrates with the ADF’s existing and future platforms. We assess its compatibility with other Australian defence products and services and with those of our key allies. A capability developed by an Australian firm, in close collaboration with Defence, is inherently more likely to be designed for optimal interoperability within the unique Australian operational context. This tailored approach contrasts with off-the-shelf solutions from international primes, which may require costly and complex modifications to meet Australia’s specific sovereign and coalition requirements.

*Table 10. Sovereign Dividend Scorecard*

| Category | Group | Item | Metric |
|---|---|---|---|
| 1. Economic impact | 1.1. Fiscal impact | 1.1.1. Total project cost | $ NPV |
| 1. Economic impact | 1.1. Fiscal impact | 1.1.2. Taxation revenue | $ NPV |
| 1. Economic impact | 1.1. Fiscal impact | 1.1.3. Net fiscal impact | $ NPV |
| 1. Economic impact | 1.1. Fiscal impact | 1.1.4. Fiscal impact score | 0-100 |
| 1. Economic impact | 1.2. Economic efficiency | 1.2.1. Domestic value-add | $ GDP |
| 1. Economic impact | 1.2. Economic efficiency | 1.2.2. Excess burden of taxation | $ Deadweight loss |
| 1. Economic impact | 1.2. Economic efficiency | 1.2.3. Net economic impact | $ |
| 1. Economic Impact | 1.2. Economic efficiency | 1.2.4. Economic-fiscal impact ratio | Ratio |
| 1. Economic Impact | 1.2. Economic efficiency | 1.2.5 Economic efficiency score | 0-100 |
| 1. Economic impact | 1.3. Job creation | 1.3.1. Direct domestic jobs created | FTE |
| 1. Economic impact | 1.3. Job creation | 1.3.2. Secondary domestic jobs created | FTE |
| 1. Economic impact | 1.3. Job creation | 1.3.3. Total domestic jobs created | FTE |
| 1. Economic impact | 1.3. Job creation | 1.3.4. What percent of domestic jobs created are high-skilled | % |
| 1. Economic impact | 1.3. Job creation | 1.3.5. Job growth score | 0-100 |
| 1. Economic impact | 1.4. Domestic income | 1.4.1. Domestic household income gain | $ |
| 1. Economic impact | 1.4. Domestic income | 1.4.2. Domestic income score | 0-100 |
| **1. Economic impact** | **1.5. Direct economic impact** | **1.5.1. Direct economic impact score** | **0-100** |
| 2. Indirect economic impact | 2.1. Export potential | 2.1.1. Future export potential arising from the capabilities built for this project | $ NPV |
| 2. Indirect economic impact | 2.1. Export potential | 2.1.2. Export potential risk | % |
| 2. Indirect economic impact | 2.1. Export potential | 2.1.3. Export potential score | 0-100 |
| 2. Indirect economic impact | 2.2. Economic growth potential | 2.2.1 Do the domestic outputs/capabilities of this project have civilian application? | Yes/No |
| 2. Indirect economic impact | 2.2. Economic growth potential | 2.2.2. Will this project develop new domestically owned IP? | Yes/No |
| 2. Indirect economic impact | 2.2. Economic growth potential | 2.2.3. Potential for spillover innovation | Likert scale |
| 2. Indirect economic impact | 2.2. Economic growth potential | 2.2.4. Contribution to the economic complexity of the domestic industrial base | Likert scale |
| 2. Indirect economic impact | 2.2. Economic growth potential | 2.2.5. Economic growth potential score | 0-100 |
| 2. Indirect economic impact | 2.3. Market failure risk | 2.3.1. Market distortion risk | Subjective rating: 1-100 |
| 2. Indirect economic impact | 2.3. Market failure risk | 2.3.2. Infant industry risk | Subjective rating: 1-100 |
| 2. Indirect economic impact | 2.3. Market failure risk | 2.3.3. Market failure risk score | 0-100 |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.1. CO2-e emissions | Percentage difference |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.2. OH&S | Percent difference in workplace deaths |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.3. Gender equality | Percent of women in workforce |

| | | | |
|---|---|---|---|
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.4. Water resources | Percent stress difference |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.5. Air quality | Percent difference in PM2.5 |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.6. Life expectancy | Percent difference |
| 2. Indirect economic impact | 2.4. ESG Impact | 2.4.7. ESG Impact score | 0-100 |
| **2. Indirect economic impact** | **3. Indirect economic impact** | **3.3.1 Indirect economic impact score** | **0-100** |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.1. Is the prime contractor an Australian entity? | Yes/No |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.2. What percentage of the prime contractor's ownership is Australian? | % |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.3. Is the board of the prime contractor based in Australia? | Yes/No |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.4. Do any people or entities from other countries have control of all/part of this company? | None/Minority/Majority/All |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.5. Are the key systems in this project using technology/IP developed by Australian entities? | None/Some/Most/All |
| 3. Sovereign capability | 3.1. Australian ownership | 3.1.6. Australian ownership score | 0-100 |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.1. Is the prime contractor already providing related products/services to the defence sector? | Yes/No |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.2. Is the prime contractor already providing related products/services to the private sector? | Yes/No |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.3. Current (global) production of related products/service | $ Value |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.4. What percent of this projects acquisition supply chain will originate in Australia? | % |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.5. What percent of this projects sustainment supply chain will originate in Australia? | % |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.6. Will significant activity to produce outputs occur in an overseas location? | Yes/No |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.7. In a situation where Australian international trade disrupted, can this project continue to produce outputs as contracted? | Yes/No |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.8. In a time of sudden high need for this product/service, can the volume be increased? | Yes/No |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.9. If yes to above, how long would it take to double output? | Months |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.10. If yes to above, what is the approximate additional percentage unit cost increase? | % |
| 3. Sovereign capability | 3.2. Supply chain resilience | 3.2.11. Supply chain resilience score | 0-100 |
| 3. Sovereign capability | 3.3. IP ownership | 3.3.1. How much of the key IP for this project, including critical subsystems, will be owned by Australian entities? | None/Some/Most/All |
| 3. Sovereign capability | 3.3. IP ownership | 3.3.2. How much of the key IP for this project, including critical subsystems, will be permissibly licenced to Australian entities? | None/Some/Most/All |

| | | | |
|---|---|---|---|
| 3. Sovereign capability | 3.3. IP ownership | 3.3.3. To what degree would the projects IP ownership allow Australian entities to interoperate with the project and critical subsystems in the future? | Likert scale |
| 3. Sovereign capability | 3.3. IP ownership | 3.3.4. What is the risk that IP constraints will impact future sustainment costs? | Likert scale |
| 3. Sovereign capability | 3.3. IP ownership | 3.3.5. IP ownership score | 0-100 |
| 3. Sovereign capability | 3.4. Compatibility | 3.4.1. How compatible is the product/service being provided compatible with other Australian defence products/services? | Subjective rating: 1-100 |
| 3. Sovereign capability | 3.4. Compatibility | 3.4.2. How compatible is the product/service being provided with Australian defence allies products/services? | Subjective rating: 1-100 |
| 3. Sovereign capability | 3.4. Compatibility | 3.4.3. Compatibility score | 0-100 |
| **3. Sovereign capability** | **3.5. Sovereign capability** | **3.5.1 Sovereign capability score** | **0-100** |
| **4. Sovereign dividend** | **4.1 Sovereign dividend** | **4.1.1 Sovereign dividend score** | **0-100** |

## 6.3. Determining strategic priorities and linking policy and funding through a whole-of-government approach

We have argued that the Australian Government should be strategic in identifying priority areas in which to target increased domestic procurement, and in which areas to rely on trusted international partnerships to access foreign capabilities.

The COVID-19 pandemic exposed the vulnerability of international supply chains, which are now being weaponised in the post-pandemic era, creating strategic risks for nations. This environment requires Australia to identify its strategically important goods/services. We must determine which critical items we need to produce domestically to ensure our own security, and which assets can serve as valuable bargaining chips in international negotiations.

Australian firms cannot produce all the defence products and services that Australia will require; in particular, it may not be feasible for Australian firms to provide some manufactured goods given Australia's relatively small population (and hence limited workforce) and small-scale manufacturing base. Some types of manufacturing more economic than others, such as smaller platforms and sustainment. Other strategic goods and services - for example, military medical, cyber security and new technologies are less affected by these constraints.

Australia should target increasing defence capacity by focusing on the products, components, and services that are truly vital for Australia to produce during conflict or periods during which value chains are contested. A focus on national resilience justifies producing these goods and services in Australia even in cases where we may not have a traditional comparative economic advantage. The Australian Government need a framework for considering which private defence or defence-adjacent businesses obtain government financial support.

Australia has a Defence and Strategic Goods List 2024 (DSGL) (see the box below). However, this list relates to items that might be sensitive to export rather than on the industries or goods and services that the Australian Government considers are strategic in the sense of requiring support to achieve sovereign capability.

*Text Box 21: The Defence and Strategic Goods List*

**The Defence and Strategic Goods List 2024 (DSGL)**

The Defence and Strategic Goods List 2024 (DSGL) specify the goods, technology, and software that are regulated under Australia's export control laws. The list is regularly updated to align with Australia's international commitments to non-proliferation and export control regimes.

To export, supply, publish, or broker a controlled item, you must obtain a permit from Defence and meet all associated reporting and compliance obligations, unless a specific exemption applies.

- The DSGL categorises over 2,500 items into two main parts:
- Part 1 – Munitions List: Covers items specially designed or modified for military use.
- Part 2 – Dual-use List: Includes commercial items that also have a potential military or weapons of mass destruction application.

The list also incorporates controls for items like firearms and explosives that are specific to Australia.

*Table 11. Defence and Strategic goods*[126]

| Dual use category | Description |
|---|---|
| Category 0 | Nuclear materials |
| Category 1 | Materials, chemical, micro-organisms and toxins |
| Category 2 | Materials processing |
| Category 3 | Electronics |
| Category 4 | Computers |
| Category 5 | Telecommunications and 'information security' |
| Category 6 | Sensors and lasers |
| Category 7 | Navigation and avionics |
| Category 8 | Marine |
| Category 9 | Aerospace and propulsion |

A coordinated whole-of-government approach is required to identify and foster these strategically important industries and achieve a self-sustaining domestic defence market.

- Strategic Identification and Prioritisation: The first step is to identify and prioritise strategic goods and services. A coordinated body, comprising representatives from the Departments of Defence, Industry, Treasury, and Foreign Affairs and Trade, would identify and prioritise goods, services, and technologies critical to our national interest.

  This should include not only defence applications but also essential inputs to defence such as critical minerals, advanced manufacturing, and specialised software. The primary criteria would be sovereign necessity and potential for use as a strategic lever in international relations.

- Targeted Industry Investment and Development: Once priorities are set, the government should direct targeted financial support to Australian-owned and operated businesses within these sectors. This investment is designed to build domestic capability, secure IP within Australia, and scale up production from raw material extraction to finished, high-value products.

[126] Department of Defence, *Defence and Strategic Goods List* (2024), https://www.defence.gov.au/business-industry/exporting/export-controls-framework/defence-strategic-goods-list.

This support should extend beyond simple grants and include:

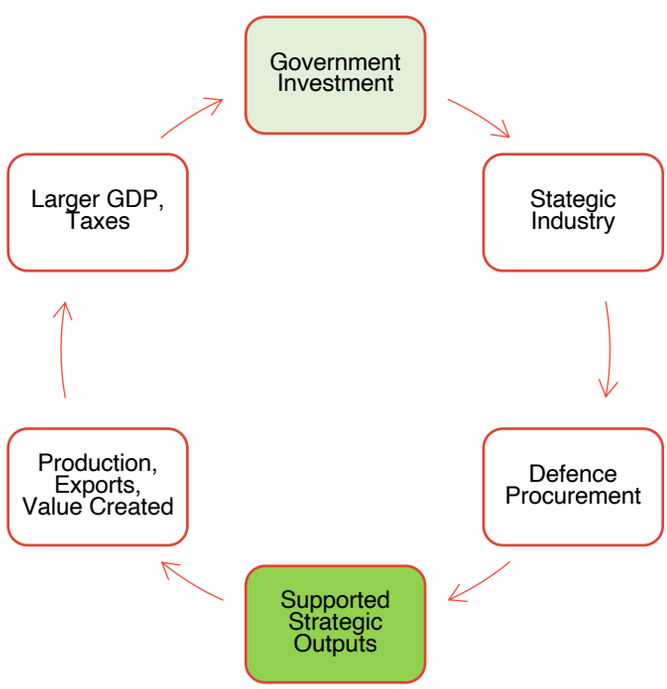
- Co-investment in research and development and advanced manufacturing facilities.
- Tax incentives for capital expenditure and the creation of high-skilled jobs.
- Streamlined regulatory approvals to accelerate project development.

Under the framework, the Department of Defence acts as the cornerstone buyer for these newly developed sovereign products. In doing so, it

- Provides a guaranteed market: This de-risks private investment and gives companies the commercial certainty needed to build and sustain production lines.
- Drives innovation: Defence's demanding technical and security specifications push industry to develop world-class, leading-edge products.
- Secures supply chains: The ADF gains reliable, local access to critical supplies, free from the vulnerabilities of international shipping and geopolitical instability.

This integrated approach creates a powerful, self-reinforcing economic cycle that directly benefits Defence and the national economy (see below).

*Figure 28. Benefits of a whole-of-government approach to build strategic defence value chains*



An example of a Defence value chain that could be built by determining strategic products and coordinating funding and support is as follows:

- Initial Input: The government invests taxpayer funds into a strategic sector, such as a critical minerals processing facility.
- Value Creation: An Australian company uses this support to process raw lithium into high-purity, weapons-grade battery components, creating skilled jobs and retaining valuable IP in Australia.
- Sovereign Purchase: The ADF procures these Australian-made battery components for its guided weapons or future electric vehicle fleet, providing the company with a stable revenue stream.
- Economic Return: The company's success generates significant economic activity. It pays corporate and payroll taxes, and its employees pay income tax. This new tax revenue flows back to the government.
- Reinvestment and Growth: The government can then reinvest this tax return into the next strategic industry or further expand the existing one. The successful company can also leverage its ADF contracts to pursue lucrative export opportunities with allied nations, further growing the Australian economy.

A whole-of-government approach coordinates targeted industry support with sovereign procurement to create a self-sustaining, virtuous value chain

The government establishes strategic links between sovereign procurement and industry support. In doing so, it does not just provide a subsidy but acts as a foundational partner in building a resilient industrial base. This model ensures that investments in national security also deliver a direct and measurable return in economic prosperity, high-skilled jobs, and a more self-reliant Australia. Other countries, including Sweden, Israel and Turkey, have successfully adopted this approach to develop defence capabilities.

### 6.3.1. Case study – the US whole-of-government approach targeting critical minerals as strategic defence goods

Over the twentieth century, many developed countries, including the US, reduced minerals developments and processing (refinery and smelting) and tightened regulations aimed at reducing human and environmental impacts. China and other developing countries that do not have the same regulations but are happy to trade with developed countries have taken over the majority of mining and production of critical minerals.

A secure supply of critical minerals, particularly rare earth elements, is indispensable to modern military technology and fundamental to the United States' strategic advantage. These materials are essential components in a wide range of advanced defence systems, including precision-guided munitions, radar, fighter jets, and satellite communications.

Many nations understand the supply chain risks of critical minerals and related rare earth elements that support the development of military equipment and related support services. Australia is one such nation, as reflected in its *Critical Minerals Strategy 2023–2030*, which provides a national framework to expand the country's critical minerals sector. North Atlantic Treaty Organization (NATO) have estimated the key relationships to military equipment that is shown in the graphic below.

*Figure 29. NATO supply risk for critical raw materials in military applications, 2024*[127]


The US is aggressively investing in securing critical minerals supply chains in the face of significant geopolitical pressures. Key drivers include China's overwhelming dominance in the global processing market, rising tensions in the Indo-Pacific, and a broader strategic imperative to reduce reliance on potential adversaries for nationally significant resources. This reflects a growing consensus that outsourcing critical mineral supply chains creates unacceptable national security vulnerabilities.

The United States is pursuing a multifaceted strategy to secure its critical mineral supply chains through enacted legislation, current congressional proposals, aggressive executive action, and a "whole-of-government" management approach from which Australia should draw lessons.

#### 6.3.1.1. The US Defence Production Act

The United States Defence Production Act 1950 (DPA) grants the federal government extensive powers to ensure the domestic industrial base can supply the essential materials and services required for national security, particularly during emergencies. Over time, the DPA's scope has significantly broadened. The definition of 'national defence' now extends beyond purely military preparedness to encompass preparedness for, and recovery from, natural disasters, terrorist attacks, and other national emergencies[128].

During his second term, President Trump has intensified his use of the DPA to pursue specific economic and national security objectives. Key actions include bolstering the domestic supply of critical minerals, which are essential inputs in defence and civilian products. He issued an executive order to increase domestic production, aiming to reduce American dependence on foreign suppliers, particularly China.

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[127] NATO, *NATO Releases List of 12 Defence-Critical Raw Materials* (2024), https://www.nato.int/en/news-and-events/articles/news/2024/12/11/nato-releases-list-of-12-defence-critical-raw-materials.
[128] FEMA, *Defense Production Act* (2025), https://www.fema.gov/disaster/defense-production-act.

*Text Box 22: The United States Defense Production Act*

**USA Defense Production Act 1950**

The United States Defence Production Act 1950 (DPA) grants the President extensive powers to shape domestic industry in support of national defence. It was originally enacted in response to the Korean War and modelled on World War II powers; over time, the DPA's scope has significantly broadened. The definition of 'national defence' now extends beyond purely military preparedness to encompass preparedness for, and recovery from, natural disasters, terrorist attacks, and other national emergencies[129].

During the COVID-19 pandemic, the Trump and Biden administrations utilised the DPA to manage critical supply chains. President Trump invoked the Act to increase the production of ventilators and masks and to prevent the hoarding of essential supplies, although he was criticised for not using the law more extensively to secure an adequate supply of personal protective equipment.

President Biden also used the DPA for pandemic response, directing his administration to address supply chain shortfalls and assist vaccine manufacturers. He expanded the Act's application significantly, invoking it to boost domestic manufacturing of clean energy technologies, such as solar panels and heat pumps, and to address a national shortage of baby formula. This broader use drew criticism.

During his second term, President Trump has intensified his use of the DPA to bolster the domestic supply of critical minerals. He issued an executive order to increase domestic production, aiming to reduce American dependence on foreign suppliers, particularly China. The order also expedites the approval process for mining projects on federal land and broadens the definition of "minerals" to include materials such as uranium and copper. In a significant policy reversal, the Trump administration also removed clean energy technologies from the DPA's purview. These actions demonstrate a clear strategy to leverage the Act to pursue specific economic and national security objectives, distinct from the approach of the previous administration.

The DPA is not permanent legislation and requires periodic reauthorisation by Congress to remain in effect. It has been reauthorised over 50 times since 1950, with the majority of its current provisions set to expire on 30 September 2025. Certain components, such as powers related to the review of foreign investment, have been made permanent. Congress retains crucial oversight of the DPA. It can amend the Act by creating or repealing authorities, expand or restrict its scope by changing key definitions, and influence its application through enhanced reporting requirements and control over funding for specific DPA projects.[130]. The Act's primary authorities are organised under three key titles:

- Title I: Priorities and Allocations: This empowers the government to direct businesses to prioritise and accept government contracts for materials and services, ensuring national defence requirements are met ahead of other commercial orders.
- Title III: Expansion of Productive Capacity and Supply: This provides financial tools to incentivise the domestic industrial base to expand its capacity and increase production of critical goods. These incentives include loans, loan guarantees, direct government purchases, and purchase commitments.
- Title VII: General Provisions: This contains several key authorities, including the power to establish voluntary agreements with private industry, block foreign takeovers of domestic companies that threaten national security (a function now central to the Committee on Foreign Investment in the United States, or CFIUS), and create a reserve of industry executives for government service during emergencies.

While the President holds these authorities, they are typically delegated to various government departments and agencies. The Department of Defence is the most frequent user, but other agencies can and do utilise the Act's powers.

[129] Ibid.
[130] Alexandra G Neenan, *The Defense Production Act of 1950: History, Authorities, and Considerations for Congress*, no. R43767 (Congressional Research Services, 2025), https://www.congress.gov/crs-product/R43767.

#### 6.3.1.2. Other actions to promote critical minerals production

Recent statutes, specifically the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, injected billions of dollars into the critical minerals sector. These laws utilise direct funding, loan guarantees, and tax incentives to support domestic extraction, processing, recycling, and battery manufacturing. Legislative activity remains intense in the 119th Congress (as of July 2025), with numerous bipartisan bills proposed. These initiatives aim to enhance supply chain resilience by expanding tax credits, fostering innovation in sustainable mining technologies, establishing intergovernmental task forces, and strengthening international partnerships.

Complementing this legislative activity, President Trump issued executive orders in early 2025 to rapidly increase production. Utilising the DPA, the administration expedited permitting processes for mining on federal lands and broadened the scope of targeted materials to include resources such as copper and gold. Further orders directed federal agencies to actively pursue and regulate deep-sea mining opportunities.

To implement this broad strategy, the US employs a holistic governance structure across multiple federal agencies:

- Resource Identification: The US Geological Survey maps resources and publishes the official critical minerals list.
- Research and Development: The Department of Energy drives innovation across the entire supply chain.
- National Security: The Department of Defense manages strategic stockpiles and supports the defence industrial base.
- International Supply: The Department of State develops partnerships with producing nations.
- Offshore Regulation: The National Oceanic and Atmospheric Administration and the Bureau of Ocean Energy Management oversee and study deep-sea mining.

The US Department of Energy critical minerals & materials strategy is based on the following pillars[131]:

- Diversifying supplies of critical minerals and materials.
- Developing alternatives to critical minerals and materials.
- Improving materials and manufacturing efficiency.
- Investing in circular-economy approaches.

The recent landmark agreement between MP Materials and the US Department of Defense (DoD) represents a watershed moment in America's approach to securing critical mineral supply chains. This comprehensive public-private partnership aims to establish domestic rare earth magnet production capacity and reduce dependence on foreign suppliers—particularly China, which currently dominates global rare earth processing[132].

Key elements of the MP Materials-DoD Partnership combine significant private and public financing with long-term commitments to create a sustainable domestic rare earth supply chain. Core components include:

- $1 billion financing from JPMorgan Chase and Goldman Sachs for a second US magnet facility (the "10X Facility") scheduled for commissioning in 2028
- $150 million DoD loan specifically for expanding heavy rare earth separation capabilities at the Mountain Pass mine in California

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[131] US Deparment of Energy, *Critical Minerals and Materials* (n.d.), accessed November 1, 2025, https://www.energy.gov/eere/ammto/critical-minerals-and-materials.
[132] Nicole Pouy, *Issue Brief - Critical Minerals and the U.S. Clean Energy Transition* (Environmental and Energy Study Institute, 2025), https://www.eesi.org/papers/view/issue-brief-critical-minerals-and-the-u.s-clean-energy-transition.

- $400 million DoD equity investment through preferred stock and warrants, potentially making the Defense Department MP Materials' largest shareholder
- 10-year price floor guarantee of $110 per kilogram for neodymium-praseodymium (NdPr) products
- 100% purchase commitment covering all magnets from the new facility for the next decade, for both defense and commercial applications

This approach creates several strategic advantages[133]:

- Reduces geopolitical vulnerability by decreasing dependence on potentially hostile nations
- Stabilises long-term supply through price floors and purchase commitments
- Accelerates capital investment by reducing financial risk for private investors
- Creates a replicable model for other critical mineral projects

The deal also establishes a precedent for future public-private partnerships, demonstrating the government's willingness to deploy substantial capital to secure strategic resources.

### 6.3.2. Lessons for Australia: Economic and fiscal gains of an integrated ADF and critical minerals value chain

In this strategic context, Australia has emerged as a key partner for the United States. We have rich geological reserves, world-class extraction expertise, and a reputation as a reliable resource exporter. Australia's Critical Minerals Strategy aims to establish Australia as a globally significant producer of both raw and processed critical minerals by 2030. This will enhance Australia's economic and geostrategic standing while supporting the development of diverse and sustainable global supply chains.

Australia is positioned as a "trusted supplier" due to a unique combination of strategic advantages, including:

- Vast geological reserves of rare earths, lithium, and other critical minerals.
- A stable, democratic political system with a strong rule of law.
- A highly advanced mining industry with world-class expertise.
- Strong defence and intelligence alliances with the US, such as AUKUS.
- A transparent and reliable regulatory framework.

The Australian government actively supports this partnership through aligned national policies. Key initiatives include its national Critical Minerals Strategy, which focuses on developing downstream processing capabilities, providing financial support for strategic projects, and fostering collaboration within international frameworks like the Quad. The recent establishment of a national critical minerals reserve further solidifies Australia's commitment to securing its position in the global supply chain. This alignment of resources, political stability, and government policy places Australia as a partner of choice in developing resilient and secure critical mineral supply chains[134][135].

However, there is a clear missing connection between the Australian Government's critical minerals and defence strategies. Whereas other countries such as the US have a coordinated approach of government investments into domestic firms right through the supply chain to maximise the value creation and value capture, Australian Government does not.

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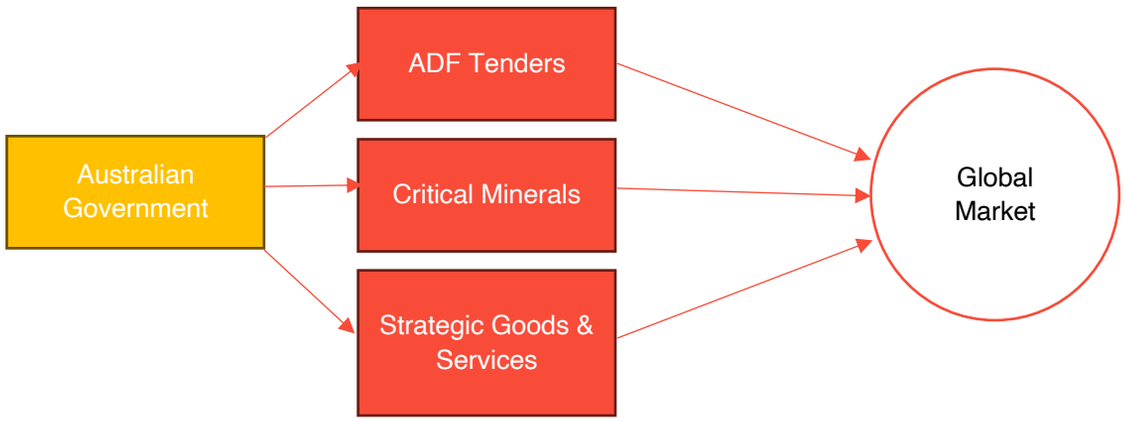
[133] John Zadeh, *US Defence Deal: MP Materials Secures $150 Million for Critical Minerals* (Discovery Alert, 2025), https://discoveryalert.com.au/us-defense-deal-mp-materials-2025-critical-minerals/.
[134] Melanie Burton, *US Offers to Buy Stakes in Australian Critical Minerals Companies* (Reuters, 2025), https://www.reuters.com/business/energy/us-offers-buy-stakes-australian-critical-minerals-companies-2025-10-02/.
[135] Zadeh, *US Defence Deal: MP Materials Secures $150 Million for Critical Minerals*.

*Figure 30. Current government industry development approach*




Critical minerals investments of the Australian Government are focused on supporting private sector in developing a globally competitive business model through partial subsidies, grants, and related supporting infrastructure investments but relying on the open market operations to drive developments. However, given China and other countries do not have any such issues intervening in global markets, there is no hope of an Australian firm making significant profits or increasing production. The US Government is making some offers to Australian-based firms to invest in their production but likely come with US ownership of IP and the high-value parts of the production process. Therefore, Australin critical minerals industry is likely to stay very small and in the low-value export of raw minerals without building production capacity or any major advances in technology.

Both the Australian Government and the ADF are aware of the risks faced by relying on the global market for critical minerals and related rare earth elements but there is not clear strategy to resolve this issue. That is, the ADF are not funded or directed by the Australian Government to assist with the domestic development of the critical minerals industry via its massive buying power.

There are many direct and indirect economic and fiscal gains from developing the ADF investment and critical minerals domestic value chain. The Australian Government should be funding and directing ADF to increase investment in domestic based and owned businesses that have a connected contract with Australian-based producers of items containing Australian mined and processed critical minerals products.

Developing a sovereign Australian value chain for critical minerals, specifically to support the investment and capability needs of the ADF, presents a strategic opportunity to generate substantial and compounding economic and fiscal gains for the nation. This integration moves beyond a simple "mine and export" model towards a sophisticated industrial ecosystem that enhances both national security and economic prosperity. The benefits can be categorised into direct, indirect, and fiscal outcomes.

### Direct Economic Gains

Direct gains are the immediate, measurable economic activities generated by establishing and operating the value chain.

- Investment and Capital Formation: Building onshore processing, refining, and advanced manufacturing facilities requires significant capital investment. This stimulates the construction, engineering, and technology sectors, creating a pipeline of high-value projects.
- Job Creation and Regional Development: This new industry creates highly skilled, well-paid jobs in fields such as metallurgy, materials science, advanced manufacturing, and engineering. Crucially, many of these opportunities will be in regional Australia, providing long-term economic diversification and stability for communities historically reliant on traditional resource extraction.
- GDP Growth: The value-added activities of processing raw minerals into high-purity materials, alloys, and finished defence components directly contribute to Australia's GDP. This captures a

greater share of the mineral's final value onshore, rather than exporting that potential to other nations.

- Export Opportunities: While the primary focus is on sovereign supply for the ADF, a scaled and efficient domestic industry will inevitably produce a surplus. This creates new, high-value export markets for processed critical minerals and specialised components, strengthening Australia's trade balance with allied nations who are also seeking to secure their supply chains.
- Improved ESG outcomes: Higer costs of production of Australia are related to the high level of regulations that enforce a range of ESG requirements on domestic firms that are not equally applied to international firms. Domestic production of critical minerals and ADF products and services will increase the global ESG benefits.

### Indirect Economic Gains

Indirect gains are the positive ripple effects, or multiplier effects, that flow through the broader economy because of the direct investment.

- Technology and Innovation Ecosystem: Developing materials for advanced defence applications—such as hypersonic missiles, stealth technologies, and next generation sensors—drives cutting-edge research and development. This fosters an innovation ecosystem where new discoveries and dual-use technologies can be commercialised for other sectors, including aerospace, medical technology, and renewable energy.
- Skills Development and Human Capital: The demand for a specialised workforce will stimulate targeted investment in education and training through universities, TAFEs, and industry partnerships. This elevates the national skills base in critical STEM fields, creating a more capable and adaptable workforce for future industries.
- Infrastructure Enhancement: Establishing new processing and manufacturing hubs necessitates investment in enabling infrastructure, such as transport links (road, rail, ports), energy grids, and digital connectivity. These assets provide lasting benefits to surrounding industries and communities.
- Growth of Ancillary Industries: A thriving domestic value chain supports a network of ancillary businesses. This includes firms specialising in logistics, maintenance, software development, environmental management, and professional services, creating further employment and economic activity.

### Fiscal Gains for Government

Fiscal gains refer to the direct benefits to government revenue and expenditure, strengthening the nation's financial position.

- Increased Tax Revenue: A larger and more profitable industrial sector generates greater government revenue through company taxes, while a larger, highly paid workforce contributes more through income taxes. Increased economic activity also boosts GST receipts.
- Royalties: While royalties are traditionally levied on raw extraction, governments can structure new royalty schemes to capture revenue from value-added processing, providing a stable and growing income stream.
- Reduced Long-Term Defence Procurement Costs: While initial investment is required, a secure domestic supply chain insulates the ADF from the price volatility and supply disruptions of global markets. This creates more predictable and potentially lower long-term procurement costs for essential defence materiel, delivering better value for the taxpayer.
- Improved National Balance Sheet: By transforming a passive geological asset into an active, high-value industrial capability, Australia strengthens its overall economic resilience and sovereign wealth. This makes the nation a more attractive destination for international investment and enhances its fiscal stability.

Integrating ADF investment with the development of a domestic critical minerals value chain is a powerful economic strategy. It directly builds new industries and creates jobs while indirectly fostering innovation, skills, and infrastructure. The resulting fiscal dividends—through increased taxes, royalties, and improved procurement efficiency—provide a clear financial return on investment, underpinning a more secure and prosperous future for Australia.

## 6.4. Military medical

The ADF's operational effectiveness depends on a resilient and sovereign medical capability to protect its personnel, which includes both a reliable supply chain and highly skilled medical teams, is the backbone of our military healthcare but faces significant and growing threats. This report identifies key vulnerabilities, including logistical complexity, cyber-attacks, and geopolitical instability, which are magnified by an over-reliance on global supply chains. To counter these threats, we recommend a proactive, multi-layered strategy that shifts focus towards national self-sustainability. The ADF must build resilience not only by diversifying international suppliers but by deeply integrating with Australia's domestic medical industry. This involves investing in sovereign manufacturing, strengthening pathways for our domestically trained medical professionals to serve, and leveraging technology to create a robust and secure medical system capable of withstanding future challenges[136].

The health and operational effectiveness of our soldiers, sailors, and aviators depend on a comprehensive medical system that guarantees access to both essential supplies and expert care, no matter where they are deployed. While the logistics of the medical supply chain are a critical component, the system's true strength is founded upon the skills of its people and the reliability of its industrial base. The modern operational environment presents constant challenges to this system. Therefore, building resilience requires a holistic approach that connects Defence with Australia's world-class civilian medical and manufacturing sectors, creating a sovereign capability that can endure global shocks.

### Identifying Key Vulnerabilities

We have identified several interconnected vulnerabilities that threaten our medical readiness. A primary challenge is the sheer logistical complexity of ADF operations, which often occur in remote or hostile environments where standard infrastructure is unreliable. This demands precise coordination and the ability to adapt instantly to changing ground truths. Compounding this is the growing threat of cyber-attacks on our digital inventory and tracking systems, which can cause severe delays in delivering life-saving equipment.

However, the most significant vulnerability is our dependence on international supply chains. These are exposed to geopolitical and environmental shocks, where regional conflicts, political tensions, or natural disasters can sever access to critical medicines, devices, and protective equipment without warning. This reliance on foreign partners for essential goods represents a critical point of failure that directly threatens our national security and the well-being of our personnel.

### Building a Resilient and Sovereign Medical Capability

To counter these vulnerabilities, the ADF could actively implement a strategy focused on resilience through self-sustainability by designing our entire medical system to anticipate and absorb shocks. While diversifying international suppliers and creating redundant transport routes are important tactical measures, the cornerstone of a truly resilient strategy is to cultivate our sovereign industrial base and leverage our domestic talent.

A deliberate national effort to onshore the manufacturing of essential medical supplies, from basic pharmaceuticals to advanced diagnostic equipment, and skilled medical teams that can operate in difficult conditions and far away locations. By strengthening partnerships with Australian medical technology companies and manufacturers, we not only secure our supply chain against geopolitical risks but also stimulate local innovation and economic growth. This move towards domestic self-sustainability is the ultimate buffer against global disruption.

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[136] Joe Easton, *Resilience Strategies for Military Medical Supply Chains Under Attack* (Leppard Law, n.d.), accessed November 1, 2025, https://federal-criminal.com/healthcare/resilience-strategies-for-military-medical-supply-chains-under-attack/.

Our greatest asset is our people; medical teams trained in Australia can gain invaluable experience working within our and other countries civilian and other complex region hospital systems. A way to strengthen this integration, ADF could work with Australian-based medical companies and other organisations to develop a larger network of skilled professionals who could be called on in a time of need. This symbiotic relationship ensures our military personnel receive the highest standard of care while providing the national health system with a surge capacity of disciplined, highly skilled clinicians.

### Active private public partnerships

The ADF could strategically enhance its global health capability by adopting a public-private partnership (PPP) model, leveraging the significant expertise of Australian-owned and operated healthcare businesses. Such a model would see Defence partner with established private sector organisations to deliver a spectrum of health services to personnel, both on overseas deployments and at international bases. The PPP approach would allow the ADF to access cutting-edge medical technology, specialist clinical skills, and agile logistical networks without the immense capital outlay and lead times required to develop these capabilities organically. For instance, a private partner could provide modular, deployable surgical facilities, manage complex medical supply chains into operational theatres, or deliver comprehensive telehealth services, connecting deployed members with specialist consultants in Australia. Using Australian private sector medical teams would enable uniformed ADF health professionals to focus on their core roles in military and trauma medicine, while a trusted Australian partner ensures the delivery of consistent, high-quality barracks and primary healthcare in line with Australian clinical standards.

Engaging Australian-based companies is a critical element for the success of this model, as it strengthens Australia's sovereign industrial capability and ensures alignment with national interests. A partnership framework could be established where cleared, credentialled civilian teams from Australian hospital groups or medical logistics firms are contracted to provide surge capacity during humanitarian assistance and disaster relief operations or to manage long-term health facilities in established overseas locations. Offering a cost-effective and flexible solution to the ADF’s diverse global health requirements but also fosters innovation by integrating the efficiency of the private sector with the unique operational demands of Defence. Ultimately, a PPP model of this nature would create a more resilient, sustainable, and technologically advanced health service, guaranteeing that ADF members receive world-class care, underpinned by Australian expertise, wherever they are called to serve.

### Leveraging Technology for a Strategic Advantage

Modern technology offers powerful tools to make our supply chains smarter and more secure, whether domestic or international. We should prioritise investment in three key areas: AI to predict supply disruptions; Blockchain technology to provide a secure, unchangeable ledger for tracking supplies from factory to frontline; and the Internet of Things (IoT) to provide real-time visibility into the location and condition of critical assets. Integrating these technologies will provide a significant strategic advantage in managing a more complex and increasingly domestic supply network.

To turn this strategy into action, we recommend the ADF focuses on the following priorities:

- Prioritise Sovereign Medical Manufacturing: Conduct a comprehensive audit of the medical supply chain to identify critical foreign dependencies. Work with the Australian Government to create incentives for the onshore production of essential medicines, consumables, and equipment.
- Deepen Integration with the National Health Sector: Establish formal programs with Australian medical schools, hospitals, pathology, scientists, and other healthcare organisations to create clear pathways for health professionals into supporting ADF service. Develop joint training exercises that simulate national emergencies, strengthening collaboration between military and civilian medical teams. Developing a PPP model of service delivery will assist in expanding the capability and capacity of the defence healthcare systems.
- Invest in a Technology Upgrade: Dedicate funding to integrate AI, Blockchain, and IoT solutions into the medical supply chain management system to enhance tracking, security, and predictive analysis, with a focus on supporting domestic suppliers.
- Conduct Continuous Risk Assessments: Establish a regular process to evaluate the resilience of our medical capability against geopolitical crises, with a specific focus on testing our domestic production and personnel surge capacity.

The vulnerabilities in our military medical system are significant, but they are manageable with a strategic shift in focus. We cannot afford a passive reliance on global markets. By adopting a proactive mindset and investing in our domestic manufacturing base, our homegrown medical talent, and enabling technologies, the ADF can build a truly sovereign and resilient medical capability. The commitment will ensure we can always provide the highest standard of care, protect our people and secure our operational success for the future.

## 6.5. 'Enablers' to strengthen defence capabilities

Strengthening domestic capabilities in specific acquisition areas will necessitate targeted investments in key areas. The US lists four factors – workforce, cyber posture, small business and manufacturing – as supply chain strategic enablers.[137] Australia should focus on investing in these "enablers," which relate to also consider they are applicable universally as they relate to available capital and labour to produce defence products and services, including:

- workforce (skills training and workforce development)
- cyber posture
- small business
- manufacturing

In addition, we have added technology and IP to cyber posture, and discuss costs and military medical issues.

### 6.5.1. Workforce

Modern defence projects require a deep pool of highly qualified and experienced professionals, including:

- Systems engineers and naval architects capable of integrating countless complex technologies into a single, functioning platform.
- Project managers with proven experience in steering programmes of unprecedented scale and complexity through decades-long lifecycles.
- A specialised technical workforce, including advanced welders, electricians, and software developers, who possess the specific certifications and security clearances required for defence work.

Australia currently confronts a deficit in all these areas. Our education and vocational training systems are struggling to produce qualified candidates at the required rate, forcing the defence industry into fierce competition for talent with the resources, infrastructure, and technology sectors. Skills scarcity drives up labour costs, makes scheduling unpredictable, and can force a reliance on international expertise, which ironically runs counter to the primary goal of sovereign capability.

Workforce can be improved via increased volume and/or increased skills base (productivity). Australia is facing a critical and persistent skills shortage that poses a significant threat to economic productivity, sovereign capability, and future growth. The national Skills Priority List identifies widespread shortages across professional, technical, and trade-based occupations, from healthcare and engineering to construction and information technology. Skills shortage is not a cyclical anomaly, but a structural problem driven by a confluence of interconnected factors (see the box below), including underinvestment in training, evolving career preferences, inefficient qualification recognition, technological disruption, and constraints on migration. Australia's skills shortage is a complex structural challenge that demands a coordinated national response. Simply relying on migration is an insufficient and unsustainable solution. A comprehensive strategy must include fundamental reform and reinvestment in the domestic Vocational Education and Training (VET) system, modernising qualification recognition pathways, and better aligning student preferences with economic imperatives.

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[137] February 2022 Hicks, *Securing Defense-Critical Supply Chains, An Action Plan Developed in Response to President Biden's Executive Order 14017* (Office of the Deputy Secretary of Defense Washington DC, n.d.), February 2022.

*Text Box 23: Key drivers of Australia's Skills Shortage*

**Key Drivers of the Skills Shortage**

The current skills gap is the result of long-term, systemic issues that have cumulatively eroded the nation's human capital pipeline.

Lack of Investment in Training and Vocational Education: For decades, Australia's VET sector, particularly the public TAFE system, has faced inconsistent funding and policy frameworks. This has led to diminished capacity, outdated equipment, and a perceived decline in the prestige of vocational qualifications. A corresponding decline in apprenticeship and traineeship commencements and completions has severely constricted the pipeline of new tradespeople, technicians, and paraprofessionals entering the workforce.

Student Preferences Away from Vocational Trades: A societal and educational shift has increasingly prioritised university pathways over vocational trades. This "degree-first" mentality, often reinforced at the secondary school level, has created a cultural bias against trade careers. Consequently, many young Australians are not exposed to the viable, high-earning, and technologically advanced career paths available through VET, leading to a mismatch between student aspirations and industry demand.

Outdated Pathways to Recognition of Qualifications: Australia's frameworks for recognising skills and qualifications are often cumbersome and slow, acting as a barrier to labour market entry. This affects two key cohorts:

- Skilled Migrants: New arrivals frequently face lengthy, expensive, and complex processes to have their international qualifications recognised by local assessing authorities, leaving their valuable skills underutilised for extended periods.
- Domestic Workers: The process for Recognition of Prior Learning can be inefficient, preventing experienced workers from gaining formal qualifications that reflect their on-the-job skills, thereby limiting their mobility and career progression.

Rapid Technology Change: The pace of technological advancement, digitalisation, and automation is continuously reshaping job roles and creating demand for new skills. Traditional training curricula often lag behind industry needs, resulting in a gap between the competencies of graduates and the requirements of a modern workplace. Skills in cybersecurity, data analytics, advanced manufacturing, and renewable energy technology are in exceptionally high demand, yet the domestic training system is struggling to produce qualified candidates at the required scale and speed.

Constraints on Immigration and Skills Migration: While a crucial component of Australia's labour market strategy, skilled migration has faced significant constraints. The halt in migration during the COVID-19 pandemic created an acute shortfall from which the nation has yet to fully recover. Furthermore, the complexity, cost, and processing times of skilled visa programmes can deter potential applicants. A lack of targeted, agile skills migration streams means Australia is often not attracting the specific talent required to fill the most critical gaps, particularly as global competition for skilled workers intensifies.

Limited Well-Paid, Secure Employment: A critical, often overlooked factor is the nature of employment offered in some sectors experiencing shortages. The rise of casualisation, short-term contracts, and wage stagnation in certain trades and industries can act as a powerful disincentive for new entrants. Potential apprentices and trainees weigh the significant commitment of a multi-year training programme against the perceived lack of long-term job security and attractive remuneration, opting instead for perceived stability in other fields. This creates a vicious cycle where poor employment conditions deter talent, exacerbating the very shortage that should theoretically drive wages and conditions up.

Workforce shortage and industrial shortages are a structural issue that Australia needs to confront. Their existence strengthens the case for early and deliberate strategic reallocation of procurements to Australian-owned firms to grow the workforce over time. Increased procurement creates demand signals that attract training, migration, and private capital into the workforce pipeline. Building sovereign capability takes time, but time is exactly why procurement settings must shift now.

### The Strategic Benefit of Defence Investment in the Skilled Labour Supply Chain

There are substantial benefits of strategic government and industry investment, particularly within the defence sector, as a powerful lever for cultivating a robust and resilient domestic skilled labour supply chain. Addressing Australia's skills shortage requires a multifaceted, long-term strategy. A key pillar of this strategy is targeted industrial policy that simultaneously stimulates demand for high-value skills and catalyses investment in the education and training ecosystem. Australia's historic investment in defence and sovereign manufacturing capability, particularly through programmes like the AUKUS security pact, presents a generational opportunity to achieve this outcome.

Crucially, strategic industrial policy is a powerful tool to drive this transformation. Government and industry investment in defence and sovereign manufacturing does more than build military assets; it builds a highly skilled, secure, and technologically advanced workforce for the future. By creating sustained demand for well-paid, long-term jobs and catalysing deep partnerships with the education sector, this investment provides a clear and compelling pathway to rebuild Australia's skilled labour supply chain, ensuring both national security and economic prosperity for decades to come.

### Creating Demand and Long-Term Career Pathways

Major defence projects—such as the construction of nuclear-powered submarines, surface ships, and the development of advanced aerospace and cyber capabilities—create direct, long-term demand for a vast spectrum of skilled labour. This includes:

- Advanced Trades: Highly skilled welders, electricians, advanced manufacturing technicians, and fabricators.
- Engineering and Technical Roles: Systems engineers, naval architects, software developers, and project managers.
- Cyber and Digital Specialists: Cybersecurity analysts, data scientists, and network engineers.

The multi-decade timeline of these projects provides the long-term career certainty and well-paid employment that is essential to attract new talent into the VET and university systems, directly countering the disincentive of insecure work.

### Catalysing the Training and Education Sector

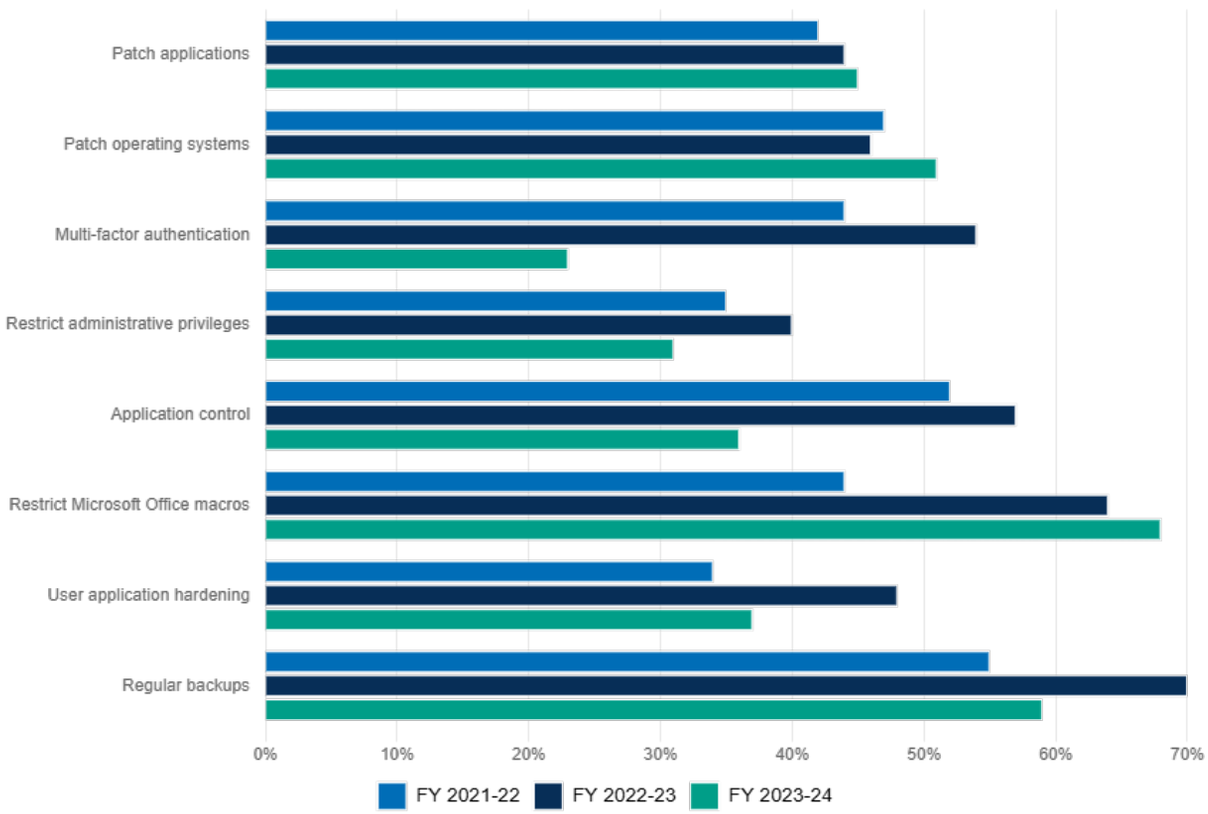
The stringent quality and security requirements of the defence industry act as a catalyst for modernising the training sector. Defence primes and their supply chain partners must collaborate directly with TAFEs and universities to co-design curricula, fund state-of-the-art training facilities, and establish specialised apprenticeship programmes. This investment ensures that the training pipeline is directly aligned with the cutting-edge technological needs of a sovereign industry, with benefits that spill over into the wider economy.

Build the Human Capital Pipeline: A defence industry is nothing without a highly skilled workforce. The government must partner with industry, TAFEs, and universities to build a talent pipeline for the future. This means co-designing degree and vocational courses, funding apprenticeships and graduate programs, and establishing skills centres of excellence. Investing in our people ensures the sovereign dividend is not just economic, but also social, creating enduring careers for the next generation of Australian engineers, technicians, and innovators.

### 6.5.1. Cyber posture, technology and IP

Cyber posture is important in the modern world to enable a highly productive economy and continued access to critical data or operations during times of uncertainty. The Commonwealth Government have a strategy to improve the national cyber security posture[138]. The 2024 report for Parliament into the Commonwealth's cyber security posture examines 190 federal entities. It presents a mixed picture. More government bodies are establishing cyber strategies, funding, and incident response plans, but some serious concerns remain. The biggest concern is a drop in the number of entities meeting the 'Essential Eight' security standards (patch applications, patch operating systems, multi-factor authentication, restrict admin privileges, application control, restrict Microsoft Office macros, user application hardening, regular backups), plummeting from 25% last year to just 15%. Furthermore, old, legacy IT systems continue to represent a massive risk, and there is insufficient reporting of cyber incidents to the Australian Signals Directorate (ASD). To address these concerns, the report recommends that all entities speed up the implementation of the Essential Eight, start properly flagging incidents with the ASD, deal with their outdated tech, and regularly test their emergency plans.

*Figure 31. Australian Government agencies that reached Essential Eight Maturity Level 2 or higher*




[138] Australian Signals Directorate, *The Commonwealth Cyber Security Posture in 2024* (2024), https://www.cyber.gov.au/about-us/view-all-content/reports-and-statistics/commonwealth-cyber-security-posture-2024.

The traditional model of Defence procurement, which often favoured off-the-shelf solutions from overseas, was designed for a different world. It relied on stable, predictable global supply chains and the assumption that we could always access the best technology from allied nations. Today, that reality has changed. The COVID-19 pandemic demonstrated how quickly international supply chains can break down, while escalating strategic competition means that access to critical components or sensitive technology can be restricted or denied at a moment's notice[139].

Simultaneously, the character of modern warfare has transformed. Victory on the future battlefield will not be determined by industrial might alone, but by the superior application of data centres, AI, autonomous systems, nanotechnology, quantum computer access, and space-based assets. To maintain a credible defence posture, Australia must master these technologies. We cannot simply be a consumer of foreign technology; we must become a developer and owner of our own sovereign capabilities. This section outlines why this shift is necessary and why it must be centred on supporting businesses that are wholly Australian[140].

### Securing the Supply Chain: From Vulnerability to Resilience

The most immediate and compelling reason to buy Australian is to secure our supply chains. The ADF's ability to operate effectively depends on the constant availability of equipment, software patches, spare parts, and technical support. When we source these critical inputs from overseas, we introduce significant and unacceptable risks. A conflict in another region, a diplomatic dispute, or even a natural disaster can sever our access to the tools our military needs to function.

This vulnerability is particularly acute in high-technology fields. Consider the reliance on foreign-made drones, robotics, or digital command-and-control systems. The hardware may be physically in Australia, but the ability to repair, upgrade, or even operate it could depend on a software key or a proprietary microchip from a company on the other side of the world. By investing in Australian companies to develop and manufacture these systems, we bring the entire supply chain within our sovereign control. Australian manufacture supply chain means the factories, the engineers, the coders, and the maintenance facilities are on our soil, subject to our laws, and available to the ADF when they are needed most. A sovereign supply chain moves us from a position of dependency to one of self-reliance and resilience.

### Protecting Our IP and National Secrets

When the ADF purchases technology from foreign companies, we are not just buying a product; we are often buying into an ecosystem controlled from abroad. This creates profound risks for our IP and national security. The development of advanced defence technology generates enormous amounts of valuable IP. When this development is led by an Australian-owned company, the resulting IP is an Australian sovereign asset. We control its use, its future development, and its security. Australian based control of IP allows us to innovate and adapt the technology to meet Australia's unique strategic needs without seeking permission from a foreign entity.

Conversely, when we partner with a foreign-owned company, even one with an Australian office, the ultimate control of the IP often resides offshore. The profits and the strategic benefits flow back to another country. More critically, it exposes us to security vulnerabilities. Foreign-made digital products, from data storage services to networking equipment, can potentially contain hidden backdoors or be subject to the laws of their home country, which may compel them to share Australian defence data or give control access to a foreign government.[141]

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[139] OECD Science, Technology and Industry, *Mapping the Semiconductor Value Chain: Working towards Identifying Dependencies and Vulnerabilities*, Policy Papers No. 182 (2025), https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/mapping-the-semiconductor-value-chain_5ba52971/4154cdbf-en.pdf.

[140] Department of Home Affairs, *2023-2030 Australian Cyber Security Strategy* (2023), https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/strategy/2023-2030-australian-cyber-security-strategy.

[141] Technology in Global Affairs, *Semiconductor Manufacturing Facilities Map: Semiconductor Geography 2024 - Project Update* (2024), https://technologyglobal.substack.com/p/semiconductor-manufacturing-facilities.

Cyber security is a prime example. To truly trust our defensive and offensive cyber capabilities, we must be certain that the underlying code and infrastructure are secure. The only way to achieve that certainty is by sourcing these services from fully vetted Australian-owned organisations whose interests are completely aligned with our own. By doing so, we ensure that our most sensitive information and our most critical digital infrastructure are protected by Australians, for Australia[142].

IP is essential to defence because it underpins both sovereign capability and the economic value of defence investments. Defence platforms and systems are increasingly defined by proprietary technologies—software, advanced materials, electronics, autonomous systems—rather than just physical hardware. Without rights to use, adapt, and develop this IP, a nation becomes dependent on foreign suppliers for upgrades, integration, sustainment, and even operational availability. This dependency limits strategic autonomy, as access to critical IP can be constrained by export controls, political shifts, or commercial interests abroad.

From an economic perspective, retaining IP ensures that the public investment in defence research and development creates long-term benefits for the local economy. Global supply chains have become hierarchical: dominant powers and their high-value firms occupy leading positions, specialising in activities such as research, systems integration, and financing. Smaller powers—like Australia—are often relegated to lower-value activities such as assembly and mining. If Australia only purchases or licenses foreign IP, most of the value chain—design, high-end manufacturing, sustainment innovation—flows overseas. In contrast

When Defence and industry co-develop and retain IP, it creates opportunities for domestic firms to export, diversify into adjacent sectors, and build skills pipelines. IP also enables economies of scale: a system developed with sovereign IP can be upgraded or re-used across multiple programs without renegotiating licences or relying on external vendors.

IP is also central to resilience. The ability to repair, modify, and innovate locally during crises is critical when global supply chains may be disrupted. Sovereign access to IP ensures that the ADF can adapt rapidly to emerging threats and maintain operational readiness without waiting for foreign approvals. In short, IP in defence is not just a legal asset—it is the foundation of strategic independence, industrial competitiveness, and the enduring value of defence spending.

Defence recognises that IP[143] is crucial to establishing a competitive Australian defence industrial base:

> *"IP is often more valuable than the technologies they enable. IP rights are vital to encouraging industry to innovate over the long-term by protecting industry's investment and providing a means for obtaining commercial returns that support the viability and sustainability of business."*

Risks to building sovereign capability arise when Australia invests in "Australian" projects, but the IP is largely retained by international partners, limiting Australia's ability to capture full lifecycle and export value for the domestic economy. Often, this means that the revenue leaves Australia and the investment do not contribute to security of supply.

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[142] Department of Home Affairs, *2023-2030 Australian Cyber Security Strategy*.

[143] The Department of Defence defines IP as follows: "Intellectual property refers to legal rights that protect original ideas in the industrial, scientific, literary and artistic fields. These rights include copyright and rights relating to circuit layouts, patents, registrable designs and trademarks. The most important right held by owners of intellectual property is the right to decide who can use the original idea and on what terms." Department of Defence, *Guide to Intellectual Property Management within the Department of Defence* (2021), https://www.defence.gov.au/sites/default/files/2021-03/IPM.pdf.

*Text Box 24: Case study of IP challenges - Collins-Class Submarines*

**Case Study - Collins-class submarines**

Although the project involved substantial domestic investment, local shipyard assembly, and workforce employment, critical systems and components were sourced offshore, and the project was based on foreign naval designs and technologies. The Collins-class submarines project, a foundational Australian naval defence project, highlights the complex trade-offs between Australian industrial participation and reliance on foreign designs, systems, and IP.

Construction was awarded to the government-owned Australian Submarine Corporation (now ASC) at Osborne, South Australia, beginning in 1990, with the first vessel delivered in 1996. The Collins design was based on the Swedish Kockums Västergötland-class submarines. Despite ASC achieving over 70% Australian industry content during construction and increasing sustainment Australian content to over 92%,[144] critical combat systems, propulsion components, sonar, and weapons were sourced from overseas expertise.[145]

Throughout the program, issues relating to foreign IP ownership complicated crucial aspects of the Collins' lifecycle. Initial arrangements with Kockums allowed only operating access for ASC and the Commonwealth to the design data necessary for build and sustainment, rather than outright ownership of the principal submarine design IP. This limited approach was initially adopted on the basis that Kockums would be the design partner, with Kockums holding a 49% stake in ASC. However, this relationship was complicated when Kockums was sold to German shipbuilder Howaldtswerke-Deutsche Werft, prompting the Commonwealth move to full ASC ownership. When the Collins-class propellers experienced cavitation and cracking problems, Kockums was unable to resolve them.[146] This was likely exacerbated by the decision of the Swedish Navy to switch from Hedemora Diesel engines to MTU Friedrichshafen engines by the time the Collins-class engines had begun to exhibit problems, limiting the capacity of Hedemora Diesel and Kockums to assist. In a critical episode, the Royal Australian Navy sought assistance from the US Navy to address the issues, which led Kockums to take legal action in Australian courts to prevent the export of submarine propellers for foreign analysis, asserting its design IP rights.[147]

After extensive litigation and negotiations between 2001 and 2003, a final settlement was reached,[148] granting Defence and the ASC full access rights to all IP essential for maintaining, upgrading, and supporting the submarines across their service life; however, outright IP ownership stayed with the original overseas designer.

This framework of access rather than ownership meant that any plans for substantial modifications, exports, or a derivative design would be constrained by continued foreign entitlements and sensitive legal agreements. Lack of IP ownership further complicated Commonwealth plans to privatise ASC, which would have allowed ASC to diversity into commercial operations, both strengthening the industrial base and ASC's capability.[149] Other key subsystems, such as the combat system and major propulsion elements, continued to be controlled by foreign suppliers—US, Swedish, and others—necessitating either US approval or the securing of licensing arrangements for upgrades and changes.

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[144] ASC, *Collins Class Submarines: Facts and Features* (2021), https://www.asc.com.au/wp-content/uploads/2021/11/Collins-Class-Facts-and-Features.pdf.
[145] Standing Committee on Foreign Affairs, Defence and Trade, *Blue Water Ships: Consolidating Past Achievements* (Parliament of Australia, Senate, 2006), https://www.aph.gov.au/~/media/wopapub/senate/committee/fadt_ctte/completed_inquiries/2004_07/shipping/report/report_pdf.ashx.
[146] Derek Woolner, *Learning from Experience: The Lessons of Collins* (Australian Strategic Policy Institute, 2015), https://www.aspistrategist.org.au/learning-from-experience-the-lessons-of-collins.
[147] Andrew Davies, *Collins IP: Australia and Sweden Bury the Hatchet* (Australian Strategic Policy Institute, 2013), https://www.aspistrategist.org.au/australia-and-sweden-burying-the-hatchet/.
[148] Woolner, *Learning from Experience: The Lessons of Collins*.
[149] Gregor Ferguson, *ASC Sale Still on Hold* (Australian Defence Magazine, 2008), https://www.australiandefence.com.au/CA9C8350-F806-11DD-8DFE0050568C22C9.

| Case Study - Collins-class submarines |
|---|
| Despite the ASC evolving into a sovereign sustainment and upgrade hub over the Collins' lifecycle, fostering deep domestic technical capacity, the program highlighted the complications involved in the reliance on foreign IP. These experiences highlighted the critical national security limitations and sustainment costs that arise when sovereign ownership of core system IP is not available. The program has since become a fundamental lesson in Australian defence procurement, shaping future efforts to obtain complete ownership or irrevocable access rights in nationally strategic procurements. |

Historical examples of Australian government investments in defence projects that have resulted in benefits accruing more to overseas companies or countries, despite being targeted as "Australian-made" initiatives are provided below. These case studies underscore the challenges Australia faces in maximising the domestic benefits of large-scale "Australian-made" defence investments where global primes and international supply chains capture significant portions of economic and technological advantage.

*Table 12: Examples of "Australian-made" defence projects where Australia did not accrue major benefits*

| Project | Lead o/s partner | Australian role and benefits | Issues with value capture |
|---|---|---|---|
| Joint Strike Fighter Program<br>> $17 billion | Lockheed Martin (US) | Smaller value subcontracting roles for local SMEs<br>Local content estimated at < 10% of contract value | Integration, upgrades, and critical technology stayed in the US, as well as major profits.<br>Limited lasting domestic capability<br>High foreign IP dependency |
| Collins-class submarines | Kockums AB (Sweden) | Primarily built by the Australian company ASC Pty Ltd<br>Local jobs | Kockums provided the submarine's design and owned the technology.<br>Reliance on overseas technology created IP transfer hurdles and problems with local workforce training.<br>Kockums' German owners successfully sued the Australian Government for IP violations |
| Air Warfare Destroyer (AWD) Hobart class | AWD Alliance included local entities and international partners, notably Navantia (Spain) | Ship construction<br>Some jobs in Australia | IP and skills held by overseas parties. Navantia provided ship designs and fabricated modules overseas |
| Thales Hawkei vehicle | Thales (France) | Assembly in Australia<br>Limited local benefit according to internal review. | Key technology/ ownership offshore. Defence reviews noted the local economic benefit was limited, and the price premium for Australian assembly mainly benefited Thales' global shareholders |

| Project | Lead o/s partner | Australian role and benefits | Issues with value capture |
|---|---|---|---|
| SEA 1000 originally valued at $50–80 billion | Naval Group (France) | Australia mainly responsible for assembly and lower-value work. Local content > 40% in initial phases. (Aim was 60%) | Most of the design, IP, and advanced systems integration remained in France |
| Offshore patrol vessel program | Luerssen (Germany) and Civmec (Singapore) | Final assembly | Design and modules |
| Hunter-Class Frigate Program $35 billion project | BAE Systems (UK) | Assembly and some fit-out in Australia. | BAE retained design, system integration, and a large portion of profits |
| Anzac-class frigates | AMEC (now owned by BAE Systems Australia, subsidiary of BAE Systems (UK)) | Manufactured at Williamstown, Victoria.<br>Design based on the German Blohm & Voss MEKO 200 modular frigate design, adapted to Australian-New Zealand naval requirements.<br>Around 80% of materials (by value) were locally sourced during construction.<br>Structural hull fabrication and major integrations were Australian.<br>Australian advanced naval electronics capability gains in late 2000s when upgraded. | Platform's combat management system, radar, propulsion, and weapons were supplied by foreign OEMs, notably Saab for combat systems and various European and American firms for weapons and sensors.<br>However, upgrade program in the late 2000s involved the integration of Australian-developed phased-array radar systems by CEA Technologies<br>Comparatively successful technology transfer compared to previous projects. |

Contract design (background IP, developed IP, licences, data rights) determines whether IP remains with industry, is licenced to Defence, or can be retained/used for exports and should be a focus of reform efforts.

### 6.5.2. Small business

Small business is an important part of the Australian production capacity and is often dynamic with new technology innovation as part of the highly competitive economy. However, small business has difficulty winning large government contracts, including defence contracts, because of the high barriers to entry. Finding ways to improve the access to defence contracts for small businesses would help improve the skilled workforce and bring in more competitive tension to increase productivity.

*Table 13: Australian small business apprentices & trainees in training 2023[150], number of businesses 2024[151]*

| | Number of apprentices and trainees in training | % of apprentices and trainees in-training | Number of businesses | % of total businesses |
|---|---|---|---|---|
| Small (<20 employees) | 144,257 | 42% | 2,589,595 | 97.20% |
| Medium (20 - 199 employees) | 89,262 | 26% | 68,214 | 2.60% |
| Large (200 or more employees) | 86,946 | 25% | 5,189 | 0.20% |
| Government and unknown | 23,176 | 7% | | |

Several countries internationally, including the UK and US, have introduced policies to assist SMEs in defence procurement. Internationally, programs such as the US Air Force's Small Business Innovation Research program and the UK's Defence and Security Accelerator aim to harness the innovative power of small firms for national capability development. The US program (which has been operating longer) actively guides SMEs from prototype to prime-contract sub-release (and export) and has been demonstrated to facilitate rapid technological advancements and competitiveness among innovative SMEs.

Small defence contractors and start-ups are often at the forefront of technology development, particularly in fast-moving fields like AI, drones, and advanced sensors. These firms tend to be more agile and capable of quick innovation compared with large primes, enabling rapid prototyping and adaptation.[152]

- Recent estimates suggest large long-term spillover effects with multiplier of 1.2 to 2.0 especially when spending is directed toward defence R&D.[153,154,155]
- Contracting with smaller defence contractors, particularly SMEs, offers significant advantages in terms of spillovers. [156]
- Australia successfully delivered a humanitarian defence package to Ukraine in October 2023 that included advanced gear from various Australian SMEs: counter-drone jammers from DroneShield; ultrafast metal 3D printers from SPEE3D; mine-clearing detectors from Minelab; and portable X-ray units from Micro-X.[157] These companies developed cutting-edge technologies with clear defence applications, and their sales and investment demonstrate that they are capable and globally competitive.

[150] Australian Small Business and Family Enterprise Ombudsman, *Apprentices and Trainees Employed by Small Business* (2024), https://www.asbfeo.gov.au/about-us.
[151] Australian Small Business and Family Enterprise Ombudsman, *Number of Small Businesses in Australia* (2024), https://www.asbfeo.gov.au/small-business-data-portal/number-small-businesses-australia.
[152] Ibid.
[153] Mueller, "Drivers and Impact of European Defence Market Integration."
[154] Ketter, *Future of Australia's Naval Shipbuilding Industry*.
[155] Moretti et al., *The Intellectual Spoils of War? Defense R&D, Productivity and International Spillovers*.
[156] Ilzetzki, "Guns and Growth: The Economic Consequences of Defense Buildups.", p.19
[157] AuManufacturing, *SPEE3D, Micro-X, DroneShield and Minelab Headed for Ukraine*.

- Internationally, programs such as the US Air Force's Small Business Innovation Research program and the UK's Defence and Security Accelerator aim to harness the innovative power of small firms for national capability development. The US program (which has been operating longer) actively guides SMEs from prototype to prime-contract sub-release (and export) and has been demonstrated to facilitate rapid technological advancements and competitiveness among innovative SMEs.

*Text Box 25:SMEs maximise spillovers: Case study*

**SMEs maximise spillovers**

Howell et al. (2021)[158] utilise a natural experiment whereby the US DoD used both conventional and open competitions for procurement. The former specifies a specific military product and allows firms to bid for contracts to design the product. The latter specifies a military necessity and allows private firms to propose solutions. They find that open competitions reached a broader set of firms that are smaller, younger, and more technology oriented. These firms proposed better solutions for the military's needs, as evidenced by their higher probability of winning contracts and securing future procurement. The open contracts also led to more patents and dual-use spillovers.

Ilzetski finds that European defence procurement is directed to larger firms relative to the US, on average, leading to lower spillovers.[159]

Defence investment extends deep into the national economy, supporting a vast ecosystem of SMEs. These SMEs, which provide components, services, and support to the major projects, are themselves required to upskill their workforce and invest in new technologies. This broad-based stimulus fosters a resilient, sovereign industrial base and distributes skills development across metropolitan and regional Australia, creating a more robust and geographically diverse skilled labour pool. The flow-on effect cultivates a national workforce capable of competing in high-technology manufacturing beyond the defence sector.

### 6.5.3. Manufacturing

Australia has a relatively small economy but a very large land area to protect compared with many other nations. The current population is 27.4 million,[160] with a land area of 7.7 million square kilometres.[161] Consequently, Australia has approximately 3.6 people per square kilometre, and ranks 230th out of 234 countries for population density.[162]. Thus, our defence products and services are likely to be different to others.

Australia has a relatively small-scale manufacturing base. Therefore, Australian industry is unlikely to be able to manufacture a large portion of all defence products and services. Given Australia's limited workforce and relatively small-scale manufacturing base, the focus may need to be directed towards smaller platforms and sustainment, rather than large one-off ticket items that Australia will only require a small number.

> *Both in terms of cost and in workforce, Australia cannot manufacture all the military capabilities and consumables that might be required, nor would strategic autonomy be a politically relevant goal. But an increased level of capacity in Australian defence industry would be desirable for multiple reasons.* [163]

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[158] Sabrina T. Howell and et al., *Opening up Military Innovation: Causal Effects Of Reforms to U.S. Defense Research*, NBER Working Paper 28700 WP 28700 (2025), http://www.nber.org/papers/w28700.
[159] Ibid.
[160] Australian Bureau of Statistics, *National, State and Territory Population* (2025), https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release.
[161] Geoscience Australia, *Australia's Size Compared* (2025), https://www.ga.gov.au/scientific-topics/national-location-information/dimensions/australias-size-compared#:~:text=At%207%20688%20287km2,more%20information%20visit%20About%20Australia.
[162] World Population Review, *Countries by Population Density 2025* (2025), https://worldpopulationreview.com/country-rankings/countries-by-density.
[163] Frühling et al., *Defence Industry in National Defence: Rethinking the Future of Australian Defence Industry Policy*.

Australia should target increasing defence capacity by focusing on the products, components, and services that are truly vital for Australia to produce during conflict or periods during which value chains are contested. This will assist government to allocate resources in the most effective and efficient way to maximise outcomes for the national interest.

In recent years, the government has moved to direct defence manufacturing investments, but the historic pressures of a small population and large defence needs remain. In any escalating military situation, the defence industry will need to call on the wider Australian manufacturing base, which is largely mining and agriculture. Therefore, linking the defence manufacturing to the current mining and agriculture regions is an important aspect of the overall capacity-building efforts.

Given that Australia now imports almost all manufactured goods, the development of domestic defence manufacturing should be focused on physical regions where our remaining manufacturing exists. Typically, the discussion regarding defence manufacturing focuses on the possibility of skilled labour spillover from defence into the wider economy; however, the reality is that the wider economy supports defence manufacturing. Australia's large skills base is in the larger capital cities of Sydney and Melbourne as part of the infrastructure development system or in the large mining regions of Queensland and Western Australia. The skilled labour of infrastructure and mining are closely aligned with defence manufacturing needs. Locating defence manufacturing close to these regions will assist in keeping costs down and maximising the productivity of the current market industries already in operation. Co-locating defence manufacturing with established manufacturing regions will help to improve outcomes for both defence and the wider economy. A critical constraint on expanding manufacturing in Australia is skilled labour, which is likely to be located near mining areas. Therefore, there would be large benefits for designing defence domestic manufacturing close to Australian mining regions.

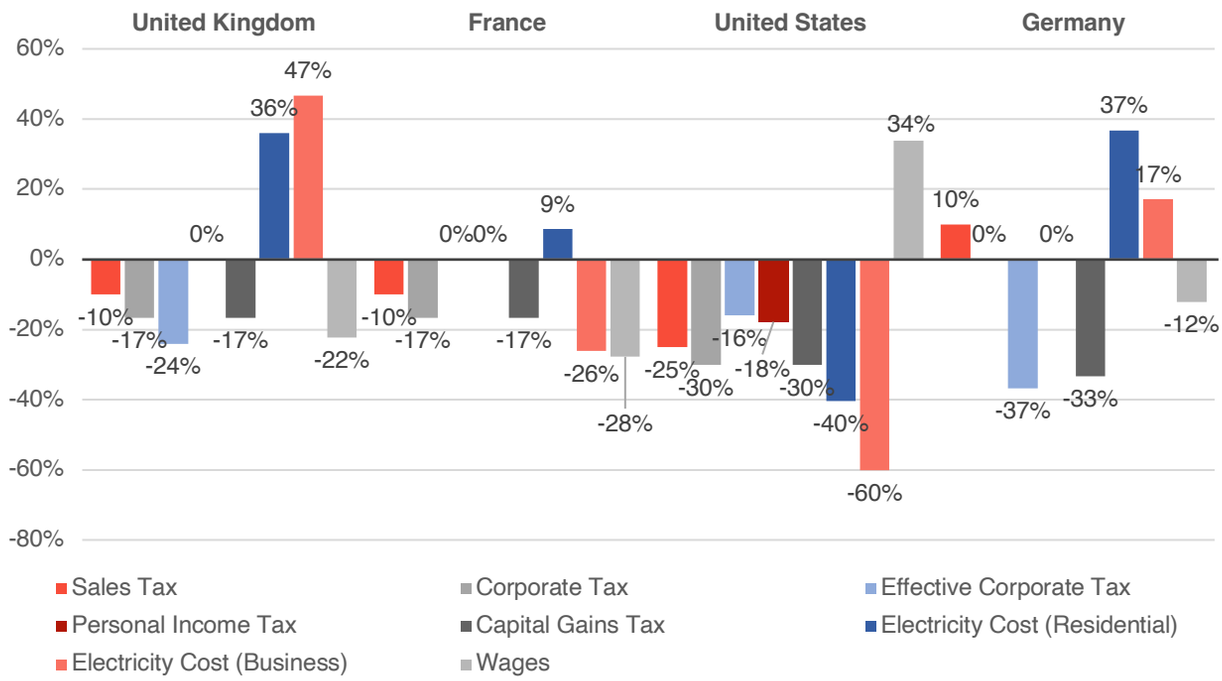
*Figure 32. Economy–defence linkages go both ways*


Defence manufacturers (and manufacturers in general) find it difficult to operate in Australia. Although Australia is a very safe country and the compliance cost for businesses is not as high as in other countries—for instance, the World Bank ranked Australia 16th highest for ease of doing business (out of 213 countries)[164]—businesses face high financial costs of production, including:

- soaring electricity prices - e.g., the business energy cost in the US is 60.1% lower than in Australia;
- high corporate tax rates compared with many other countries (e.g., 30 per cent for large businesses compared with the 21 per cent federal rate in the USA); and
- a small local market.

[164] World Bank Group, *Ease of Doing Business Scores* (n.d.), accessed November 1, 2025, https://archive.doingbusiness.org/en/scores.

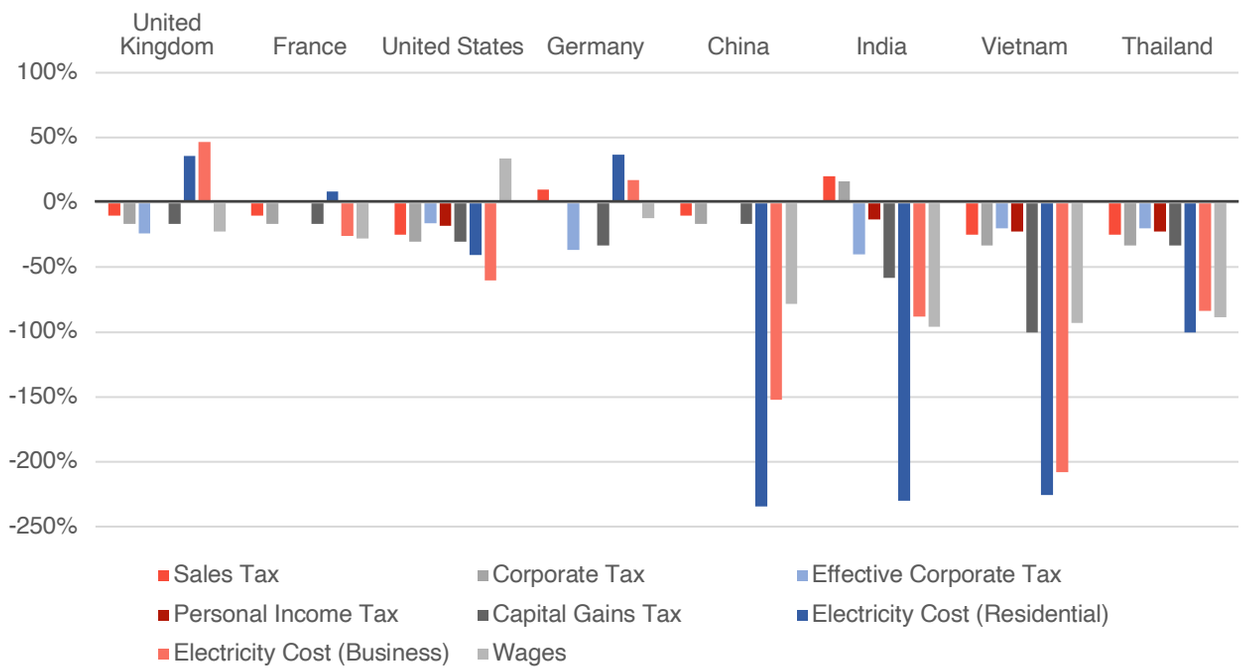
*Figure 33. Percentage difference of ADF trading countries costs compared to Australia*[165] [166] [167] [168] [169] [170]




Expanding the cost of production assessment to the wider global market, where many inputs to manufacturing originate and Australia imports many products and services demonstrates the vast differences in costs compared to Australia. China, India, and Vietnam costs of production are extremely low compared to Australia, likely due to many ESG issues not met in these countries.

[165] Trading Economics, *List of Countries by Corporate Tax Rate* (2025), https://tradingeconomics.com/country-list/corporate-tax-rate.
[166] Daniel Coughlin, *The Average Cost of Electricity around the World* (2024), https://www.lovemoney.com/gallerylist/332113/the-average-cost-of-electricity-around-the-world.
[167] World Population Review, *Effective Corporate Tax Rate by Country 2025* (2025), https://worldpopulationreview.com/country-rankings/effective-corporate-tax-rate-by-country.
[168] PwC World Tax Summaries, *Value-Added Tax (VAT) Rates* (2025), https://taxsummaries.pwc.com/quick-charts/value-added-tax-vat-rates.
[169] PwC World Tax Summaries, *Capital Gains Tax (CGT) Rates* (2025), https://taxsummaries.pwc.com/quick-charts/capital-gains-tax-cgt-rates.
[170] WorldData.info, *Average Income by Country* (n.d.), accessed November 1, 2025, https://www.worlddata.info/average-income.php.

*Figure 34. Percentage difference of Australian trading countries costs compared to Australia*[171] [172] [173] [174] [175] [176]




## 6.6. Funding, finance, and government support

The distinction between funding, finance, and government support is fundamental to understanding how the Australian Government and the ADF can act to support the development of Australian strategic goods and services. While often used interchangeably in conversation, these terms represent distinct mechanisms for securing capital and resources.

In practical terms, funding typically refers to capital provided to an enterprise, often without a strict obligation for repayment in the traditional sense. This capital is an investment, usually given in exchange for equity or to achieve a specific project outcome. For instance, a tech start-up secures seed funding from a venture capital firm, or an organisation receives a grant from government or a philanthropic foundation. The provider's return is linked to the success and growth of the venture or the achievement of a social objective, rather than a fixed interest payment.

Conversely, finance is essentially debt. It involves acquiring capital from an institution, such as a bank or credit union, that must be repaid over an agreed period with interest. Common examples include business loans to purchase new equipment, a line of credit to manage cash flow, or asset finance for a company vehicle. This creates a liability on the balance sheet and is a transactional arrangement based on the borrower's creditworthiness and ability to service the debt.

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[171] Trading Economics, *List of Countries by Corporate Tax Rate*.

[172] Coughlin, *The Average Cost of Electricity around the World*.

[173] World Population Review, *Effective Corporate Tax Rate by Country 2025*.

[174] PwC World Tax Summaries, *Value-Added Tax (VAT) Rates*.

[175] PwC World Tax Summaries, *Capital Gains Tax (CGT) Rates*.

[176] WorldData.info, *Average Income by Country*.

Government support acts as a broad umbrella term that can encompass both funding and finance, as well as non-monetary assistance. The Federal and State Governments offer support to advance specific policy goals, such as fostering innovation, boosting exports, or creating jobs. This support can manifest as direct funding through competitive grants like the Export Market Development Grant. It might also take the form of government-backed finance, such as concessional loans with favourable interest rates. Critically, government support also includes invaluable non-financial resources, like expert advice, contract for products/services, business mentoring, and networking opportunities delivered through agencies like Austrade, helping organisations build capability as well as capital.

### Australian Capital Raising

Australian firms, particularly innovative start-ups, often face a more challenging capital raising landscape than their counterparts in larger economies like the US. This difficulty stems not from a lack of quality ideas, but from fundamental structural and cultural differences in our respective financial ecosystems. Navigating these hurdles is a key strategic consideration for any ambitious local enterprise.

The most significant factor is the sheer scale of the market. The US possesses the world's deepest and most mature capital market. Its vast pools of private capital, from colossal university endowments and pension funds to an extensive network of high-net-worth individuals, create a highly competitive environment where capital actively seeks out promising ventures. In Australia, our superannuation funds and investment pools are substantial but represent a fraction of the US total, which results in a smaller, more constrained supply of capital, leading to greater competition among firms for a limited number of investment opportunities.

Furthermore, there is a distinct difference in risk appetite, especially within the venture capital sector. The US venture ecosystem, centred around hubs like Silicon Valley, has a long-established culture of backing high-risk, high-reward "moonshot" projects. Investors are culturally comfortable with the understanding that the majority of their early-stage investments may fail, as long as one or two deliver exponential returns. By contrast, the Australian investment community has traditionally been more conservative, with a historic preference for more tangible, lower-risk asset classes such as property and resources. While this is evolving, start-ups with disruptive but unproven technology can find it harder to secure backing from investors who are inherently more risk averse.

The small market of Australia combined with the other issues raised here put up the risk of opening and running a defence focused business in Australia, which increases risk and the related cost of debt. The cost of capital for any business is fundamentally tied to its perceived level of risk; the two concepts are inextricably linked. Capital providers, whether they are lenders or equity investors, must be compensated for the uncertainty they undertake. This compensation is known as a risk premium. For a business deemed high-risk—such as a pre-revenue start-up or a firm in a volatile industry—this premium manifests in a higher cost of capital. A financial institution, for instance, will charge a higher interest rate on a loan to a riskier venture to offset the greater probability of default. Similarly, an equity investor will demand a larger ownership stake for their capital, as they require a much higher potential return to justify the significant chance they could lose their entire investment. In essence, this higher required return is the 'price' of risk, making capital a more expensive and often scarcer resource for ventures operating on the frontier of innovation or in less predictable markets.

Finally, the nature of our domestic market and banking system presents unique challenges. A US start-up has immediate access to a domestic market of over 330 million consumers, making its potential scale immediately attractive. An Australian firm, with a home market of around 26 million, must often build an international strategy from day one, adding complexity and perceived risk for investors. Additionally, our traditional banking sector is heavily geared towards lending against tangible assets and predictable cash flow. For an innovative start-up whose primary assets are intangible—such as intellectual property—and which is pre-revenue, securing a business loan from a major bank is often exceptionally difficult without the founders providing personal guarantees, frequently secured against the family home.

### ADF Contracting and Capital Raising

The ADF go out to the market and tender for projects aimed at achieving the leaderships desired outcomes at the highest net value as determined by the measures set out in the value-for-money concept. However, as discussed in this report, the approach and concept of measuring value for money is not sufficient and totally disconnected to the original objectives of the political level who are seeking to enforce the social contract derived from elections. Therefore, the result is a procurement officer seeking to get a low price for a specific set of products or services as if they are operating in a fully free open market with perfect information and access to resources.

The defence market for goods and services is not a free open market, and Australian firms face great restrictions in expanding market presence and the related capital raising required to expand. A well-coordinated whole-of-government approach to improving the ADF support for Australian business and the related secure supply chains would recognise the reality of the market issues and seek to offer much longer-term and more secure contracts to Australian business to reduce the need for private firms to seek debt and equity at high costs and risk to support the potential future supply to the ADF.

### Australian Government Options

To bolster Australia's sovereign capability and foster a robust industrial base, the Australian Government can implement a multifaceted support strategy for firms developing products and services aligned with national strategic and defence objectives. These options move beyond simple grants to create a sophisticated ecosystem that nurtures innovation from conception through to global export.

Direct Financial and Investment Mechanisms

- Sovereign Capability Innovation Fund: A dedicated, co-investment fund where the government invests alongside private venture capital into early-stage companies developing critical dual-use technologies. This de-risks the investment for private capital and signals government commitment.
- Defence Innovation "Grand Challenges": Mission-oriented funding programs where Defence and national security agencies define specific capability gaps or problems. Firms and research consortiums then compete to solve these challenges for significant, milestone-based funding contracts.
- Accelerated R&D Tax Incentive: A "premium" tier of the existing R&D Tax Incentive, offering a higher rate of rebate for companies whose research is directly certified as critical to a national security or sovereign manufacturing priority.
- Bridging the "Valley of Death" Grants: Targeted funding specifically for the post-prototype, pre-commercialisation phase. This could cover costs for Technology-Readiness-Level 6-9 activities, such as testing, certification, and initial production line setup, which are often the most difficult to finance privately.

Strategic Procurement and Market Creation

- Fast-Track Procurement for SMEs: A streamlined contracting vehicle, separate from traditional Defence procurement, designed to rapidly acquire innovative solutions from start-ups and SMEs. This would involve simplified contracts and accelerated payment terms.
- Domestic firm preference: make explicit the ADF preference for fully owned and operated Australian firms, including weighted procurement criteria and other tools.
- Domestic supply chain: include coordinated procurement of ADF products that support other strategic goods and services in the supply chain, for example Australian critical minerals in Australian-made batteries that are used in Australian-made drones.
- Sovereign Content Mandates: Enforce and increase mandated levels of AIC in all major defence contracts awarded to international prime contractors. This includes sub-contracting quotas for Australian SMEs, ensuring they are integrated into global supply chains. For example, Thales should have been required to use Australian-based firm like DroneShield, to provide the drone protection system to the Bushmaster.

- "First Customer" Commitment Program: A formal government commitment to be the first purchaser and user of a new Australian technology that meets a defined Defence need. This critical first contract provides revenue, validates the technology, and acts as an essential reference for securing export customers.

De-risking and Capability Enhancement

- Defence & Strategic Industries Loan Guarantees: A government-backed scheme, administered through Export Finance Australia or a similar body, to underwrite a significant portion of commercial bank loans to firms in the sector. This is crucial for businesses whose primary assets are intangible (like IP) rather than physical collateral.
- Subsidised Access to National Assets: Provide start-ups and SMEs with low-cost, priority access to Defence Science and Technology Group facilities and Commonwealth Scientific and Industrial Research Organisation (CSIRO) support, testing ranges, supercomputers, and laboratories to test and validate their products.
- Streamlined Security Clearance Support: A dedicated government program to sponsor and fast-track essential security clearances for key personnel in trusted SMEs. This would remove a significant barrier to entry for working on classified projects.
- Defence 'Entrepreneur-in-Residence' Program: A secondment program where experienced Defence personnel are embedded within technology companies to provide guidance on capability needs and procurement processes, while tech entrepreneurs are embedded within Defence to identify innovation opportunities.

Ecosystem and Export Development

- AUKUS Innovation Hubs: Establish physical and virtual innovation precincts focused on AUKUS Pillar II technologies. These hubs would co-locate university researchers, start-ups, prime contractors, and Defence personnel to foster collaboration and accelerate technology transfer.
- Modernised IP Framework: Implement a clear and favourable IP policy for government-funded R&D that allows Australian firms to retain ownership and commercialise their IP globally, while providing the Commonwealth with necessary usage rights.
- Targeted "Team Australia" Export Support: Utilise Austrade, Defence attachés, and diplomatic missions to actively promote Australian defence and dual-use technology to allied nations, leveraging government-to-government relationships to open doors for local firms.

*Text Box 26: Japan Bank for International Cooperation*

**Japan Bank for International Cooperation (JBIC)**[177][178][179][180]

The JBIC offers a compelling case study in the evolution of a policy-based financial institution. The Japanese Government has followed a deliberate, seventy-year transformation from a narrowly focused export bank into a sophisticated and powerful instrument of Japanese economic statecraft. For an Australian observer, the JBIC model provides a valuable lens through which to examine how a national government can strategically deploy capital to pursue integrated economic, environmental, and geopolitical objectives. The three core themes are the bank's methodical evolution to meet contemporary challenges, its calibrated expansion of risk appetite to foster innovation, and its direct alignment with Japan's most pressing national interests.

**The Evolution from Transactional Bank to Strategic Instrument**

JBIC's institutional history, is not merely a series of administrative changes but a clear narrative of expanding purpose and strategic refinement. Its origin in 1950 as The Japan Export Bank reflects the post-war imperative of the time: to drive economic recovery by promoting the export of Japanese goods. This was a straightforward, transactional mission. The subsequent mergers and de-mergers, culminating in the re-establishment of JBIC as a distinct entity in 2012, illustrate the Japanese Government's ongoing effort to hone this financial tool for greater effect. The final spin-off from the broader Japan Finance Corporation in 2012 signals a keen focus on sharpening its international mission, separating it from domestic financing concerns to concentrate purely on projecting Japan's economic influence abroad.

This evolution is most apparent in the expansion from its singular export-focused role to the four broad missions it prosecutes today. These missions—securing resources, improving industrial competitiveness, promoting global environmental preservation, and stabilising international finance—represent a profound shift. JBIC no longer simply facilitates commercial transactions; it actively shapes markets, secures supply chains, and underwrites Japan's position in the global order. This transformation demonstrates a mature understanding that national prosperity in the 21st century depends on much more than just selling goods. It requires strategic investment in energy security, technological leadership, and a stable international system, and the government has clearly positioned JBIC as a primary agent for achieving these outcomes.

**A Calibrated Expansion of Risk to Foster Innovation**

Perhaps the most significant development detailed in the text is JBIC's deliberate and managed expansion of its risk appetite, a move that directly addresses a common market failure. The launch of "Special Operations" in 2016 marks a critical turning point. By making it possible to lend to projects where repayment could not be guaranteed, JBIC stepped into a financing gap that private commercial banks, constrained by fiduciary duties to shareholders, are often unwilling or unable to fill. Initially targeting overseas infrastructure—a sector known for long time horizons and complex risks—this initiative served to de-risk major projects for Japanese companies, allowing them to compete more effectively on the global stage.

The 2023 amendment dramatically broadens this mandate, which is of particular relevance to economies like Australia that are seeking to foster their own innovation ecosystems. Expanding the scope of Special Operations to include "new technologies and business models, as well as start-ups" is a clear signal that the Japanese Government is using JBIC as a tool of industrial policy to nurture its next generation of globally competitive firms. This is not passive financing; it is active state-backed venture capitalism. By absorbing a higher level of risk, JBIC provides the patient capital necessary for deep-tech and innovative start-ups to navigate the notorious "valley of death"

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[177] Ha-Joon Chang and Antonio Andreoni, "Industrial Policy in the 21st Century," *Development and Change* 51, no. 2 (2020): 324–51, https://doi.org/10.1111/dech.12570.
[178] Japan Bank for International Cooperation, *Continuous Evolution of JBIC's Role* (n.d.), accessed November 1, 2025, https://www.jbic.go.jp/en/information/today/today_2023sp/jtd_202312_sp1.html.
[179] Encyclopedia Britannica, *Export-Import Bank of Japan* (n.d.), accessed November 1, 2025, https://www.britannica.com/topic/Export-Import-Bank-of-Japan.
[180] Promila Gurbuxani et al., *Banking on Growth: Ensuring the Future Prosperity of Japan* (McKinsey & Company, 2022), https://www.mckinsey.com/industries/financial-services/our-insights/banking-on-growth-ensuring-the-future-prosperity-of-japan.

## Japan Bank for International Cooperation (JBIC)[177][178][179][180]

between initial research and commercial viability. This strategic willingness to accept potential losses in pursuit of long-term technological leadership and industrial strength is a defining feature of a modern, policy-based financial institution.

JBIC as a Direct Instrument of Contemporary Geopolitical and Economic Policy

The 2023 amendment to the JBIC Act solidifies the bank's role as a direct and responsive instrument of Japan's national strategy. The three new measures introduced are not abstract goals but are precise responses to the most urgent geopolitical and economic challenges of our time.

First, the focus on enhancing supply chain resilience is a direct reaction to the vulnerabilities exposed by the COVID-19 pandemic and rising geopolitical tensions. This empowers JBIC to finance the onshoring, near-shoring, or diversification of critical supply chains—from semiconductors to rare earth minerals—thereby reducing Japan's economic dependence on potentially unreliable partners and bolstering its national security.

Second, the formal inclusion of support for start-ups in sectors like digitalisation and green initiatives shows that JBIC is being deployed to drive Japan's transition to a new economic paradigm. It functions as a state-directed catalyst, channelling investment towards the industries that will define future global competitiveness. This ensures that private sector innovation is closely aligned with national strategic priorities.

Finally, the explicit mandate to participate in international support for the recovery of Ukraine elevates JBIC from a purely economic actor to a vehicle for foreign policy. This function demonstrates Japan's commitment to the international rules-based order and its alignment with its G7 partners. It allows Japan to contribute to global stability using its financial strength, effectively integrating economic and diplomatic tools.

JBIC is far more than a government-owned bank. It is a dynamic and adaptable institution that has been continuously reshaped to serve the national interest. For Australia and other nations, the JBIC model offers a powerful blueprint for how a sovereign financial institution can be leveraged to secure resources, bolster industrial competitiveness, drive innovation, and project influence in an increasingly complex world. It demonstrates a sophisticated approach where government capital is not just a safety net, but a strategic enabler of national ambition.

**Japan Outcomes**

As the world's third-largest manufacturing nation, Japan generated $867 billion in manufacturing output in 2024, accounting for 5.15% of the global total[181]. The nation's reputation as a reliable partner is built on precision, quality, and advanced technology, driving major export industries including automotive, consumer electronics, computers, and semiconductors.

While Japan offers a highly skilled and dedicated workforce, foreign employers must navigate a rigorous and highly regulated hiring environment. Strict compliance with labour standards, overseen by the Ministry of Health, Labor, and Welfare, presents operational challenges alongside cultural and language barriers. Despite these hurdles, Japan remains a premier destination for high-tech manufacturing.

Third largest global ship manufacturer 2024 8.38 million CGT in 2024, accounting for 13% of the global market[182].

Third-largest global car manufacturer 8.2 million cars in 2023[183]

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[181] Safeguard Global, *Top 10 Manufacturing Countries in the World in 2025* (2025), https://www.safeguardglobal.com/resources/blog/top-10-manufacturing-countries-in-the-world/.
[182] Zahra Ahmed, *Top 5 Countries Dominating Global Shipbuilding in 2025* (2025), https://www.marineinsight.com/know-more/top-5-countries-dominating-global-shipbuilding-in-2025/.
[183] Marcus Lu, *Mapped: Global Vehicle Production by Country* (2025), https://www.visualcapitalist.com/mapped-global-vehicle-production-by-country/.

# 7. Conclusions

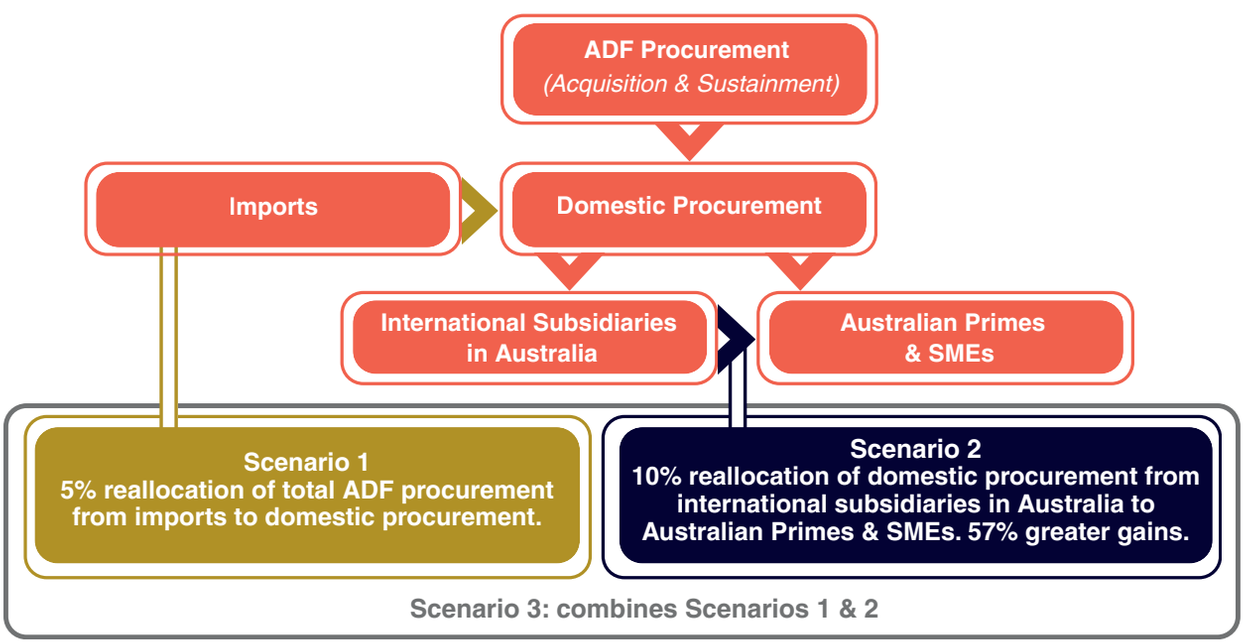
DeltaPearl Partners' comprehensive assessment reveals a significant and costly disconnect between the stated strategic objectives of the Australian Government and the outcomes delivered by current ADF procurement practices. The Government has clearly articulated its intent to build secure supply chains, foster sovereign manufacturing capabilities, develop a highly skilled domestic workforce, and maximise innovation. Despite this clear policy direction, our analysis finds these goals are not being consistently achieved. This paper outlines the conclusions of our assessment, identifies the core drivers of these sub-optimal outcomes, and presents a clear pathway to better align ADF expenditure with the national interest.

## 7.1. Substantial Benefits from Even a Small Increase in Local Procurement

### A Compelling Sovereign Dividend: Modelling Three Scenarios

We modelled three budget-neutral scenarios against the current baseline to quantify the national benefit of a revised procurement strategy. Scenario 1 involves shifting more defence spending from imports to Australia-based companies (including foreign subsidiaries), and Scenario (2) involves reallocating spending within Australia, diverting it from foreign-owned subsidiaries to fully Australian-owned prime contractors. Scenario 3 combines Scenarios 1 & 2.

*Figure 35. Illustration of scenarios 1 & 2 flows with indicative percentages*




- Scenario 1 involves shifting a portion of *total* Defence spending (5%) from imports to Australia-based companies (including foreign subsidiaries).
- Scenario 2 involves reallocating a portion of *domestic* Defence spending (10%) from foreign-owned subsidiaries based in Australia to fully Australian-owned companies.
- Scenario 3 involves combining Scenarios 1 and 2 and has a multiplicative effect that increases the size of the positive impacts. That is, the scenarios are not mutually exclusive.

All scenarios create positive impacts through increased local jobs, taxes, and indirect supply chain stimulus. Although the table below shows the greatest gain is from redirecting imports to all firms in Australia, within that reallocation there are funds going to foreign subsidiaries and Australian firms. The funds going to genuine Australian companies offer an incremental gain of $0.35-$0.58 per dollar or a 57% added gain, as shown in Table 2.

*Table 14: Comparison of scenario outcomes*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | Job Creation (Annual) |
|---|---|---|---|
| Scenario 1: Shift defence spending from imports to domestic procurement (from Australian-based entities, including foreign subsidiaries in Australia) | 5% of total Defence procurement | $3.4-5.6 billion | 17,131-29,278 FTEs |
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian companies | 10% of local Defence procurement | $1.4-2.3 billion | 7,558-12,474 FTEs |
| Scenario 3: Scenario 1 + Scenario 2 | 1 + 2 | $5.0-8.1 billion | 25,569-43,205 FTEs |

Table 1 presents the results at a broad aggregate level, and demonstrates that a combination of both Scenarios 1 and 2 will yield the highest benefits in terms of net GDP and job creation.

Table 2 below breaks down the analysis to a granular return per-$1 million of spending basis. This is important because it highlights the superior returns from prioritising Australian-owned primes and SMEs over foreign-owned entities or imports.

While Table 1 demonstrates the overall national benefits of redirecting total defence procurement from imports to any Australian-based firms, the per-dollar lens in Table 2 underscores a "Defence Dividend" from redirecting spending away from imports *and* Australian-based foreign primes towards Australian-owned primes and SMEs.

- Every $1 million of Defence procurement redirected from imports to foreign-owned Australian subsidiaries increases Australia's GDP by $610,000 to $1 million.
- Every $1 million of Defence procurement redirected from imports to Australian-owned primes and SMEs instead delivers an increase to Australia's GDP of between $960,000 and $1.57 million.

Reallocating Defence spending from foreign-owned Australian subsidiaries to genuinely Australian-owned primes and SMEs generate much greater (57% more) net returns per dollar spent for Australia—economically and strategically—than simply increasing total domestic Defence spending without regard to ownership structure.

Scenario 1 involves redirecting imports - if it is refined into redirecting *total* spending from imports to Australian-owned primes and SMEs (first green row in the table) and combined with redirecting *domestic* spending to Australian primes and SMEs (second green row in the table), the defence dividend is optimised.

The green-highlighted rows emphasize that reallocations of spending from imports and domestic spending that target Australian primes and SMEs deliver the best outcomes.

*Table 15. Economic gains per $1 million reallocated*

| Budget reallocation option | GDP Added per $1mn reallocated | Job Creation per $1mn reallocated | Economic Leakage |
|---|---|---|---|
| Scenario 1: Shift from imports to domestic procurement | $0.75M-$1.23M | 3.8-6.4 FTEs | Medium |
| ○ (a) Shift from imports to Australian Primes and SMEs | $0.96M-$1.57M | 4.9-8.3 FTEs | Low |
| ○ (b) Shift from imports to foreign-owned Australian subsidiaries | $0.61M-$1.00M | 3.0-5.1 FTEs | High |
| Scenario 2: Shift from foreign-owned Australian subsidiaries to Australian Primes and SMEs | $0.35-$0.58M | 1.9-3.2 FTEs | Reduced |

The core difference between the scenarios lies in economic leakage. Ownership matters because nominally “Australian” subsidiaries of multinational primes funnel substantial dividends and management overseas, limiting local benefits even as local operations create jobs in Australia. Profits, decision-making, and intellectual property (IP) with foreign subsidiaries tend to flow offshore, reducing the multiplier effect and weakening Australia's capacity for innovation and self-reliance.

Foreign-owned subsidiaries, although employing Australians and maintaining operations here, repatriate profits, dividends, and often supply chain and back-office expenditures to the parent country. As a result, less economic benefit is retained in Australia.

In contrast, genuinely sovereign primes and SMEs:

- Retain profits onshore, reinvesting in local R&D and workforce.
- Deliver higher fiscal returns via tax revenue and income circulation.
- Strengthen sovereign capability by keeping strategic decision-making and IP in Australia.
- Prioritise Australian SMEs in their supply chains.
- Reduce economic vulnerability by limiting dependence on global corporate priorities, which may not align with national interests.

Government should prioritise sovereign Australian primes and SMEs in procurement to capture a 57% added gain, and to foster high-value jobs and innovation spillovers that align with national sovereignty goals. This option yields higher multiplier effects, innovation spillovers, export potential, and ESG benefits. Not all the benefits are typical or easily measurable economic benefits but have a real impact on the national economy and long-term security of Australia and its citizens. Our approach includes a *Sovereign Dividend Scorecard* that seeks to quantify and weight these more difficult to measure values.

## 7.2. Failure to Realise Stated National Objectives

Our investigation concludes that the current application of the CPRs within Defence procurement frequently fails to deliver on the government's foundational sovereign objectives. While projects may deliver a platform or a specific capability, they often fall short of creating enduring national value. We have identified systemic shortcomings in several critical areas:

Secure Supply Chains: A reliance on global prime contractors with extended, opaque international supply chains leaves Australia vulnerable to geopolitical disruption, as has been starkly demonstrated in recent years. The current procurement framework does not adequately price the risk of this dependency or value the assurance provided by a resilient, localised supply chain.

Sovereign Manufacturing Capability: While foreign-owned firms may establish local assembly facilities, genuine sovereign capability—the ability to design, develop, manufacture, and sustain critical systems without foreign direction—is not being systematically cultivated. True sovereignty resides in the ownership of IP, the authority of a local board, and the deep-tier industrial ecosystem.

Skilled Labour Development: While large projects create some local jobs, the highest-value roles in research, design, and systems engineering are often retained offshore. This approach limits the development of Australia's domestic skills base and curtails the growth of a self-sustaining innovation ecosystem.

Innovation and Technology Transfer: The promise of technology transfer from international partners is often illusory. Without sovereign ownership of the IP, Australia remains a consumer of foreign technology rather than a creator. This stifles local innovation and prevents the "spillover" effects that drive productivity growth across the wider economy and ignores the significant local technology that could be supported.

ESG Targets and Policies: Current procurement practices do not effectively leverage Defence's immense purchasing power to drive positive ESG outcomes. The full ESG footprint of a global supply chain is rarely compared with the transparent, high standards enforced within Australia, representing a missed opportunity to champion ethical and sustainable practices.

## 7.3. Diagnosing the Core Problem: Flawed Measures of Value

The reasons behind this disconnect are complex. We acknowledge that Australia's relatively small population and industrial base present genuine constraints on our capacity to deliver every required capability. However, our assessment concludes that the primary drivers of these poor outcomes are systemic and, most importantly, correctable. They relate directly to how the Australian Government defines and measures value in its procurement processes. The central issues are:

An Incomplete Definition of 'Value for Money': The CPRs rightly emphasise value for money, but in practice, this is too often narrowly interpreted as the lowest upfront tender price. This fails to account for the wholistic, whole-of-life costs and benefits to the nation. It overlooks the fiscal dividend of taxes returned to the Treasury, the economic stimulus of local wages and supply chain spending, and the strategic premium of supply chain security. The ESG impacts of projects is typically limited to a very low bar measure of no modern slavery, however, our assessment shows the key ADF trading countries have significant failings in their supply chains that are not clearly evaluated in the value-for-money definition.

Ambiguity in Defining an 'Australian' Company: The current framework does not adequately distinguish between a foreign-owned company performing some work in Australia and a genuinely sovereign, Australian-owned and operated entity. The strategic and economic benefits delivered by these two models are profoundly different. A sovereign prime retains its profits in Australia, pays taxes to the Australian Treasury, reinvests in local R&D, and is subject solely to Australian law and national interest—benefits that are significantly diluted with an offshore parent company.

A Failure to Quantify Strategic Imperatives: The Government's key objectives—resilience, innovation, sovereign capability, and ESG performance—are treated as qualitative aspirations rather than core, measurable criteria in tender evaluations. Without a formal mechanism to assign a concrete value to these factors, they are inevitably outweighed by the more easily quantifiable metric of headline cost.

## 7.4. Sovereign Dividend: Quantifying the Net Benefit to Australia

To address this lack of quantification, our economic modelling demonstrates conclusively that a deliberate policy shift to prioritise sovereign Australian primes yields substantial and measurable net benefits for the nation. Far from being a protectionist cost, directing Defence expenditure to genuinely Australian firms is a powerful investment in our economic prosperity and security.

Our modelling confirms the following direct and indirect benefits:

- Increased GDP: A higher proportion of project funds are spent and re-spent within the domestic economy, creating a stronger multiplier effect that directly boosts Australia's GDP.
- Enhanced Tax Returns: By engaging Australian-owned companies, the government ensures that company profits, employee income taxes (PAYG), and supply chain taxes (GST) are captured by the Australian Treasury, creating a powerful circular flow of investment. This significantly lowers the "net cost" of the project to the taxpayer.
- Creation of High-Skill Jobs: Sovereign projects anchor high-value roles in engineering, software development, and project management in Australia, building the critical workforce needed for a modern, advanced economy.
- Technology and IP Development: Fostering local primes ensures that critical IP is created and owned in Australia. This IP becomes a national asset that can be leveraged for future upgrades, exports, and commercial applications.
- Improved Economic Complexity: These projects act as a catalyst, shifting our economy from simple manufacturing towards the highly complex, technology-intensive systems integration required for long-term prosperity. This "spillover" innovation strengthens adjacent industries and enhances our global competitiveness.
- Superior Global ESG Outcomes: By procuring from Australian firms operating under our world-class regulatory standards, Defence can guarantee compliance with ethical labour laws, environmental protections, and workplace health and safety standards, setting a high benchmark for global partners.

## 7.5. Sovereign Dividend Scorecard: A Practical Tool for Better Decisions

To bridge the gap between policy intent and procurement reality, DeltaPearl Partners has developed the SDS. This scorecard is a practical, evidence-based tool designed to assist SAPA members in measuring and articulating the full national value of their proposals. More importantly, it provides a ready-made framework that the Department of Defence could adopt to improve its own assessment processes.

The SDS operationalises the Government's objectives by providing a structured methodology to evaluate tenders against the key criteria of:

- The Economic Dividend: Measuring the net fiscal impact, domestic value-add, job creation, and household income gains.
- The National Growth Dividend: Assessing export potential, contribution to economic complexity, and ESG performance.
- The Sovereign Capability Dividend: Evaluating the tangible benefits of Australian ownership, supply chain resilience, IP control, and interoperability.

By integrating a tool like the SDS into the CPRs, the Government can empower its procurement officials to make choices that are not only compliant but also strategically intelligent. It would ensure that the immense financial power of the Defence budget is fully harnessed to build a more prosperous, resilient, and secure Australia. This is not about favouring local firms for its own sake; it is about making a smarter,

more comprehensive assessment of value and securing the best possible return on the Australian people's investment.

## 7.6. Areas of Consideration for Improving Procurement Outcomes

Below are a set of possible areas for improving the ADF procurement outcomes:

Prioritise Strategically: Australian Government must resist the temptation to build everything in Australia. Instead, the government must rigorously prioritise investment in capabilities that are genuinely critical to our national sovereignty—the Sovereign Defence Industrial Priorities are the starting point. Key is identifying technologies where there is latent competitive advantage or comparative advantage, where supply chain security is non-negotiable, and where onshore sustainment is essential for operational readiness. By focusing resources, Australia can cultivate areas of world-class excellence rather than spreading investment too thinly.

Cultivate an Ecosystem, Not Just Projects: A stop-start approach to procurement kills industry confidence and wastes talent. To maximise returns, the government must signal a long-term, continuous pipeline of work, providing industry major primes and SMEs with the certainty required to invest in facilities, technology, and people. Australia must actively foster a 'triple helix' model, creating formal partnerships between Defence, industry, and our research institutions (such as universities and the CSIRO) to accelerate the transition of innovative ideas from the laboratory to the battlefield.

Drive Outcomes Through Smart Procurement: The government wields immense power through its procurement contracts, and it should use this leverage strategically. AIC plans cannot be a mere box-ticking exercise. Contracts must include robust and enforceable mandates for technology transfer, the development of local IP, and the integration of Australian SMEs into global supply chains. Furthermore, procurement decisions should explicitly favour designs that offer future export potential, tasking primes to help Australia turn its sovereign capabilities into global exports.

Build the Human Capital Pipeline: A defence industry is nothing without a highly skilled workforce. The government must partner with industry, TAFEs, and universities to build a talent pipeline for the future. This means co-designing degree and vocational courses, funding apprenticeships and graduate programs, and establishing skills centres of excellence. Investing in our people ensures the sovereign dividend is not just economic, but also social, creating enduring careers for the next generation of Australian engineers, technicians, and innovators.

Protect IP: Assisting Australian firms to protect IP that is developed in Australia will improve the value for innovation and keep high-tech manufacturing in Australia.

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# Appendices

# Appendix 1. SAPA members

The Sovereign Australian Prime Alliance (SAPA) is an informal grouping of large Australian prime contractors. SAPA was formed in 2022, with the objective of highlighting the economic and social contributions of these prime contractors and to advocate for a strong sovereign defence industrial base:

> *Since forming in 2022 SAPA has advocated the important economic and social contributions sovereign Australian prime contractors provide the Australian economy – including to Australian SMEs – and to push for genuine sovereign capability in areas that are critical to Australia's technological, national security and defence interests (SAPA)*

At the time of writing this report, the SAPA members comprise

- AUSTAL (ASX: ASB) – Australia's global shipbuilder;
- DroneShield (ASX: DRO) – Australia's world leader in counter-drone solutions;
- Gilmour Space – Australia's leading venture-capital-backed space technology company;
- Macquarie Technology Group (ASX: MAQ) – Australia's data centre, cloud, cybersecurity and telecom company;
- NIOA Group – Australia's largest family-owned global munitions company; and
- Aspen Medical – providing healthcare solutions for defence and national security organisations to ensure operational readiness.

Brief bios of each of the SAPA members are provided below.

*Table 16: The SAPA members, brief bios*

| Company, Area of Expertise, Location of headquarters | Description |
|---|---|
| **Aspen Medical**<br>Medical response capacity<br>Deakin, Canberra ACT<br>https://www.aspenmedical.com | Aspen Medical is an Australian-owned company specialising in comprehensive healthcare solutions across the full spectrum of health services, infrastructure, and technology, particularly for defence and national security sectors. With decades of experience supporting defence forces globally, Aspen Medical operates in remote, under-resourced, and challenging environments to maintain and enhance operational capability. The company provides primary through tertiary healthcare, health logistics, virtual care, training, and advanced technologies, drawing on a workforce that includes many veterans to ensure practical, fit-for-purpose, and sustainable services designed for the unique needs of defence personnel and operations. Aspen Medical is a privately owned Australian health services company headquartered in Canberra, with additional offices in Sydney, Brisbane, Perth, Washington, Abu Dhabi, and Port Moresby.<br><br>Founded in 2003, Aspen provides health infrastructure, technology and services for defence and national security organisations operating in crisis and conflict zones across > 21 countries. Its operations include deploying mobile hospitals, specialist medical teams, and supporting large-scale emergency responses for governments and international organisations. Aspen's role has included work in disease outbreaks, natural disasters, and support to military and peacekeeping operations. |

| Company, Area of Expertise, Location of headquarters | Description |
| --- | --- |
| | Current and recent projects include:<br><br>Australia: Aspen Medical is a key partner in the ADF JP2060 Deployable Health Capability project, working with the prime to modernise the ADF's deployable healthcare systems for both combat and humanitarian operations. Aspen Medical has a training and capability building role through the delivery of more than 30 tailored training programs for ADF personnel. Training is delivered in face-to-face and hybrid formats, combining civilian healthcare best practice with military operational readiness.<br><br>Between 2012 – 2017 Aspen Medical provided comprehensive on-base health services to services to approximately 60,000 Australia Defence Force (ADF) personnel across all 52 base locations in Australia. The program integrated primary, allied, dental, mental, and specialist health streams within a nationally coordinated framework, ensuring consistent and equitable access to care for Australian Defence Force (ADF) personnel across all regions.<br><br>Haiti: Operating a Level 2 Field Hospital at Port-au-Prince airport for the U.S. Government, providing emergency and primary care to the international stabilisation force amid extreme security volatility. Staffing includes 41 medical specialists with 24-hour trauma care capability.<br><br>Somalia (UNSOS): Running a Role 1+ field hospital at Mogadishu International Airport under a UN agreement, offering trauma, surgical, mental health, and mass-casualty response services to strengthen local and UN partner resilience.<br><br>Ukraine: Supporting war-related trauma and rehabilitation through U.S.-funded research and training, prosthetic programs with NGO partners, and innovations in PTSD and pain management. Over 575 experts have participated, focusing on sustainable military and civilian healthcare capacity.<br><br>Fiji: Managing Lautoka and Ba Hospitals under a 23-year public–private partnership with the Fijian Government. Efforts include major infrastructure upgrades and service expansion, introducing advanced clinical capabilities like open-heart surgery for the first time in Fiji.<br><br>Papua New Guinea (Lihir Island): Providing comprehensive health, emergency, and occupational medical services to Newmont Mining's operations and the local community through a 22-bed hospital and clinics, staffed almost entirely by PNG Nationals.<br><br>United Arab Emirates: Delivering a defence medical training program with Khalifa University for the UAE Ministry of Defence, incorporating accredited tactical and emergency medical courses aligned with global military healthcare standards.<br><br>Indonesia: Developing hospitals and clinics, including a 200-bed flagship facility in West Java, and providing advisory, |

| Company, Area of Expertise, Location of headquarters | Description |
|---|---|
| | operational, and workforce development services to strengthen Indonesia's healthcare infrastructure and system resilience. |
| **Austal**<br>Naval shipbuilding<br>Henderson, Western Australia<br>https://australia.austal.com/ | Austal Limited is an Australian shipbuilder and defence prime contractor, headquartered in Henderson, Western Australia. Founded in 1988, Austal specialises in the design, construction, and sustainment of advanced naval and commercial vessels. It is a world leader in high-performance aluminium vessel construction, including mono-hull, catamaran, and trimaran designs, catering to military, government, and commercial operators internationally.<br><br>Austal's defence portfolio includes the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) for the United States Navy, the High Speed Support Vessel (HSSV) for the Royal Navy of Oman, and a range of patrol boats for Australian and allied navies. The company has a significant commercial vessel operation supplying high-speed ferries, vehicle-passenger ferries, offshore crew transfer vessels, and wind farm vessels across global markets.<br><br>In August 2025, Austal formalised a landmark Strategic Shipbuilding Agreement (SSA) with the Australian Government, designating Austal Defence Australia as the Commonwealth's strategic shipbuilder for Tier 2 surface combatants based in Henderson, WA. This agreement positions Austal as a key enabler of Australia's sovereign naval shipbuilding capability with responsibility for design, construction, procurement, testing, and delivery of major Tier 2 vessel platforms, including Landing Craft Medium (LCMs) and Landing Craft Heavy (LCHs). Austal's SSA commits to delivering continuous naval shipbuilding work, supporting local supply chains, creating thousands of high-skilled jobs, and driving innovation and industrial sovereignty over coming decades.<br><br>Austal has expanded its operations globally with manufacturing facilities in the USA and the Philippines, employing nearly 4,500 staff worldwide as of 2025. Within Australia, Austal has service centres in Darwin, Northern Territory and Cairns, Queensland, and a business development office in Canberra, as well as its headquarters in Henderson WA.<br><br>Austal Australia announced a Strategic Shipbuilding Agreement with ADF in August 2025.[184] The agreement builds on the established pilot program between Defence and Austal. It will see the delivery of dozens of vessels, including: |

[184] The Hon Richard Marles MP, Minister for Defence and The Hon Pat Conroy MP, Minister for Defence Industry, *Strategic Shipbuilding Agreement Secures Continuous Pipeline of Shipbuilding Work for WA*, Media Release (2025), https://www.minister.defence.gov.au/media-releases/2025-08-05/strategic-shipbuilding-agreement-secures-continuous-pipeline-shipbuilding-work-wa.

| Company, Area of Expertise, Location of headquarters | Description |
|---|---|
| | 18 Landing Craft Medium for the Australian Army, and subject to further approvals and negotiations, the build of eight Landing Craft Heavy.<br><br>Two new Evolved Cape class patrol boats for the Royal Australian Navy.<br><br>Together, the Landing Craft Medium and Landing Craft Heavy projects are expected to create 1,100 direct jobs and more than 2,000 indirect jobs.<br><br>The Strategic Shipbuilding Agreement will also play a vital role in the establishment of a Commonwealth Defence Precinct at Henderson – underpinning tens of billions of dollars of investment in Defence capabilities in the West over the next two decades and supporting in the order of 10,000 high-skilled jobs. |
| **DroneShield**<br>Counter-drone technologies<br>Headquarters Sydney<br>and Virgina (US)<br>Founded 2014<br>https://www.droneshield.com/ | DroneShield provides AI-driven counter-drone solutions that detect, track, and disrupt unauthorised drones to protect military, government, law enforcement, critical infrastructure, and commercial customers worldwide. Their product suite combines radio frequency sensing, AI, sensor fusion, and electronic warfare technologies to offer rapid, scalable, multi-mission defence across terrestrial, maritime, and airborne platforms.<br><br>Key products include DroneGun (lightweight countermeasures), DroneSentry (integrated sensor platforms for fixed or mobile use), and advanced drone jamming systems like DroneCannon.<br><br>Headquartered in Sydney and Warrenton, Virginia, DroneShield is publicly listed on the ASX and has rapidly expanded global deployments with over 4,000 units sold. It has secured multi-million-dollar defence contracts, including with the Australian Defence Force's LAND156 program and the US Department of Defense, and is scaling up manufacturing capacity and R&D to meet increasing global demand in military and civilian sectors.<br><br>The company employs over 275 staff including 204 engineers, highlighting a strong focus on continuous innovation and expanding technological sophistication for future counter-drone challenges.<br><br>Customers include military, intelligence community, Government, law enforcement, critical infrastructure, and airports globally.<br><br>Global operation - 91% of FY2024 revenues came from offshore. The United States Government and military market is expected to continue to be the single largest opportunity for DroneShield, being the largest counter-drone customer in the world, and accounting for ~70% of the company's FY2024 and FY2023 revenues.<br><br>Investing in R&D and inventory- raised $235 million in new capital in FY2024, positioning the company for ongoing growth, R&D investment and appropriate inventory on hand for rapid order fulfilment. The new generation of hardware is |

| Company, Area of Expertise, Location of headquarters | Description |
|---|---|
| | expected to be released in stages over the next several years, with the existing hardware along with software updates, driving the FY2025 revenues.<br><br>Significant non-military use cases for drones continue for the intelligence community, airports, prisons, border security, stadiums, and other facilities.<br><br>DroneShield is on track to successfully complete the 2-year $10 million contract in mid FY2025 with the Australian Defence Force, and expecting to receive a larger follow up contract. It is also in the process of executing on a smaller Advanced Strategic Capabilities Accelerator contract with the Australian Government. |
| **Gilmour Space**<br><br>Rockets and satellites<br><br>Gold Coast, Queensland<br><br>https://www.gspace.com/ | Gilmour Space Technologies is an Australian-owned aerospace company developing launch vehicles, satellite platforms and hypersonic test services that aim to lower the cost of accessing space.<br><br>Since starting its rocket program in 2015, the Queensland-based company has made significant progress towards delivering affordable and reliable launches for small satellite customers across commercial, civil and defence markets.<br><br>Gilmour's Eris orbital launch vehicle, ElaraSat satellite platform, Hyperflight hypersonic test service, and fully licensed Bowen Orbital Spaceport in North Queensland are laying the foundation for Australia's first end-to-end sovereign space capability — reducing reliance on foreign providers for critical space access.<br><br>The Eris rocket completed its first orbital test flight in July 2025, delivering essential flight data ahead of follow-on test missions from 2026. Gilmour's ElaraSat MMS-1 satellite bus launched successfully on a SpaceX mission in June 2025, with a second satellite mission scheduled for 2026.<br><br>The company has secured Defence contracts supporting next generation propulsion/launch systems, and satellite missions that could enhance Australia's space domain awareness, communications autonomy and sovereign industrial capability.<br><br>Beyond rockets and satellites, Gilmour contributes to national priorities through more than 230 skilled jobs in Queensland, advanced manufacturing, major private investment, localised supply chains, and meaningful STEM outreach across Australia. The company is emerging as a leading provider of Australian-made space systems, strengthening Australia's role as a capable contributor to the global space economy. |
| **Macquarie Technology Group**<br><br>Cyber security and data protection<br><br>Sydney<br><br>https://www.macquarietechnologygroup.com | Macquarie Technology Group Limited (ASX: MAQ), formerly Macquarie Telecom Group, is a leading Australian provider of data centre, cloud computing, cybersecurity, and telecommunications services tailored for mid-to-large businesses and government clients. Founded in 1992 and headquartered in Sydney, Macquarie Technology Group operates three primary business divisions: Macquarie |

| Company, Area of Expertise, Location of headquarters | Description |
|---|---|
| | Telecom, Macquarie Cloud Services and Government, and Macquarie Data Centres. It entered the government security sector in 2005, and established data centre in 2018.<br><br>The company manages and operates a network of sovereign data centres in Sydney and Canberra, with a strong emphasis on security, compliance, and uninterrupted service uptime, making it a trusted partner for Australian Federal Government agencies and critical infrastructure operators. Macquarie's cybersecurity offerings include managed detection and response, penetration testing, and security consulting tailored to defend against sophisticated cyber threats in sensitive government and defence environments.<br><br>In telecom, Macquarie provides enterprise-grade voice, mobile, and data connectivity services with a focus on high reliability and performance, particularly through its software-defined WAN (SD-WAN) capabilities. The Group is also an active contributor to Australia's sovereign technology infrastructure, enabling secure and resilient communications and IT systems that underpin modern defence, intelligence, and government operations.<br><br>Macquarie Technology Group is recognised for its innovation in cloud and cybersecurity solutions, and commitment to Australian sovereignty in critical digital infrastructure.<br><br>The company serves a broad portfolio of corporate and government customers, including major government departments, defence agencies, and regulated industries, helping Australia enhance its sovereign digital capabilities and cyber resilience amid increasing geopolitical risks<br><br>MTG launched its data centres in 2018. MTG data centres, launched in 2018, support 42% of the Australian Government. |
| **NIOA Group**<br>Munitions<br>Maryborough Qld (factory)<br>https://www.nioa.com.au/ | NIOA Group is Australia's largest privately-owned supplier of firearms, weapons, munitions, and technical support to the Australian Defence Force, New Zealand Defence Force, law enforcement agencies, and commercial markets. Established in Queensland in 1973, NIOA has grown into a global munitions company with strategic operations in Australia, New Zealand, the USA, and the United Kingdom. The company offers a comprehensive portfolio including small arms, medium and large calibre munitions, special function grenades, pyrotechnics, optics, and accessories.<br><br>NIOA plays a crucial role as a prime contractor delivering key Australian Defence projects such as the future family of 155mm artillery munitions under LAND 17-1C.2, the medium calibre munitions for the LAND 400 Rheinmetall Boxer Combat Reconnaissance Vehicle, Australia's mortar capability, and munitions supporting the Abrams tank fleet. The company was appointed Prime Contractor for Stage 1, Tranche 1 of Project LAND 159 Lethality Systems Program, tasked with acquiring next-generation sniper and close combat weapon systems for the Australian Army. |

| Company, Area of Expertise, Location of headquarters | Description |
| --- | --- |
| | NIOA operates a modern Brisbane facility with state-of-the-art testing ranges, engineering capabilities, armouries, and logistics infrastructure. In partnership with Rheinmetall through the Rheinmetall NIOA Munitions joint venture, it manages one of the most advanced artillery shell case manufacturing facilities globally, enhancing Australia's sovereign munitions production capacity. The company emphasises engineering excellence, supply chain resilience, and through-life technical support encompassing maintenance, training, and certification.<br><br>NIOA has partnered with Engineers Australia to create pathways for technical professionals and engineers to support sovereign defence capability. It has formed partnerships to expand domestic munitions manufacturing, including work at the Commonwealth-owned Benalla munitions facility. The company is also part of broader initiatives, such as the Australian Missile Corporation, which seek to establish more sovereign production capacity for guided weapons and munitions. |

# SAPA membership industry domestic value

Considering each SAPA members industry from the perspective of domestic military capacity and the related wider economic benefits, we take a closer look at each members industry and discuss the benefits. Aspen Medical, Austral, DroneShield, Gilmour Space, MTG, NIOA, and Nova Systems as the SAPA membership cover many industries directly and support a long list of secondary suppliers who make up the supply chains. ADF support for these fully owned and operated Australian businesses provides much more than some jobs and spending locally, the greatest gain is strategic secure supply in any times of difficult international moments.

Each SAPA member is considered here for a range of benefits considered important to the wholistic economic gains to Australia, including:

- Increased domestic GDP
- Increased domestic taxation
- Skills development
- Improved strategic goods and services supply
- Wider economic gains
- Reduced risk and uncertainty

Although many of the benefits are measurable, there are many benefits that are difficult to measure in a pre-emptive way, the way to understand these types of benefits is to consider the possible costs in an event the product or service is needed and not available. Key realised example for the Australian Government is the COVID-19 vaccine procurement debacle, where the delay in delivery due to slow cost focused procurement cost Australia some $50 billion and hundreds of lives.

## Aspen Medical

Aspen Medical has developed an Australian business that offers a wide range of service solutions for the health sector, including health services, health infrastructure, health logistics, training, and health technology.

Defence and national security organisations operate in high-pressure, unpredictable environments where conventional healthcare is often inadequate. When health support is compromised, it increases operational risk and affects personnel safety and mission readiness. Aspen Medical provides specialised and adaptable health solutions designed specifically for these demanding contexts.

Leveraging extensive experience with defence forces, police, and border protection agencies, the company delivers a comprehensive suite of services, from retrieval medicine and trauma support to health technology integration and workforce readiness. Aspen Medical's teams, comprising experienced clinicians and logisticians, excel in remote and austere settings. They work in partnership with clients to design, deliver, and adapt healthcare support to meet the specific requirements of each mission.

A robust governance framework underpins all operations, ensuring clinical integrity, quality, and cyber security under pressure. Offering scalable solutions that integrate with existing systems, Aspen Medical supports personnel to ensure they remain safe, supported, and ready for their mission.

- healthcare solutions that support mission success, with the capability to deploy rapidly and operate in challenging environments.
- healthcare model is designed to maintain high-quality care in austere, high-pressure and unpredictable conditions.

Like the Defence reserves system, working with firms like Aspen Medical to develop a healthcare system and workforce that can work with Defence provides many benefits, including:

- Support the Regular Defence: provides a flexible, part-time force that can be called upon to supplement the full-time defence.
- Force expansion: acts as a base for force expansion during times of need, providing a larger military force when necessary.

- National security: contribute to defending Australia's interests and security both domestically and internationally.
- Flexibility: can be deployed for a wide range of operations, including combat, peacekeeping, and humanitarian aid missions.
- Disaster relief: called upon to assist communities affected by natural disasters in Australia.
- National events: help provide security and support for major national events.
- Civil and humanitarian aid: can assist with civil and humanitarian tasks when required.

The recently increased role for the ADF in disaster response is a critical area of service delivery that the medical industry can be of great assistance, but the general Defence reserve would not have significant capacity[185]. Aspen Medical demonstrated their ability to support national disaster response during the COVID-19 pandemic, where they provided national facilities and services in support of government.

### Increased domestic GDP

The key GDP difference when using a fully owned and operated Australian business is a greater portion of the supply chain is Australian-based, increased taxation, and support for the development of the business in support of other parts of the Australian economy.

Aspen Medical can use the ADF related projects to support its wider business of upskilling medical professionals to be capable of operating in more complex environments than the typical civilian employment. In addition to skills development, Aspen develop business operational processes, profitable business models and innovations.

Aspen Medical are expanding their business internationally, exporting the high-quality Australian healthcare system to assist other countries in achieving their healthcare goals, including Fiji, Middle East, and Indonesia. Currently, the Department of Foreign Affairs and Trade (DFAT) have found the use of Aspen Medical services a wonderful support to their operations and a way to expand their service offering to trading countries. DFAT support has allowed Aspen Medical to increase its business activity globally, which is a great benefit to Australian export opportunities.

### Increased domestic taxation

Using the Australian-based medical services business over an international firm is a great benefit to the Australian Government in the return of a portion of the funds invested back in taxation. Although many international firms that have Australian subsidiaries do pay taxes in Australia, there is a larger portion of the total activity that is completed in other countries, which is call leakage. That is, the leadership and parts of management or other activity that happens in other countries will not likely be taxed by Australia as that is a cost of business. Therefore, Aspen Medical is likely to pay a larger proportion of their fees back to Australian government via local taxes and charges.

### Skills development

Aspen Medical assist with the national skills development in two ways, one they offer medical staff the chance to offer their skills in highly complex environments to enable those very specific capabilities, and the second way is they provide training in these skills.

Aspen Medical delivers accredited and tailored training programs that strengthen capability, with scalable delivery supporting workforce safety, compliance and operational readiness in locations ranging from remote communities to multinational project sites. Their training is tailored to local risks, governance structures and operational needs, accredited and non-accredited programs, including:

- Advanced Life Support and Basic Life Support (BLS)
- Pre-Hospital Trauma Life Support (PHTLS)
- Tactical Combat Casualty Care (TCCC)

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[185] https://www.aspistrategist.org.au/increasing-defences-role-in-disaster-response-is-essential-but-costly/

- Remote area and emergency response training
- Cultural safety programs and site-specific inductions
- Occupational health and safety modules
- Clinical upskilling and refresher programs for nurses, paramedics and allied health staff
- Scenario-based training to support decision-making under pressure.

Defence supporting medical services that allow staff to upskill into these very specific and valuable operational jobs ensures an ongoing supply of highly skilled staff for any future operational situation.

### Innovation

Aspen Medical has partnered with BlueRoom to integrate advanced Mixed Reality (MR) simulation into its military healthcare training[186].

This collaboration enhances operational readiness by allowing medical professionals and first responders to refine critical skills in highly realistic, immersive scenarios, delivering significant improvements in cost efficiency, productivity, and overall capability.

BlueRoom's innovative MR simulator enables trainees to use their own hands to interact with real equipment within a virtual environment. This unique feature enhances precision for complex procedures such as IV cannulation and airway management without the need for controllers.

By integrating this cutting-edge technology, Aspen Medical strengthens its world-class training programs. The partnership represents a significant advancement in military medical training, offering a scalable and highly effective solution to ensure personnel are prepared for critical, high-pressure situations.

ADF could support this program and others like it to assist Aspen Medical to improve this technology solution to a critical problem faced by Defence.

### Wider economic gains

Exports of services in 2023-24 is reported by the ABS as increasing $26.85 billion (27.6%) to $124.03 billion, including an increase of IP $1.67 billion (23.6%)[187]. Aspen Medical has grown into a global leader in healthcare delivery, operating across 23 countries and serving in remote and often complex environments. With more than two decades of operational experience in regions including Solomon Islands, Timor-Leste, Iraq, Haiti, Somalia and Ukraine, the export opportunities are clear and growing[188]."

ESG outcomes of Australian firms are better than other ADF countries as demonstrated in this report, and Aspen Medical is highly focused on delivering its services with the highest standards of ESG. The annual ESG report from Aspen Medical shows their measures of scope 1 to 3 emissions, and list many of their other measures seeking to meet or exceed the industry measures. Through the Aspen Medical Foundation, we support life-changing healthcare by significantly reducing or eradicating key illnesses in rural and remote communities in Australia and the Pacific.

International Community Support programs include:

- Emergency Medical Teams: Driven by the "wherever you need us" ethos, excelling in humanitarian emergency responses, we are the only commercial organisation accredited by the WHO as an Emergency Medical Team for infectious disease and trauma surgical operations. Assistance in the Pacific Aspen Medical has been involved in providing healthcare services across the Pacific, including the Solomons, Fiji and Papua New Guinea for 20 years. Supporting local healthcare systems, responding to natural disasters, and providing medical training and capacity-building initiatives.
- In response to the significant number of conflict-related traumatic amputations in Ukraine, the Aspen Medical Foundation is supporting a critical rehabilitation project. Through a $330,000 AUD

[186] https://www.aspenmedical.com/news/aspen-medical-and-blueroom-set-transform-military-healthcare-training
[187] https://www.abs.gov.au/statistics/economy/international-trade/international-trade-supplementary-information-financial-year/latest-release
[188] Aspen Medical, *Aspen Medical Launches New Defence and National Security Division* (2025), https://www.aspenmedical.com/news/aspen-medical-launches-new-defence-and-national-security-division.

grant from the Alcoa Foundation, the Aspen Medical Foundation is partnering with the First Medical Union (FMU), Ukraine's largest health system. This collaboration supports FMU's "Unbroken" project, a leading initiative in Lviv providing comprehensive care to individuals affected by the war. The grant directly funds the procurement of high-quality, customised prosthetic limbs and facilitates a comprehensive training program for FMU's rehabilitation specialists. The program delivers essential services including reconstructive surgery, orthopaedics, and physical and psychological rehabilitation. This initiative extends beyond providing immediate medical relief; it is a long-term investment in the resilience of individuals and their communities. By upskilling local clinicians and strengthening the healthcare ecosystem, the project not only restores mobility and dignity but also enhances the overall standard of care in the region[189].

Supporting the development of companies like Aspen Medical through the support of ADF contracts, is also supporting the global supply of highly trained medical staff operating in a high ESG organisation.

Economic complexity is a critically low area of the Australian economy as the economy is dominated by the export of raw commodities. Supporting highly complex exports, such as healthcare and medical services, will assist the wider economy to gain in complexity and to improve the performance of the overall economy.

### Reduced risk and uncertainty

ADF working with Australian-owned and operated healthcare providers to support their operations gives financial support to those companies to establish a domestic base of highly skilled healthcare workers and related systems and technologies that are accustomed to working in defence-related environments and through the Defence systems. Having access to these services from a trusted Australian firm reduces risk and uncertainty for Defence globally, regardless of the country of operations, Defence personal will be able to access world-leading Australian trained and qualified medical teams. When a sudden increase in supply of medical services is needed at any point in the future, domestic firms with strong links to Defence would be able to rapidly increase capacity.

## Austal

Austal is a global defence prime contractor with proven expertise in designing, constructing, and supporting advanced naval vessels, including high-speed support ships and patrol boats.

The company specialises in developing innovative, high-speed defence platforms that offer multi-mission capability, flexible payloads, and cost-effective modular construction.

Austal's portfolio includes revolutionary surface combatants like the Independence-class LCS for the United States Navy, noted for its advanced trimaran design. The company also provides highly effective joint military support solutions, such as the Expeditionary Fast Transport (EPF) and High Speed Support Vessel. These catamarans are designed for the rapid deployment of troops, vehicles, and cargo.

Furthermore, Austal designs and constructs a wide range of patrol boats for government and law enforcement agencies globally, including the Cape Class for Australian service and the Guardian Class for Pacific nations.

Austal operates modern shipbuilding facilities in Henderson, Western Australia, and Mobile, Alabama, USA.

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[189] Aspen Medical, *Environmental, Social, and Governance Impact Report: 2023-24* (2024), https://www.aspenmedical.com/sites/default/files/2025-06/AU_58023_ESG_Report_v4.pdf.

### Increased domestic GDP

Austal is providing great increases in Australian capability in ship construction and marine technology that is providing high-skilled employment opportunities, profitable activity, exports, and technology innovation.


Exports to the USA, Philippines, and Vietnam are of great value to Australian economy. Defence providing contracts to an Australian-owned and operated business like Austal provides support for a firm to enter a highly competitive market and expand the domestic capacity to support marine operations for all types of businesses in Australia.

### Increased domestic taxation

Australin based businesses that can export to other countries are of benefit to the tax collections of the country as the revenue returning to Australia is taxed in Australia. Defence supporting Australian-owned and operated firms increases the proportion of the funding that will be returned to the government via the tax system.

### Skills development

Ship building and related marine skills are highly valued in the market and can lead to the expansion of many other parts of the economy. Skills like marine engineering can be used to expand civilian marine activities, fishing, transport ships, recreational boating, and many other areas that assist with developing the economy. Defence providing contracts to Australian-owned and operated firms keep those skills in Australia and allow for defence to call on the trusted Australian organisation in times of need.

### Wider economic gains

Austal have published targets that include 2030 a 50% reduction of embodied emissions (Scope 1, 2 and 3-upstream) and by 2050, a net zero commitment. Austal continues to advance research and development projects targeting improved methods to design and construct vessels with increased fuel efficiency and reduced emissions, or even no emissions (with the recently announced Austal-built cargo sailing ship), or ships that are ready for fuels of the future to be utilised. We continue to develop in areas such as additive manufacture, running the Additive Manufacturing Centre of Excellence in Danville, which looks like it will play a vital role in submarine build and support going forward.

Innovation with Austal USA's advanced technologies team is spearheading the effort to revolutionise the US Navy's supply chain through the implementation of additive manufacturing for castings, forgings, and fittings; and in August 2024, cut the ribbon on an expanded research centre in Charlottesville, Virginia. The 25,000 square feet (2,322 square metres) facility houses equipment for 'Industry 4.0' application development and has enabled the development of innovative technologies such as augmented reality tools for workforce training and shipyard manufacturing automation.

Leading a team of industry partners, Austal USA's advanced technologies team also operates the US Navy's Additive Manufacturing Centre of Excellence (CoE) in Danville, Virginia; the US Navy's flagship for additive manufacturing of components for the next generation of naval shipbuilding and repair. The CoE in Danville passed a major milestone in FY2025, with the printing of the 100th part in support of the US Navy's submarine fleets and industrial base.

### Reduced risk and uncertainty

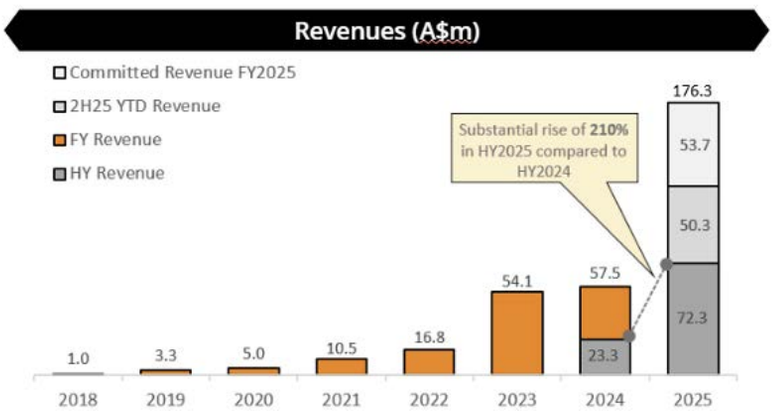
Developing an ongoing relationship between companies like Austal in Australia is a good way for Defence to reduce risk and uncertainty as new technologies IP will be kept in Australia, skills are developed in Australia using ADF systems, Austal engineers understand ADF needs, and if a rapid increase in delivery is required at some point, Austal would be well placed to deliver.

## DroneShield

DroneShield capabilities are used to protect military, government, law enforcement, critical infrastructure, commercial, and VIPs throughout the world. Through their team of engineers, they offer bespoke solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime, and airborne platforms.

### Increased domestic GDP

Drones are an ever-growing part of the economy and the protection of people and assets from drone activity is very important. With more than 370 employees and fast-growing revenues, DroneShield is an important part of the national economy in both direct activity and in the support of protecting many national assets. Exports of the range of capabilities is highly valuable financially to Australia and in support of allied and supportive countries. Defence support for companies like DroneShield provides opportunities to expand a high-technology business that can service many other parts of the economy.




*Note: As of August 2025*

Skills development

Understanding drone technology and the many aspects of defence against drones is a highly skilled and expanding part of the advanced skills development area. Many parts of the university training and trade training can be developed in relation to drone technology, including engineering, information technology, coding, radar, marine engineering, aeroplane technology, radio communications, and many others. Defence supporting Australian-owned and operated businesses like DroneShield will support the development of home-grown highly skilled people and related IP to enable Australia to become a leader in the field. Developing a strong relationship with the staff in these types of companies and Defence will allow for a seamless development of highly relevant skills that fit into the Defence frameworks and skills needs.

### Wider economic gains

Innovations developed in DroneShield are very likely to be helpful in developing many other parts of the national economy, including agriculture, policing, asset protection, prisons, boarder security, and many others.

### Reduced risk and uncertainty

The war in Ukraine demonstrates that modern warfare is defined by a relentless "adaptation battle," where the cycle of technological innovation and tactical response occurs in months or even weeks. The rapid proliferation and evolution of uncrewed aerial systems (UAS), or drones, have fundamentally altered the battlefield, creating significant new risks and operational uncertainty for military forces. For the ADF to maintain a strategic edge and protect its personnel, developing a robust, sovereign counter-drone technology capability is not merely an advantage—it is a strategic necessity.

*Reducing Tactical Risk and Battlefield Uncertainty*

The core lesson from conflicts like Ukraine is that uncontested airspace, even at low altitudes, is no longer guaranteed. The widespread use of systems—from small, first-person-view drones to more sophisticated platforms like the Shahed-136—proves that any adversary can now achieve lethal effects

traditionally reserved for established air forces. This creates immense uncertainty for land and maritime forces.

By developing and mastering advanced counter-UAS (C-UAS) technology, the ADF directly mitigates these risks:

1. Ensures Freedom of Manoeuvre: Effective C-UAS systems create a protective bubble around deployed forces, allowing them to operate without the constant threat of surveillance or attack from above. This restores a degree of certainty for commanders, enabling them to plan and execute missions with reduced risk to personnel and equipment.

2. Prevents Asymmetric Threats: Drones offer adversaries a low-cost, high-impact weapon. A sovereign C-UAS capability denies them this asymmetric advantage. By being able to detect, track, and neutralise enemy drones, the ADF can protect high-value assets, from naval vessels to critical infrastructure, which would otherwise be vulnerable.

3. Maintains the 'Adaptation Battle' Advantage: As Major General Mick Ryan notes, failure to adapt leads to defeat. Relying on off-the-shelf foreign systems means Australia will always be reacting to, rather than anticipating, new threats. By investing in our own C-UAS development, we create the industrial and intellectual base to innovate faster than our adversaries. This allows the ADF to control the tempo of the adaptation battle, rapidly developing and fielding new countermeasures as enemy drone tactics and technologies evolve.

*Anticipating and Defeating Future Threats*

The threat from drones is not static; it is rapidly evolving towards greater autonomy and complexity. The next generation of UAS will feature integrated AI and the ability to operate in coordinated "swarms," capable of overwhelming conventional air defences.

A proactive Australian C-UAS strategy must prepare for this future:

- Countering AI and Swarms: The future of C-UAS is not just about shooting down individual drones. It will involve sophisticated, networked systems that use AI to detect and prioritise threats, and advanced countermeasures like directed-energy weapons and cyber warfare to defeat entire swarms simultaneously. Developing this sovereign capability is essential to counter the next leap in UAS technology.

- Integrating a Multi-Domain Response: Future C-UAS will be part of a 'mesh network' of sensors and systems across all domains—sea, land, air, space, and cyber. An Australian-developed system can be designed from the ground up for seamless integration with ADF platforms and doctrines, ensuring a coordinated and effective response.

The lessons from Ukraine are unequivocal: the proliferation of UAS technology presents a clear and evolving threat. To reduce risk and uncertainty in a future conflict, the ADF cannot be a passive observer in the drone and counter-drone arms race.

Investing in a sovereign C-UAS capability provides more than just new equipment; it builds resilience, fosters innovation, and ensures our forces can out-think and out-manoeuvre any adversary. It is a fundamental investment in maintaining a technologically superior, adaptable, and effective defence force capable of succeeding on the complex battlefields of the future[190].

## Gilmour Space

Space is now a contested and operational domain central to modern defence. The Australian Defence Force's reliance on space-based and space-enabled technologies is expanding significantly for supporting networked capabilities, communication, ISR, precision navigation and timing, missile warning and operational engagement. Any disruption—whether from adversary action, supply-chain fragility, or commercial outages—creates immediate operational risk.

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[190] Australian Army Research Centre, *How Are Drones Changing Modern Warfare?* (2024), https://researchcentre.army.gov.au/library/land-power-forum/how-are-drones-changing-modern-warfare.

Australia's 2024 Defence Strategic Review and Defence Space Strategy both conclude that sovereign space capability is essential to national security, resilience, and freedom of action.

### Increased domestic GDP

As an emerging space nation, Australia has a significant opportunity to capture a larger share of the A$965 billion-a-year global space economy, a move critical for our economic prosperity, national security, and technological advancement.

Defence support to Gilmour Space and other companies like it will also assist the whole Australian economy develop a wide range of economically beneficial activities to increase GDP. Keeping the investment with Australian-owned and operated businesses ensures the IP, skills, and capability are kept in Australia. The range of technologies used to enable space transport, communications, and activity are vast and have many spin-off benefits to the wider economy.

### Skills development

Beyond technology development, the space sector is a proven growth engine that generates high-value, high-tech jobs and lifts productivity across the broader economy.

It develops a deep and diverse skills base essential for Defence and national resilience.

- Technical and Engineering: Advanced manufacturing, propulsion, optical and laser communications, RF, robotics, and complex systems integration are essential for developing space launch systems, mission-critical ground infrastructure, satellites and sensors.
- Data and Digital: Space activities drive national capability in data collection, analytics, AI and machine learning. These skills support Defence ISR, space domain awareness, and precision PNT services, while enabling civilian applications across agriculture, resources, climate modelling and disaster response.
- Research & Innovation: Australia's universities and research organisations contribute to world-class research in hypersonics, quantum technologies, optical comms, autonomy and AI, to name a few. This research pipeline fuels future capability development and supplies the next generation of deep-tech specialists essential to Defence.
- Commercialisation & Industry Growth: SMEs build niche capabilities and foster entrepreneurship, agility and rapid innovation. This accelerates the commercialisation of new space technologies—critical for delivering sovereign capability at pace and at lower cost.
- Government and Defence: Australia's new space sector is building sovereign expertise within Defence, the Australian Space Agency and government in areas like strategic policy, space law, regulation, space operations, secure communications, intelligence analysis (ISR), and complex program delivery.

These skills form a national asset, —strengthening Defence capability, supporting industrial resilience, and positioning Australia as a competitive and trusted partner in the global space economy.

### Wider economic gains

Developing a sovereign space industry in Australia generates significant and wide-ranging economic gains that extend far beyond the sector itself, acting as a powerful economic multiplier across the nation.

The primary economic benefits are delivered through productivity growth in key Australian industries. Space-enabled services, particularly Earth observation and precise PNT, enhance efficiency and create value in sectors such as:

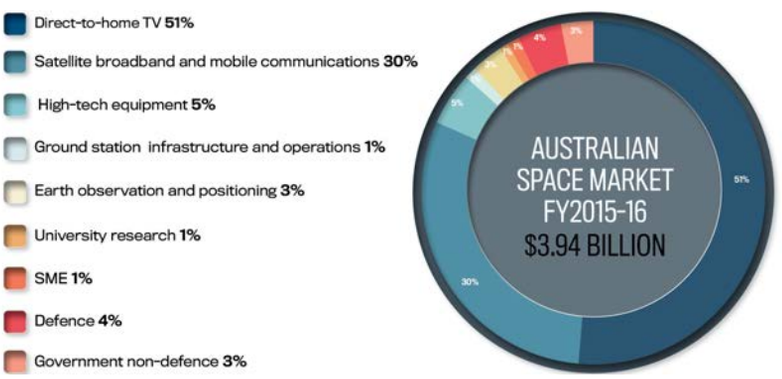
- Agriculture and Resources: Enabling precision farming, optimising water management, and improving the safety and efficiency of mining operations.
- Logistics and Transport: Underpinning supply chain management and enabling the growth of autonomous vehicle technology.
- Financial Services: Providing the essential, precise timing signals required for secure digital transactions.

Furthermore, the space industry stimulates the creation of new, high-growth commercial markets. It fosters a vibrant downstream data analytics sector, where businesses translate raw satellite data into valuable commercial insights for industries like insurance, urban planning, and environmental management. The advanced manufacturing and software development required for space applications also create valuable technological spin-offs, enhancing Australia's capability in fields like robotics, medical technology, and AI.

Investment in space can also drive significant regional development. The establishment of ground stations, launch facilities, and test ranges brings high-value infrastructure and skilled, high-paying jobs to regional and remote Australia, diversifying local economies.

Finally, building a sovereign space capability enhances Australia's overall economic resilience. It reduces our reliance on foreign partners for critical data and services, secures our digital infrastructure, and strengthens our position as a trusted and technologically advanced nation for international trade and investment. This strategic investment cultivates a more complex, resilient, and globally competitive national economy.

**Australian space market estimate for FY2015-16**[191]




## Reduced risk and uncertainty

Developing a sovereign Australian space industry is fundamental to reducing strategic risk and operational uncertainty for the ADF. By building domestic capability, Defence directly enhances its self-reliance, resilience, and operational effectiveness.

The key benefits for Defence are:

- Assured Access to Critical Capabilities: Sovereign control over space-based assets ensures the ADF has guaranteed and uninterrupted access to essential services. This includes precise PNT for navigation and weapons guidance; ISR for monitoring threats; and secure, resilient satellite communications for command-and-control. This mitigates the critical risk of being denied access to these services by foreign partners during a crisis.
- Enhanced Situational Awareness and Decision Superiority: A domestic space industry enhances Australia's SSA. This capability allows us to independently monitor space, track potential threats to our satellites, and manage the risk from space debris. This provides vital intelligence that reduces the risk of strategic surprise and enables decision superiority for ADF commanders.
- Resilient Supply Chains and Technological Edge: It cultivates a resilient sovereign industrial base capable of supporting, sustaining, and developing critical space technology in Australia. This secures supply chains for essential components and creates the skilled workforce needed to adapt and innovate faster than adversaries. This reduces the uncertainty associated with relying on vulnerable international suppliers for mission-critical technology.

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[191] Australian Space Agency, *Review of Australia's Space Industry Capability* (2018), https://www.space.gov.au/about-agency/publications/review-australias-space-industry-capability.

Ultimately, a robust national space industry transforms Defence's strategic posture from one of dependence to one of self-reliance and strategic autonomy. It provides the certainty and control necessary to protect Australia's national interests in an increasingly contested and complex global environment.

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## Macquarie Technology Group

Macquarie Telecom Group is a leading Australian provider of telecommunications, cloud, and data centre services, delivered through four distinct, specialised business divisions.

- Macquarie Telecom: Serves business customers as a full-service provider of data, voice, mobile, and colocation services, underpinned by its own Australian and New Zealand network infrastructure.
- Macquarie Cloud Services: Specialises in hybrid IT for business clients, integrating cloud, data centre, and storage solutions with a strong focus on meeting the compliance and IT standards required by the finance, payments, and government sectors.
- Macquarie Government: Is a dedicated provider for Australian government agencies, delivering specialised cyber security, secure cloud, and data centre services. It is a trusted partner to 42% of Federal Government agencies, including key Defence and Intelligence organisations.
- Macquarie Data Centres: Offers a comprehensive portfolio of certified and secure colocation services, scaling from single racks to multi-megawatt hyperscale requirements for large-scale clients.

Data centres and cloud services are foundational pillars of Australia's modern economy and national security, representing critical sovereign infrastructure for the digital age.

*Importance for National Development*

For national development, this infrastructure is the engine of the digital economy. It provides the essential platform for Australian businesses to compete globally, enabling innovation in every sector from finance and agriculture to advanced manufacturing.

The key economic and social benefits include:

- Economic Growth: Attracting significant foreign and domestic investment, creating high-skilled jobs, and fostering a vibrant technology ecosystem.
- Data Sovereignty: Ensuring that Australian data is stored on Australian soil, under the protection of Australian laws. This is vital for privacy, commercial security, and regulatory compliance.
- National Resilience: Reducing our reliance on international networks and infrastructure, which secures the continuity of essential services—from banking and logistics to government administration—in the event of global disruption.
- Innovation Catalyst: Providing the immense computing power necessary for research, AI, and big data analytics, which drives the next wave of economic advancement.

*Importance for Defence Capability*

For Defence, sovereign data centres and secure cloud services are a non-negotiable requirement for maintaining a capable, technologically advanced military force.

Their strategic importance is defined by:

- Sovereign Control: Hosting sensitive and classified Defence data in accredited, Australian-operated facilities, managed by security-cleared personnel, is paramount. This guarantees control over our most critical information and denies access to foreign adversaries.
- Decision Superiority: Modern defence is data-centric. Secure cloud platforms provide the high-performance computing required to rapidly process vast amounts of data from ISR assets. This accelerates analysis and gives commanders the information superiority needed to make faster, better decisions.
- Operational Agility and Resilience: Cloud services provide secure, resilient, and scalable platforms for mission-critical systems, from command-and-control to logistics. This allows Defence to rapidly deploy new capabilities and scale resources in response to emerging threats without being constrained by physical hardware.
- Enabling Future Capabilities: They provide the essential foundation for developing and deploying next generation military technologies, including AI, autonomous systems, and advanced cyber security defences.

A robust sovereign data centre and cloud industry is a strategic national asset that underpins both our economic prosperity and our ability to defend the nation effectively in an increasingly complex digital world.

### Increased domestic GDP

Data centres and cloud services are fundamental drivers of Australia's GDP, acting as the critical infrastructure that underpins the modern digital economy. Their contribution to national economic output is both direct and profound.

First, the sector makes a direct contribution to GDP through its own economic activity. This includes significant capital investment in the construction and maintenance of physical data centres, the creation of high-skilled jobs in engineering and technology, and the revenue generated from providing cloud and colocation services.

More significantly, this digital infrastructure functions as a powerful economic multiplier, boosting productivity and efficiency across all other sectors of the economy. By providing scalable and cost-effective computing power, it enables established Australian industries—such as finance, agriculture, resources, and logistics—to innovate, streamline operations, and enhance their global competitiveness. This widespread productivity uplift is a major contributor to national economic output.

Furthermore, data centres and cloud services are the essential platform for creating new, high-growth industries and revenue streams. They enable the growth of the data analytics, AI, and software-as-a-service sectors, allowing Australian businesses to develop and export high-value digital products and services to a global market.

In summary, data centres and cloud services are a foundational economic asset. Their contribution to GDP is delivered directly through their own industry value and, more importantly, indirectly by enabling the innovation, productivity, and global competitiveness of the entire Australian economy.

### Skills development

Data centres and cloud services act as a powerful catalyst for skills development, building the high-value, sovereign workforce Australia needs to compete in the global digital economy.

The sector directly cultivates a diverse range of specialised, high-demand technical skills. This includes expertise in cloud architecture, network engineering, data science, and cybersecurity, as well as specialised trades required for the construction and maintenance of critical infrastructure. This investment creates a deep pool of world-class technical talent within Australia.

Beyond direct employment, this infrastructure is a critical enabler of upskilling across the entire economy. As businesses in every sector—from finance to agriculture—migrate to the cloud, they must invest in developing the digital literacy and data analytics capabilities of their own workforce to leverage these new technologies effectively. This drives a broad-based uplift in the nation's digital competency.

Furthermore, the growth of the data centre and cloud industry sends a clear demand signal to Australia's education and training sectors. It drives the development of new university degrees, TAFE qualifications, and industry certifications, creating a sustainable talent pipeline. This ensures Australia is building the foundational skills necessary to lead in future technologies like AI and quantum computing.

In essence, a thriving domestic data centre and cloud industry is a strategic imperative for national skills development. It not only creates immediate, high-value jobs but also builds the broad-based digital capability required for Australia's long-term economic resilience and prosperity.

### Reduced risk and uncertainty

By actively supporting the development of data centres and cloud services from Australian-owned and operated firms, the ADF significantly reduces strategic risk and operational uncertainty. Building a sovereign industrial capability in this sector is a fundamental requirement for national security.

Engaging authentic Australian providers delivers the following critical benefits to Defence:

- Guaranteed Sovereign Control: It ensures that sensitive Defence data remains under exclusive Australian legal jurisdiction. This eliminates the risk of subjection to extraterritorial foreign laws and mitigates the threat of foreign interference or coercion, guaranteeing absolute control over critical information.
- Assured Continuity of Supply: A domestic industrial base provides Defence with guaranteed priority access to critical infrastructure during geopolitical crises or global supply chain disruptions. Relying on Australian-owned firms removes the uncertainty associated with dependence on foreign-controlled entities, ensuring mission-critical systems remain operational when needed most.
- Trusted Workforce and Security: Australian-owned providers utilise security-cleared Australian personnel to design, build, and operate these facilities. This creates a high-trust environment that directly reduces insider threat risks and ensures strict alignment with Defence’s protective security requirements.

Ultimately, fostering a robust, Australian-owned cloud and data centre sector transforms Defence’s posture from one of reliance on global providers to one of sovereign self-reliance. This provides the strategic certainty necessary to operate effectively and securely in a contested global environment.

## NIOA

NIOA operations include NIOA Australia, NIOA New Zealand, the Australian Missile Corporation, Barrett Firearms (USA), NIOA United Kingdom and Joint Venture company Rheinmetall NIOA Munitions. Australia’s largest supplier of firearms, optics, ammunition and accessories.

Rheinmetall NIOA Munitions (RNM) is a joint venture between Rheinmetall Waffe Munition GmbH (RWM) and NIOA. RNM has constructed and commissioned a greenfield munitions facility to forge and finish large calibre projectile shells for 155mm artillery munitions and metal parts for other munition-related products, such as mortar shell bodies and large calibre naval ammunition.

The Australian Missile Corporation, a 100% Australian-owned and independently operated company, was formed to support the Commonwealth Government's establishment of the Guided Weapons and Explosive Ordnance (GWEO) Enterprise. As an enterprise partner, we support GWEO Group in the establishment of domestic GWEO manufacturing capability.

Mission to provide the ADF with the guided weapons and explosive ordnance it will need to prevail on the battlefield, will achieve this by supporting the GWEO Enterprise to establish domestic GWEO manufacturing capability and support the delivery of GWEO manufacturing in Australia.

### Increased domestic GDP

NIOA and its associated entities directly increase Australia's GDP by establishing and expanding a sovereign defence industrial capability, focusing on high-value domestic manufacturing.

The company's contribution to national economic output is driven by several key activities:

Direct Capital Investment and Manufacturing: Through its joint venture, Rheinmetall NIOA Munitions, the company makes a direct contribution to GDP by undertaking advanced manufacturing in Australia. The construction and operation of its munitions facility represent significant capital investment and replaces the need to import critical defence materiel, which directly adds to national economic output.

Catalysing New Sovereign Industries: Via the Australian Missile Corporation, NIOA acts as a crucial enterprise partner in developing the national GWEO Enterprise. This work is fundamental to establishing a new, technologically advanced manufacturing sector, which will generate substantial long-term economic activity, high-value jobs, and sovereign IP.

Stimulating a Broader Economic Multiplier Effect: This domestic manufacturing activity creates high-skilled jobs in engineering, advanced manufacturing, and logistics. It also fosters a resilient local supply chain by engaging other Australian SMEs, generating further economic growth and business investment.

Creating Future Export Potential: By establishing a world-class domestic production base for munitions and guided weapons, NIOA creates the foundation for future export opportunities to allied nations. Securing international contracts would provide a further, significant boost to Australia's GDP.

### Skills development

Defence support for NIOA and its operations acts as a direct catalyst for developing a highly specialised, sovereign workforce in Australia, underpinning the nation's advanced manufacturing and defence industrial base.

By partnering with and procuring from NIOA, particularly in the GWEO Enterprise, Defence creates sustained, long-term demand for a range of critical skills. This fosters workforce development in several keyways:

Cultivating Advanced Technical Expertise: It drives the need for specialists in complex fields such as chemical and systems engineering, advanced materials science, precision manufacturing, robotics, and explosive ordnance science—skills that are otherwise scarce in Australia.

Building a Vocational Training Pipeline: The establishment of domestic manufacturing facilities necessitates a skilled vocational workforce. This stimulates growth in TAFE and VET qualifications for specialised technicians, advanced machinists, and quality assurance professionals who can operate and maintain world-class production lines.

Fostering R&D and Innovation Skills: Collaboration on GWEO development creates opportunities for Australian universities and research institutions, building a national talent pool in areas like propulsion, guidance systems, and advanced sensor technology.

Developing a Sovereign Industrial Workforce: Most importantly, this investment ensures that these critical industrial skills are developed and retained in Australia. It builds a self-sustaining ecosystem of expertise, reducing our reliance on foreign specialists and creating a resilient sovereign workforce capable of supporting, sustaining, and evolving Australia's defence capability for the future.

### Wider economic gains

Defence support for NIOA generates significant and wide-ranging economic gains that extend far beyond direct defence procurement, acting as a strategic investment in Australia's national prosperity and resilience.

This partnership drives several key benefits across the wider economy:

Stimulates Secondary Industries and Supply Chains: By committing to domestic manufacturing for projects like the GWEO Enterprise, Defence creates a powerful demand signal. This fosters a resilient ecosystem of Australian SMEs specialising in precision engineering, advanced electronics, logistics, and software development, generating widespread economic activity and jobs.

Drives Sovereign Innovation and IP: Collaboration between Defence and NIOA on advanced capabilities stimulates a national innovation ecosystem. It drives investment in research and development with universities and research institutions, leading to the creation of valuable sovereign IP. This not only enhances defence capability but also creates potential for technological spin-offs into other commercial sectors.

Enhances ESG Outcomes and National Resilience: This investment delivers strong ESG outcomes. It ensures munitions manufacturing occurs within Australia's strict environmental and safety regulations. Socially, it creates high-skilled, high-value jobs, often in regional areas, and builds national resilience by securing the sovereign supply of critical defence materiel.

Boosts Regional Development: The establishment of major manufacturing facilities, such as the Rheinmetall NIOA Munitions plant, provides a cornerstone for regional economic development. It brings direct capital investment, long-term employment, and opportunities for local businesses, diversifying and strengthening regional economies.

Defence's partnership with NIOA is not just a procurement activity; it is a strategic investment in building a more complex, resilient, and technologically advanced Australian economy, delivering enduring value and security for the nation.

### Reduced risk and uncertainty

Defence support for NIOA is a foundational strategy to mitigate strategic risk and operational uncertainty by establishing a sovereign industrial capability in essential munitions and guided weapons.

The primary benefit is the mitigation of supply chain risk. Partnering with NIOA to establish domestic manufacturing of munitions and guided weapons guarantees the ADF assured access to these critical supplies. It eliminates the uncertainty associated with dependence on foreign governments and vulnerable international shipping lanes, particularly during a conflict. This provides certainty of supply and the sovereign ability to build and replenish stockpiles according to Australia’s strategic needs, not international production schedules.

This partnership enhances sovereign control over our defence capability. It provides the ADF with the ability to sustain, maintain, and upgrade critical ordnance within Australia, using a trusted Australian workforce. This reduces the risk and uncertainty of long repair cycles dependent on overseas expertise and ensures that our weapons systems can be rapidly adapted to meet evolving threats, maintaining a crucial technological edge.

In essence, supporting NIOA is a direct investment in national resilience. It replaces the inherent uncertainty of global supply chains with the strategic certainty of sovereign self-reliance, ensuring the ADF has the critical capabilities it needs to defend Australia, when it needs them.

# Appendix 2. International procurement principles

There are various public procurement frameworks around the world, including the World Trade Organization (WTO) Government Procurement Agreement, the OECD Recommendations on Public Procurement, and the World Bank's Procurement Regulations, which set standard for how governments manage purchasing in a way that balances efficiency with integrity. In general, they are underpinned by broadly similar principles: transparency, non-discrimination - meaning that discrimination based on nationality is prohibited, value for money, and fair competition. The principles create a stable framework for procurement systems but also pose constraints on overtly favouring domestic suppliers

The WTO Government Procurement Agreement (GPA) explicitly recognises that legitimate exemptions exist for essential security and strategic interests. Defence and national security are specifically identified as an allowable exception to some of the principles in the WTO GPA. Understanding the flexibilities in this framework will be critical to assessing the scope for further CPR reform in support of sovereign capability.

Future refinements to the CPRs will need to respect international obligations but make use of recognised exemptions to advance sovereign capability. Other countries, particularly the EU and Nordic countries, are also grappling with this issue. The US has been highly critical of the GPA. In many countries, these motives to advance sovereign capability have grown stronger considering global developments (e.g. supply chain disruptions, security concerns, and other powers' protectionist measures).

It is important to note that Australia already has requirements to preference local suppliers (e.g., the Australian Industry capability (AIC) program, and that the CPR framework already includes requirements to consider 'broader economic benefits', which include the sovereign dividend. This report argues for optimising these requirements. Furthermore, an argument to strengthen preferences for procuring from Australian suppliers for certain strategic goods and services does not amount to favouring protectionism or isolationism. A balanced approach between Australian and foreign partner capability is essential. Australia faces significant structural challenges in defence sector transformation, including fragmented industrial capacity, workforce shortages—particularly in advanced trades, engineering, cybersecurity, and digital roles—and supply-side bottlenecks. Procurement must be strategic, and target increased domestic preference in priority areas—critical capabilities, innovation platforms, exportable technologies—while maintaining flexibility to access specific foreign technologies and capabilities from trusted international partners. Combining both approaches—expanding the overall domestic spend with Australian primes but utilising sovereign primes where logical—maximises economic return and resilience, while mitigating capacity risks. By carefully navigating this space, Australia can reconcile its commitment to open, rules-based procurement with its strategic imperative to develop a resilient domestic defence industry and sovereign capability.

## WTO Government Procurement Agreement (GPA)

The Agreement on Government Procurement (GPA)[192] 2012 requires that open, fair and transparent conditions of competition be ensured in government procurement. The Agreement establishes General Principles and detailed procedural requirements that the GPA parties are obliged to apply in the covered procurement activities. The basic principles are non-discrimination, transparency and procedural fairness.

[192] World Trade Organization, *Agreement on Government Procurement 2012 and Related WTO Legal Texts* (2012), https://www.wto.org/english/tratop_e/gproc_e/gpa_1994_e.htm.

The General Principles, as set out in Article IV of the GPA, are summarised below.

**GPA Article IV General Principles (WTO GPA)**

Non-Discrimination

1. With respect to any measure regarding covered procurement, each Party, including its procuring entities, shall accord immediately and unconditionally to the goods and services of any other Party and to the suppliers of any other Party offering the goods or services of any Party, treatment no less favourable than the treatment the Party, including its procuring entities, accords to:

(a) domestic goods, services and suppliers; and

(b) goods, services and suppliers of any other Party.

2. With respect to any measure regarding covered procurement, a Party, including its procuring entities, shall not:

(a) treat a locally established supplier less favourably than another locally established supplier on the basis of the degree of foreign affiliation or ownership; or

(b) discriminate against a locally established supplier on the basis that the goods or services offered by that supplier for a particular procurement are goods or services of any other Party.

...

Conduct of Procurement

4. A procuring entity shall conduct covered procurement in a transparent and impartial manner that:

(a) is consistent with this Agreement, using methods such as open tendering, selective tendering and limited tendering;

(b) avoids conflicts of interest; and

(c) prevents corrupt practices.

Rules of Origin

5. For purposes of covered procurement, a Party shall not apply rules of origin to goods or services imported from or supplied from another Party that are different from the rules of origin the Party applies at the same time in the normal course of trade to imports or supplies of the same goods or services from the same Party.

The GPA sets out detailed procedural requirements regarding the procurement process designed to ensure that covered procurement under the Agreement is carried out in a transparent and competitive manner that does not discriminate against the goods, services or suppliers of other parties, avoids conflicts of interest and prevents corrupt practices. There are allowable exceptions, which are specified in Article III, and include national security and defence.

Article III Security and General Exceptions

1. Nothing in this Agreement shall be construed to prevent any Party from taking any action or not disclosing any information that it considers necessary for the protection of its essential security interests relating to the procurement of arms, ammunition or war materials, or to procurement indispensable for national security or for national defence purposes.

2. Subject to the requirement that such measures are not applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination between Parties where the same conditions prevail or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent any Party from imposing or enforcing measures:

(a) necessary to protect public morals, order or safety;

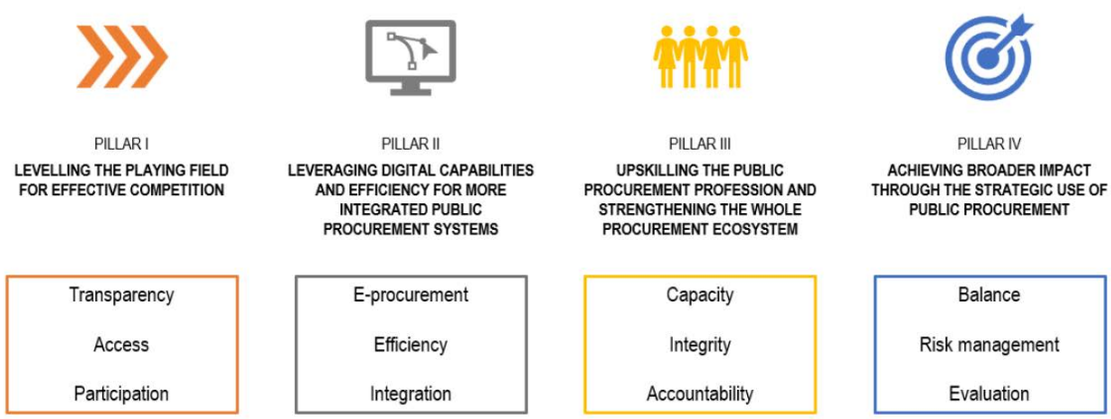
(b) necessary to protect human, animal or plant life or health;

(c) necessary to protect intellectual property; or

(d) relating to goods or services of persons with disabilities, philanthropic institutions or prison labour

## OECD Principles for Procurement

The OECD Recommendation on Public Procurement (2024) contains four main thematic pillars under which there are 12 integrated principles for efficient and effective public procurement: transparency, integrity, access, balance, stakeholder participation, efficiency, e-procurement, capacity, evaluation, risk management, accountability, and integration.




## World Bank Procurement Regulations

The World Bank's Procurement Regulations[193] are guided by the core procurement principles of:

- value for money,
- economy,
- integrity,
- fit for purpose,
- efficiency,
- transparency and
- fairness.

The World Bank states that in applying these principles, borrowers should consider opportunities to maximise value for money, achieve economies of scale and improve efficiency of procurement, while preserving fitness for purpose, integrity, transparency and fairness.

## Europe

While not strictly international, the European Commission establishes public procurement principles through EU directives that cover members of the EU and other European countries (e.g., those in the EEA). The EU directive on public procurement encompasses the procurement of defence equipment. The EU Directive 2014/24, 2014 on public procurement, which encompasses defence, stipulates that national authorities must adhere to the public procurement principles ensuring equal treatment of all applicants and the absence of discrimination. In addition, the EU directive mandates that interactions and long-term contracts should not distort competition and should follow the principles of non-discrimination and transparency.[194]

[193] World Bank, *The World Bank Procurement Regulations for IPF Borrowers* (World Bank, 2025), https://thedocs.worldbank.org/en/doc/c84273d1b230aeb2b0b8134de5dc8cd7-0290012025/original/Procurement-Regulations-7th-Edition-Sep-2025.pdf.
[194] Hellberg, "Swedish Public Procurement and the Defence Industry."

## CPRs and trade agreements

The CPRs (para 4.8) state that the procurement policy operates within the context of relevant national and international agreements and procurement policies to which Australia is a signatory, including free trade agreements and the Australia and New Zealand GPA.

## AUKUS partnership

The AUKUS partnership, announced in September 2021, is a trilateral security alliance between Australia, the United Kingdom, and the United States aimed at promoting a free and open Indo-Pacific through enhanced military capabilities and technology sharing.

It comprises two pillars. Pillar I focuses on providing Australia with conventionally armed, nuclear-powered submarines to bolster undersea deterrence, while Pillar II emphasizes collaboration on advanced technologies such as artificial intelligence, quantum computing, cyber capabilities, and hypersonic systems to strengthen interoperability and integrated defence. The framework builds on existing alliances such as the Five Eyes intelligence network, responding to regional security challenges by fostering joint innovation and burden-sharing among partners.

A balanced approach toward preferencing Australian-owned primes and SMEs to building sovereign capability in Australia would strengthen alliance commitments by enabling more equitable contributions to joint efforts, and thus aligning with AUKUS goals of integrated deterrence in the Indo-Pacific. Furthermore, both the United States and United Kingdom uphold robust domestic procurement policies, which they are currently strengthening and do not regard as counter to the AUKUS partnership. There has been no meaningful retaliation to the local preference policies introduced by the US or UK, or by other countries, such as Japan and Canada and the EU. Moreover, the procurement changes advocated are modest, targeted and defensible as sovereign capability measures, and clearly do not equate to protectionism. Ultimately, a more capable Australian defence industry would enhance burden-sharing under AUKUS, reducing overall dependency and amplifying the collective strategic position.

# Appendix 3. International benchmarking of defence procurement policies

Globally, there is a clear, concrete trend toward structuring defence procurements to build sovereign capability, secure local supply chains, and support domestic industry. In this section, we review the relevant policy frameworks in the US, UK and EU countries.

## United States: Put American First

Recent US policies and legislation emphasise domestic procurement and "onshoring" (the transfer of production activities from abroad to the United States). Defence-specific onshoring has been the focus of a number of recent National Defense Authorization Act (NDAA) provisions, and is frequently cited as a goal by Department of Defence officials.195 Defence procurements are subject to numerous requirements intended to a) restrict the foreign sources from which the government may acquire goods and services; and b) encourage procurement from domestic sources. Lawmakers have cited numerous reasons for sourcing and content requirements, including:

- Ensuring that the United States has secure access to critical services, products, and materials during a war or national emergency;
- Avoiding the provision of financial or material support to entities working against US interests, such as strategic competitors or terrorist organizations; and
- Supporting domestic producers and stimulating the US economy.

These requirements are established by statute—for example, the Buy American Act of 1933 and the Berry Amendment—or by regulation or policy—for example, the enhanced domestic content threshold established pursuant to Executive Order 14005. [196]

The table below provides a summary of selected sourcing requirements relevant to the US defence industrial base.[197]

*Table 17: Selected Defence Industry Sourcing Requirements and Restrictions*[198][199]

| Authority | Organisation(s) Covered | Requirement/Restriction |
|---|---|---|
| The Buy American Act (41 U.S.C. §§8301–8305); E.O. 14005; 87 FR 12780. | All federal agencies<br>Applies to procurements of supplies and construction materials whose value exceeds the micro-purchase threshold (typically $10,000) conducted in the United States, unless the Trade Agreements Act of 1979 | The US government must apply a price preference for domestic end products and use domestic construction materials for covered contracts.<br>For a good to qualify as a domestic end product, a certain proportion of its value must be mined, produced, or manufactured in the United States.<br>For products consisting mainly or wholly of steel and/or iron, this threshold is 95%; |

[195]For DOD discussion of the issue, see, for example, David Vergun, *DOD Official Discusses Strengthening the Industrial Base* (U.S. Department of War: DOD News, 2023), https://www.war.gov/News/News-Stories/Article/Article/3354413/dod-official-discusses-strengthening-the-industrial-base/.

[196] Luke A. Nicastro, *The U.S. Defense Industrial Base: Background and Issues for Congress*, no. R47751, CRS Report (Congressional Research Services, 2024), https://www.congress.gov/crs-product/R47751.

[197][197] Exceptions to the domestic content restrictions of the Buy American Act, the Berry and Kissell Amendments, and the Specialty Metals and Sensitive Materials Restrictions are possible under certain circumstances (e.g., the Trade Agreements Act of 1979 allows the President to waive restrictions on eligible items, and procuring agencies may waive restrictions under certain circumstances).

[198] Nicastro, *The U.S. Defense Industrial Base: Background and Issues for Congress.*

[199] David H. Carpenter and Brandon J. Murrill, *The Buy American Act and Other Federal Procurement Domestic Content Restrictions*, CRS Report no. R46748 (Congressional Research Services, 2022), https://www.congress.gov/crs-product/R46748.

| Authority | Organisation(s) Covered | Requirement/Restriction |
|---|---|---|
| | (TAA) (19 U.S.C. §§ 2501-2581) applies.<br><br>The TAA permits the waiver of the BAA and has resulted in "eligible products" from "designated countries" receiving equal consideration with domestic offers for certain federal acquisitions exceeding specified monetary thresholds;<br><br>(Under the TAA, Offers of eligible products from designated countries must be treated the same as domestic offers. Exceptions to the TAA include (among others) acquisitions of arms, ammunition, war materials, or items indispensable for national security or defence.) | for non-steel/iron manufactured products, this threshold is 60% (unless it is a commercially available off-the-shelf item); and non-steel/iron unmanufactured products must be mined or produced in the United States.<br><br>The content threshold for non-steel/iron manufactured products increased to 65% in 2024 and is scheduled to rise to 75% in 2029, consistent with 97 FR 12780 and Sec. 835 of the FY2024 NDAA (P.L. 118-31).<br><br>Sample of exceptions to the BAA: Procuring domestic items is impracticable or inconsistent with the public interest; domestic items are of insufficient quantity or quality; domestic items are unreasonable in cost; the agency acquires items for commissary resale; the agency acquires IT that is a commercial item. |
| Sec. 889 of the FY2019 NDAA (P.L. 115-232) | All executive agencies | No executive agency may acquire telecommunications and video equipment, systems, or services produced or provided by certain foreign suppliers. |
| Sec. 5949 of the FY2023 NDAA (P.L. 117-263) | All executive agencies | No executive agency may acquire semiconductor products or services produced or provided by certain foreign suppliers. |
| Berry Amendment (10 U.S.C. §4862) | DOD | Textiles, clothing, footwear, food, hand or measuring tools, stainless steel flatware, or dinnerware procured by DOD must be 100% domestic in origin. |
| Specialty Metals Restriction (10 U.S.C. §4863) | DOD | DOD may not acquire certain weapons systems that contain any amount of a specialty metal not melted or produced in the United States (as defined by 10 U.S.C. §4863). |
| Sensitive Materials Restriction (10 U.S.C. §4872) | DOD | Sensitive materials or products containing sensitive materials (as defined by 10 U.S.C. §4872) may not be sourced from Russia, Iran, the PRC, or the DPRK. |
| Sec. 1211 of the FY2006 NDAA (P.L. 109-163), Sec. 1243 | DOD | DOD may not acquire items covered by the US Munitions List or the 600 series of |

| Authority | Organisation(s) Covered | Requirement/Restriction |
|---|---|---|
| of the FY2012 NDAA (P.L. 112-81), and Sec. 1296 of the FY2017 NDAA (P.L. 114-328) | | the Commerce Control List from any Chinese military company. |
| 10 U.S.C. §2279 | DOD | DOD may not contract for satellite services with certain foreign entities. |
| 10 U.S.C. §4871(b) | DOD | DOD may not contract with a firm owned or controlled by a state sponsor of terrorism. |
| Sec. 855 of the FY2023 NDAA (P.L. 117-263) | DOD | DOD may not procure goods mined, produced, or manufactured by forced labour from China's Xinjiang Uyghur Autonomous Region. |
| Kissell Amendment (6 U.S.C. §453b) | DHS | Textiles, clothing, or footwear procured for national security purposes by DHS must be 100% domestic in origin. |

In addition to these policies, there are procurement requirements under the Federal Acquisition Regulation (FAR), [200] including:

- Part 25 of the FAR contains a list of countries designated by the United States Trade Representative for whom the BAA is waived for eligible products. This list includes (1) parties to the WTO GPA; (2) parties to most US free trade agreements; (3) certain least developed countries; and (4) certain Caribbean Basin countries.
- The DoD supplement (DFARS).
- The service-specific supplements: the Army Federal Acquisition Regulation Supplement (AFARS), the Department of the Air Force Federal Acquisition Regulation Supplement (DAF-FARS), and the Navy Marine Corps Federal Acquisition Regulation Supplement.

As a recent reviewer commented, "The US defense procurement system is, notoriously, fiendishly complex,"[201] which in itself contributes to favouring domestic suppliers. As an example of this complexity, general 'Buy American' requirements are statutorily established (41 U.S.C. §§8301–8305), but the threshold for goods to qualify and other specific implementation requirements have been set by a rule (RIN 9000-AO22, published at 87 *Federal Register* 12780, March 7, 2022) implementing an Executive Order (E.O. 14005).

### Buy American - Whole-of-Government “onshoring”

US Congress and the executive branch have recently pursued several major policy and legislative initiatives intended to encourage a 'whole-of-government' approach to onshoring, including:

- Executive Order 14005 of January 25, 2021 ("Ensuring the Future is Made in All of America by All of America's Workers"); E.O. 14005 established a new Made in America Office within the Office of Management and Budget, introduced new restrictions on agency use of waivers from domestic

[200] U.S. General Services Administration, *Access the Federal Acquisition Regulation* (2025), https://www.acquisition.gov.
[201] Daniel Schoeni, “A Primer on U.S. Defense Procurement,” *Upphandlingsrätt Tidskrift* 2 (June 2024): 87–116.

procurement laws, and directed the Federal Acquisition Regulations Council to consider strengthening domestic procurement regulations.[202]

- the CHIPS Act of 2022 (Division A of P.L. 117-167). The CHIPS Act of 2022 contained provisions to incentivize the domestic manufacture of semiconductors.[203]; for more information, see CRS Report R47523, *Frequently Asked Questions: CHIPS Act of 2022 Provisions and Implementation*.

### "Friendshoring"

Some US policies promote 'friendshoring' (the transfer of production activities from adversarial or non-aligned countries to US allies and partners) as an alternative to onshoring to strengthen supply chain resilience. As reviewed in the table above, there are regulations restricting supply from China, for example.

Other regulations direct that defence procurement can or must be (in some circumstances) from the National Technology and Industrial Base (NTIB), which is defined as "the people and organisations engaged in national security and dual-use research and development (R&D), production, maintenance, and related activities within the United States, Canada, the United Kingdom, Australia, and New Zealand."[204] The NTIB is established by 10 U.S.C. §4801 "to support the national security objectives of the United States, including: supplying military operations; conducting advanced R&D and systems development to ensure technological superiority of the US Armed Forces; securing reliable sources of critical materials; and developing industrial preparedness to support operations in wartime or during a national emergency." Procurement of conventional ammunition can be restricted to NTIB sources (10 U.S.C. Ch. 223 note proceeding); fire-resistant rayon fiber in uniforms may only be procured from a non-NTIB member if NTIB sources are not available (10 U.S.C. §4862 (note)); and buses, chemical weapons antidotes, ball and roller bearings, satellite "star trackers," and certain components for naval vessels may only be procured from NTIB manufacturers, unless the Secretary of Defense waives this restriction (10 U.S.C. §4864).

### Criticism of the WTO GPA

Recent policy commentary has focused on perceived imbalances in WTO Government Procurement Agreement (GPA) commitments, and reviewing or renegotiating Reciprocal Defense Procurement (RDP) agreements to better protect the US defence industrial base.[205] [206] In a summary report released in April 2025 (full report not released, only the executive summary), the US criticized the WTO GPA rules and argued for a revision of Reciprocal Defence Procurement agreements (RDPs) to "Put America First":

> *"Buy American is the epitome of common-sense public policy. In recent decades, the United States has weakened domestic procurement preferences by opening up our procurement market pursuant to the World Trade Organization's (WTO) Agreement on Government Procurement (GPA). Unfortunately, this market access is lopsided. A 2019 report by the Government Accountability Office (GAO) on the GPA found that in 2010, the United States reported $837 billion in GPA coverage. This was twice as much as the $381 billion reported by the next five largest GPA parties (the EU, Japan, South Korea, Norway, and Canada), despite the fact that total US procurement was less than that of these five partners combined. Moreover, some GPA partners open their procurement markets to third countries who are not parties, forcing US suppliers to compete for the preferential market access they are entitled to under the agreement. To address this lack of reciprocity and unfair competition, the United States should modify or renegotiate the GPA, and if unsuccessful, withdraw.*
>
> *An additional challenge is that, although defense procurement is closed to GPA partners, the Department of Defense still gives countries access to our huge defense procurement market by negotiating Reciprocal Defense Procurement (RDP) agreements. Shockingly, these RDPs not only*

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[202] US Federal Register, *Ensuring the Future Is Made in All of America by All of America's Workers*, Executive Order 14005 (2021), https://www.federalregister.gov/documents/2021/01/28/2021-02038/ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers.
[203] Emily G. Blevins et al., *Frequently Asked Questions: CHIPS Act of 2022 Provisions and Implementation*, no. R47523 (Congressional Research Services, 2025), https://www.congress.gov/crs-product/R47523.
[204] Nicastro, *The U.S. Defense Industrial Base: Background and Issues for Congress*.
[205] Christopher Yukins, *President Trump and Buy American* (Public Procurement International: The Overlooked Report, 2025), https://publicprocurementinternational.com/2025/04/06/trump-and-buy-american-the-overlooked-report/.
[206] The White House, *Report to the President on the America First Trade Policy Executive Summary* (2025), https://www.whitehouse.gov/fact-sheets/2025/04/report-to-the-president-on-the-america-first-trade-policy-executive-summary/.

*open our market to foreign suppliers, but also require US firms to move industrial capacity offshore as a condition of access to the markets of partner countries. These RDPs must be reviewed to ensure they put America First."*

Nevertheless, in 2024, the DoD was reportedly expanding the scope and scale of industrial collaboration with foreign governments and companies, including the co-development and co-production of weapons systems and other defense equipment.[207] It is not clear whether the US will shift to cooperation on a narrower bilateral basis rather than through institutionalised multilateral partnerships.

# United Kingdom: Defence spending as an "Engine for Growth" for British industry

In the UK, defence spending is rising in response to the Ukraine war and growing geopolitical tensions. The UK government is increasing defence spending and placing emphasis on the "defence dividend" for the economy. The government has a set of defence spending target of at least 2.5% of GDP by April 2027, with an ambition to reach 3%. Increasing priority is given to national security and the development of a British defence industry, and to ensuring that increased defence budgets benefit UK industry and jobs. The Minister for Defence commented that "a military is only as strong as the industry which stands behind it."

Reforms to procurement are a component of the increased emphasis on British defence. In May 2025, the UK government announced an "Engine for Growth" package of procurement reforms to speed up defence spending, hasten procurement, boost small business innovation and turn Britain into a "defence industrial superpower."[208]

The defence industry and procurement-related reforms include:

- Procurement timelines reduced: A segmented, faster process for equipment and services, with targets such as 6→2 years for major hardware, 3→1 years for system upgrades, and off-the-shelf buys in quarterly cycles. For example, contracting time for major kit (planes, tanks and ships) is to be cut from an average of six years to two, while upgrades and software buys are accelerated to one year and purchases such as drones to three-month cycles.
- UK Defence Innovation organisation: a new organisation with a ring-fenced £400 million budget to invest in advanced technologies for defence, aiming to boost UK defence jobs and skills. Led by the Minister of Defence. A minimum of 10% of the equipment budget is dedicated by new technologies such as drones and AI.
- Defence Industrial Joint Council: establishment of the Council to coordinate public-private investment.
- Tech Scaler (Marketplace): A new MoD digital platform to drive innovations from lab to front line. The government has already signed enterprise agreements with AI and software firms (e.g. Adarga, Hadean) worth up to £50 million.
- Measures to ensure SMEs share in the growth

An outline of the UK's Procurement Act is provided below. Since introducing the Act, procurement in the UK has been undergoing further investigations and reforms.

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[207] Nicastro, *The U.S. Defense Industrial Base: Background and Issues for Congress*.
[208] Defence Secretary John Healey, cited in: Keystone Procurement, *UK Defence Unveils Procurement Reforms and SME Innovation Package* (2025), https://keystoneprocurement.eu/uk-defence-unveils-procurement-reforms-and-sme-innovation-package/.

*Text Box 27:* UK Procurement Act

**The Procurement Act 2023**

The UK's primary procurement legislation is the Procurement Act 2023, which came into effect in February 2025.

Primary legislation: the Procurement Act 2023; secondary legislation: Public Regulations 2024. The UK's Procurement Act 2023 came into effect on 25th February 2025. Section 12 of the Procurement Act 2023[209] mandates that contracting authorities must have regard to:

- Delivering value for money
- Maximising public benefit (analogous to broad social value)
- Sharing information for transparency
- Acting with integrity
- It also requires equal treatment and non-discrimination among suppliers (unless objectively justified), and attention to SME participation.

The Act does not define value for money or public benefit, but the concept of value for money is refined by HM Treasury (HMT) from time to time in publications on gov.uk such as HMT's Green Book. Defence and Security contracts, which were previously under separate legislation, were incorporated into the main rules of the 2023 Act with some exemptions.

### Further public procurement reforms proposed aiming at "growing skills and jobs in British industry"

In June 2025, the UK government published a new consultation that will introduce further wide-ranging changes to public procurement law.[210] The intention of the procurement changes is to:

> *"build on the changes introduced in the Procurement Act 2023 to ensure that public procurement plays its full role in delivering the Government's industrial strategy and fostering a resilient economy that supports British businesses and creates good jobs in communities across the country. These reforms will enhance the UK's economic resilience and strengthen supply chains in line with the Government's industrial strategy."*[211]

The proposals for change are designed to support national capability; good quality local jobs and skills; and small businesses and social enterprises. The proposals particularly relevant to defence procurement are as follows:

#### *Supporting national capability proposal*

- Giving powers to ministers to designate that specific services, goods or works are critical to national security, and requiring contacting authorities to take this into account when considering whether the national security exemption in the Procurement Act applies to a relevant procurement.

This is designed to protect the UK's national interests and would allow for *direct award with trusted suppliers*. The proposal would allow for prioritising British suppliers: "*Where a service or product is designated as critical, contracting authorities would need to review their purchasing plans to assess any potential risks involved in depending on international suppliers ... This targeted approach would enable us to make informed procurement decisions that protect vital industries, strengthen supply chains and ensure a stable supply of essential goods."*[212] The UK Government included this proposal in the consultation paper but is consulting with national security stakeholders not the general public.

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[209] Cabinet Office (UK), *Guidance: Covered Procurement Objectives* (2025), https://www.gov.uk/government/publications/procurement-act-2023-guidance-documents-plan-phase/guidance-covered-procurement-objectives-html.
[210] Cabinet Office (UK), *Public Procurement: Growing British Industry, Jobs and Skills - Consultation on Further Reforms to Public Procurement* (2025), https://www.gov.uk/government/consultations/public-procurement-growing-british-industry-jobs-and-skills-consultation-on-further-reforms-to-public-procurement.
[211] Ibid.
[212] Ibid.

The government is not inviting public consultation on this proposal but will engage with relevant national security stakeholders as necessary.

*Supporting good quality local jobs and skills*

Proposal to require contracting authorities to set at least one award criteria in major contract procurement (£5million+) which relates to the quality of that supplier's contribution to jobs, opportunities or skills. There will be a minimum weighting of 10% for social value award criteria. To improve the ease of bidding and reporting standard social value criteria and metrics will be selected from a streamlined list (to be designed with input from the public sector and suppliers). Contracting authorities can choose whether the location of delivery of the social value is (i) the area of the contracting authority's responsibility, (ii) the location of performance of the contract or (iii) the location where the supplier is based.

Supporting small businesses and social enterprises

The proposals here include requiring large contracting authorities who spend over £100million in each year to publish a three-year target for their own direct spend with SMEs and VCSEs, and then report on progress annually.

The consultation process closed on 5th September 2025.

# Europe

## European Union: SAFE regulation and "European preference"

Until now there have been no Buy European rules. Through the WTO Government Procurement Agreement (GPA) and bilateral free trade agreements, foreign bidders from dozens of partner countries (including the United States, Japan, Canada, and others) are permitted to compete for many EU public contracts on equal footing. This openness has been a hallmark of EU procurement law and is credited with fostering competition, value for money for taxpayers, and international trade cooperation. Introducing a preference for European bidders, even if limited to strategic sectors, represents a notable policy shift.

The EU is also focusing on enhancing its defence capabilities, driven by concerns over the Russia-Ukraine war. This focus includes establishing a European "defence industrial base", with the European Commission stating that "strengthening the EU's defence readiness and capability investments requires a strong, agile and resilient technological and industrial base."[213]

The EU and its member states are increasingly prioritising strategic autonomy by reducing reliance on traditional external partners and reinforcing the resilience of their national supply chains and industrial ecosystems.

The European Commission is coordinating the EU member states on defence and driving strategic policies. Guidance notes by the European Commission are legally non-binding, and the EU member states traditionally have the final authority for approving decisions about defence policy. Some aspects, like arms exports and capability planning, remain outside the EC's control. Nonetheless, member states often comply with EC guidance.

The ReArmEurope Plan (March 2025) and accompanying White Paper on European Defence (2025)[214] commit to a rapid increase in European defence investment of up to EUR 800 billion, and introduce the Security Action for Europe (SAFE) regulation to provide loans to European member countries to carry out "urgent and major public investments" in defence. The EC's Readiness 2030 package (March 2025) allows member states to temporarily exceed the net expenditure paths set out by the Council to finance increased defence spending up to 1.5% of GDP for a period of four years (2025-2028). A majority of member states have elected to do so.

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[213] European Commission, "A New European Defence Industrial Strategy: Achieving EU Readiness through a Responsive and Resilient European Defence Industry. Source: JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS," 2024, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024JC0010.

[214] European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *Joint White Paper for European Defence Readiness 2030* (2025), https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf.

There is a strong emphasis in the White Paper and other EC documents on the development of a "European Defence Technological and Industrial Basis (EDTIB);" the 2024 European Defence Industrial Strategy (EDIS) underlines the need for member states to "*spend more, better, together and European ... to reverse negative trends"* affecting the EDTIB. The EDIS highlighted that EU member states were buying predominantly alone and from abroad, particularly from the US. "This trend undermines the competitiveness of the EDTIB and results in EU taxpayers' money creating jobs abroad and must thus be reversed."

The White Paper argues that a strong and competitive European defence industry is an essential component of the European defence strategy - "*A responsive and competitive EDTIB is the foundation of any credible European role in its own defence and security"* and that investment in and sourcing from EU industries must increase:

> *The European defence industrial sector is an indispensable prerequisite of defence readiness and credible deterrence. Whereas several EU defence companies are globally competitive, the EU defence industrial base still has structural weaknesses. At present, the European defence industry is not able to produce defence systems and equipment in the quantities and speed that member states need. It remains too fragmented with dominant national players catering mostly to domestic markets. It has also suffered from under-investment and there is a need to increase our investment in and sourcing from the EU industrial sector*. [215]

The EU largely relies on the US for critical systems such as missile defence, aircraft engines, and drones, where European alternatives are often less technologically developed or uncompetitive. Without greater consolidation of its defence industry and procurement policies, the EU will struggle to reduce its dependence on external suppliers, limiting its strategic autonomy.

These arguments are also made in the Competitive Compass (2025, January), which commented that

> *the EU is highly dependent on non-EU suppliers. There is a material risk that the EU falls behind in defence innovation and the development of new advanced weapons' systems, with negative spillovers to dual-use technologies. The European defence industry must be able to deliver on the full spectrum of capabilities and be a driver of innovation for the entire economy.*
>
> *We need to enhance and support the member states' efforts to invest more, better, together, and European.*[216]

### Local procurement preferences in SAFE

The SAFE instrument, which was adopted on 27 May 2025 by the Council, is a new EU financial instrument, backed by funding of up to EUR 150 billion, that will support member states that wish to invest in defence industrial production through common procurement, focusing on priority capabilities.

SAFE provides for specific "European" sovereignty requirements that participants need to meet to be eligible — as a contractor or a subcontractor — for a contract funded via SAFE. Participants must meet the following conditions:

- They must be established in the EU, an EEA EFTA state or Ukraine.
- They must have their executive management structures in the EU, an EEA EFTA state or Ukraine.
- They must not be subject to control by another third-country entity that is not established in the EU, an EEA EFTA state or Ukraine. If a potential participant is subject to non-EU control, they can provide guarantees, verified by the member state of establishment, that provide assurances that security and defence interests are not at risk.

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[215] Ibid.
[216] European Commission, "A Competitiveness Compass for the EU."

- They must only use infrastructure, facilities, assets and resources located in the territory of a member state, an EEA EFTA state or Ukraine.

Similar requirements are provided for in the European Defence Fund Regulation (EU) 2021/697, the European Defence Industry Programme proposal COM (2024) 150, the Horizon Programme Regulation (EU) 2021/695, and in the Regulation for General EU Budget Regulation 2024/2509 (EU).

Recommendations to raise targets for defence procurement from EU suppliers have been made by the European Commission, as flagged in its "A New EDIS" document (2024).[217] This set a goal of procuring at least 50% of defence investments within the EU by 2030 and 60% by 2035. This will require a significant downward adjustment, as in 2024, 80% of EU member states' defence investments were implemented with non-EU suppliers and only 20% with EU suppliers.

### Review of the public procurement rules by 2026 - "European preference"

The 2025 White Paper flags a review of the public procurement rules to allow for the introduction of a "European preference" in public procurement for critical sectors and technologies. The White Paper comments:

> *To support the defence industry to overcome these weaknesses, the revision process of the EU directive on defence and sensitive security procurement scheduled for 2026 will take into account the Competitiveness Compass recommendation to introduce a European preference*.

The proposal to introduce a "Buy European" criterion in public procurement would essentially give preference to European-origin goods, services, or firms in certain tenders. The White Paper comments on benefits to EU industry and economy from European procurement:

> *Investing in European defence readiness not only guarantees us the peace of tomorrow; it is also an enabler of our competitiveness ambition for European manufacturing.*
>
> *Existing value chains or manufacturing capacities in our traditional industries – automotive, steel, aluminium or chemicals – can find new opportunities in repurposing and supplying a growing footprint of a defence industrial base, while new ecosystems and value chains for cutting-edge technologies – like AI or advanced electronics – can feed into both civilian and military applications.*

The EC documents also recognise the need to "improv[e] access to finance for SMEs with the aim to increase scale, reduce inefficiencies and promote interoperability."

It seems that the European preference will be focused on critical areas - e.g., defence and digital technology.[218] Commentators have stated that the European Commission will likely invoke WTO GPA exceptions or exclude strategic sectors from GPA coverage to ensure a Buy European clause is WTO-compliant.

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[217] European Commission, "A New European Defence Industrial Strategy: Achieving EU Readiness through a Responsive and Resilient European Defence Industry. Source: JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS."
[218] Keystone Procurement, *Legal and Economic Implications of 'Buy European' in EEA Public Procurement* (2025), https://keystoneprocurement.eu/legal-and-economic-implications-of-buy-european-in-eea-public-procurement/.

### Defence Readiness Omnibus June 2025 - Draft Legislative proposals[219]

On 17 June 2025, the EU Commission introduced the Defence Readiness Omnibus (DRO). It includes legislative and non-legislative proposals to reestablish the EU's defence readiness and deterrence by 2030.

The key legislative changes proposed with regard to defence procurement include:

- increased thresholds for applying the EU Defence Directive 2009/81/EG (now: EUR 900,000 for supply and service contracts),
- simplified rules for direct procurement of innovative products from research projects and procurement of identical readily available equipment,
- extension of the maximum term for framework agreements up to 10 years with existing framework agreements to be opened to other member states, as well as
- encouragement to review and simplify national procurement rules to eliminate unnecessary burdens ("gold-plating").

These measures aim to create an EU-wide market for defence equipment, with a focus on innovation and competitiveness and reduce dependence on third-country suppliers to ensures the long-term viability of the EU's strategic independence.

### European case law

The introduction of "European sovereignty" requirements across public procurement are backed by the European Court of Justice's recent case law considerably limiting the rights of non-EU bidders in public procurement procedures.[220] This shift is especially pronounced in sectors deemed critical to national and regional security — namely, defence and security, information technology, and healthcare.

### Individual member state legislation

Individual EU members are likely to introduce "European sovereignty" requirements into national laws. For instance, Germany has introduced a new draft "Act on Accelerated Planning and Procurement for the German Armed Forces" (Bundeswehr-Planungs und Beschaffungsbeschleunigungsgesetz –BwPBBG), which allows contracting authorities to restrict participation to EU bidders and require a certain percentage of goods to originate from the EU. Under the draft Act, contracting authorities may:

- Restrict participation to bidders domiciled in the EU.
- Stipulate that a certain proportion by value of the goods or services supplied or otherwise used in the performance of the contract must originate from the EU.
- Require bidders not to include any subcontractors in their bid who are based in a state outside the EU.

## Nordic countries

Sweden, Denmark, Finland, Iceland and Norway are members of the Nordic Defence Cooperation (NORDEFCO). On 7 March 2024, Sweden officially became a member of NATO to strengthen Sweden's defence capabilities.

Finland and Sweden have officially become members of NATO in the last few years (in 2023 and 2024, respectively) to strengthen their defence capabilities, joining Norway and Iceland, which are both founding members. All of the Nordic countries are increasing defence spending.

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[219] European Commission, *Defence Readiness Omnibus* (2025), https://defence-industry-space.ec.europa.eu/eu-defence-industry/defence-readiness-omnibus_en.
[220] Katharina Weiner et al., *European Union: "Buy European" Gets Teeth* (Baker & McKenzie, 2025), https://insightplus.bakermckenzie.com/bm/international-commercial-trade/european-union-buy-european-gets-teeth.

For brevity, we focus on procurement policies in two Nordic countries, Sweden and Norway. Sweden is part of the EU but has its own procurement rules. Norway is not part of the EU, but is a member of European Economic Area (EEA).

### Sweden

Sweden is undertaking its largest defence build-up since the 1950s, with military procurement orders now three times higher than in 2021 in response to continued deterioration of the geopolitical security situation.[221] Sweden announced in 2024 that it will raise defence spending to 3.5% of GDP by 2030, with a long-term goal of 5%, including 1.5% for non-core defence investments such as infrastructure and cybersecurity.[222]

In September 2025, Sweden announced a new package for stronger civil defence, which includes a Budget Bill for 2026 that would allocate approximately SEK 12 billion in 2026–2028.[223] and correspond to an 18% increase in defence spending.[224] As of 2028, defence expenditures are expected to reach 3.1 per cent of GDP (up from the previously announced (in 2024) total of 2.6 per cent by 2028).

Sweden has its own procurement legislation and policies, but they implement and comply with the European Commission's directives.[225] Sweden's Public Procurement Act (LOU) (which aligns with the Public Procurement Directive (2014/24/EU)) specifies that public procurement must be efficient and competitive, and that suppliers from Sweden, other EU member states and third countries have the same rights to tender in public procurement. The Act applies to all procurement (i.e., not defence only). Through the WTO agreement (GPA) and other international agreements, Sweden has committed to open up public procurement for competition for suppliers outside the EU.

There are exceptions for "the protection of security essential interests" as permitted under Article 346 of Treaty on the Functioning of the European Union (TFEU). Sweden has specified five domains as essential to national security— fighter aircraft, underwater systems, cryptography, and the supply of ammunition and sensors.

The Swedish Defence Materiel Administration (FMV) is permitted to choose suppliers for products and services within these specific areas directly without undertaking the usual open and complete procurement procedures specified under the LOU. However, "these are narrow and case-specific exemptions, not broad domestic mandates." Until December 2024, there were specific defence sector procurement principles but as discussed next, these were recalled and have not been replaced by Swedish Parliament.

Defence Resolution 2025-2030: In June 2025, Swedish Parliament released a *Defence Resolution for 2025-2030,* which with the aim of creating a strong, innovative and competitive defence sector with a high production capacity. The Resolution recalled the previous specific defence sector procurement principles.

It appears that conditions regarding eligible suppliers and supply chain management for defence and security procurements are frequently specified at the contract level. Suitability criteria in contracts impose requirements that may include various technical and professional requirements, including supply chain characteristics. Some observers have noted that in practice, Sweden directs a majority of defence procurement funding toward domestic development (e.g., over 50% of appropriations) despite policy focusing on off-the-shelf acquisitions.[226]

### Norway

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[221] Swedish Ministry of Defence, *Defence Industry Strategy for a Stronger Sweden* (2025), https://www.government.se/press-releases/2025/06/defence-industry-strategy-for-a-stronger-sweden/.
[222] Government Offices of Sweden, *Defence Resolution 2025-2030* (n.d.), accessed November 1, 2025, https://www.government.se/government-policy/total-defence/defence-resolution-2025-20302/.
[223] Government Offices of Sweden, *Ministry of Defence* (n.d.), accessed November 1, 2025, https://www.government.se/government-of-sweden/ministry-of-defence/.
[224] Swedish Ministry of Defence, *The Government Presents Defence Investments for a Stronger Sweden* (2025), https://www.government.se/press-releases/2025/09/the-government-presents-defence-investments-for-a-stronger-sweden/.
[225] Hellberg, "Swedish Public Procurement and the Defence Industry."
[226] Keith Hartley and Jean Belin, eds., *The Economics of the Global Defence Industry*, Routledge Studies in Defence and Peace Economics, volume 16 (Routledge, 2020); Lundmark, Martin, "The Swedish Defence Industry," in *The Economics of the Global Defence Industry* (2020), https://www.taylorfrancis.com/chapters/edit/10.4324/9780429466793-15/swedish-defence-industry-martin-lundmark.

Norway is expanding defence spending and has established expansion of its domestic defence industry as a priority. In March 2025, Norway released a Roadmap for expanding production capacity in the defence industry, building on the Long-term Defence Plan 2025–2036,227 released in 2024, and the Norwegian National Defence Industrial Strategy.

Norway has boosted funding to expand production capacity at key Norwegian defence key companies and has entered into long-term agreements with Nammo (artillery production) and Kongsberg (high-tech defence products and systems) to boost production capacity, stating that "The Armed Forces will make active use of its procurement power to stimulate increased production capacity." Norway is progressing changes to its procurement practices to boost domestic defence production capacity.

Norway is party to the European Economic Area (EEA) Agreement; under the Agreement, Norway as well as Iceland and Liechtenstein participate fully in the EU's internal market, meaning their companies have the same right to bid on public contracts throughout the EEA as EU companies do. Procurement directives adopted by the EU are implemented in these countries, ensuring identical rules across all 30 EEA states. The EEA Agreement contains specific provisions (Article 123) that allow for exemptions on procurement of products considered indispensable for defence purposes.

The Roadmap states that Norway will make use of exemption provisions in the EEA Agreement to allow direct procurement from national suppliers in the case of defence and to enhance security of supply and preparedness.

> *In line with its political platform, the Government will make use of the opportunities available to Norway under the EEA Agreement, including in the field of defence procurement, where the exemption provisions in place allow for direct procurement of defence materiel and services. The Government will use the exemptions available under the EEA Agreement in order to ensure national security of supply and preparedness in cases where this is necessary to protect essential national security interests. This may entail direct procurement from national suppliers or a requirement that industrial cooperation agreements with foreign suppliers must be signed.*

The Roadmap also notes that the Ministry of Defence is revising defence-sector procurement rules, and drafting a new act relating to procurements in defence and security.

> *The Ministry of Defence is in the process of revising the current defence-sector procurement rules in order to further improve procurement processes. Under the existing rules, there are various mechanisms, for example relating to sanctions provisions and advance payments, that make it possible to impose less stringent requirements on suppliers in connection with contracts. The Ministry of Defence will also begin drafting a new act relating to procurements in the defence and security sectors. The new act will be adapted to the changed security situation in Europe, including the need for accelerated procurement processes and stricter requirements regarding security of supply and preparedness. The Government will also continue to use the flexibility provided in the procurement rules to speed up procurement processes.*

[227] The long-term defence funding plan 2025-2036, adopted by the Norwegian Parliament on 4 June 2024, boost defence investment, with a total investment of NOK 1635 billion over the 12 year period, and provides a plan to enhance Norway's defence capability, including modernising the Norwegian Armed Forces, new personnel and new capabilities. Norwegian Office of the Prime Minister, *New Norwegian Long Term Plan on Defence: "A Historic Plan"* (2024), https://www.regjeringen.no/en/whats-new/new-norwegian-long-term-plan-on-defence-a-historic-plan/id3032878/.

# Appendix 4. High costs are barriers to domestic defence production

Australia has vast mineral and energy resources and has developed the economic production possibility frontier to extract and export them to other countries. A form of resources curse, our production resources are aimed at the export of minerals and energy, which produce large value-added economic wealth that is taxed in many forms and governments drive the rest of the economy with subsidies and direct action. The negative aspects of this form of economy are that many factors of production grow faster than in other more diversified economies, including wages, asset values, energy, tax, and many forms of government legislative or other constraints. Below are a few examples to illustrate the issue.

Understanding these barriers is important because they are central to explaining why defence manufacturers find it difficult to operate in Australia, and because, if the Australian Government wishes to increase domestic manufacturing of defence products, these issues need to be addressed.

Historically, the costs of energy production costs in Australia were very low because of Australia's massive energy potential in Australia. In Over the last 20 years (starting around 2005,[228] in the lead up to Australia signing the  Kyoto protocol in 2007), the cost of energy in Australia has grown rapidly because of the drive for low emissions energy production in the absence of a global emissions trading scheme. Between 2010 and 2020, the retail electricity price in Australia grew by 32%.

*Figure 36. OECD versus Australia, a comparison of electricity prices[229]*

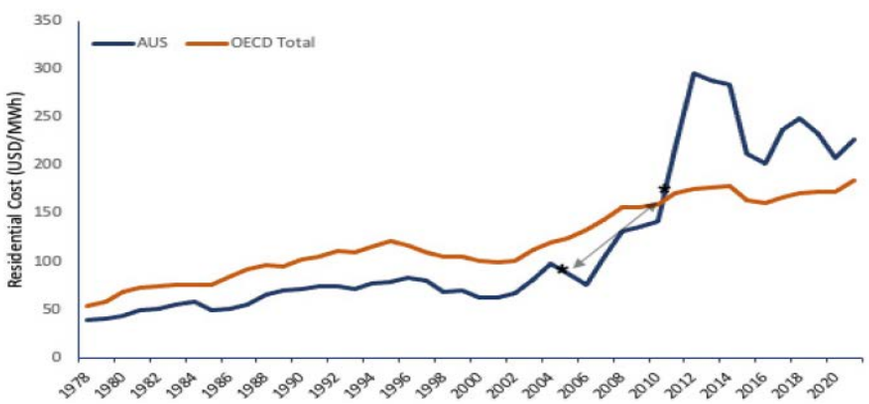
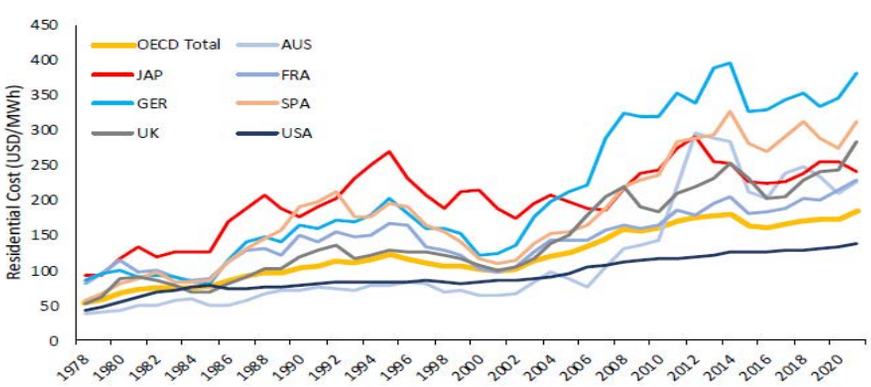



*Figure 37. Comparison of OECD prices for selected regional averages[230]*




[228] ABC News, *Carbon Tax: A Timeline of Its Tortuous History in Australia* (2014), https://www.abc.net.au/news/2014-07-10/carbon-tax-timeline/5569118.
[229] Geoff Bongers et al., *MRC Report: Australian Retail Energy Prices in an International Context* (Menzies Research Centre, 2024), https://www.menziesrc.org/latest-reports-and-submissions/australian-retail-energy-prices-in-an-international-context.
[230] Ibid.

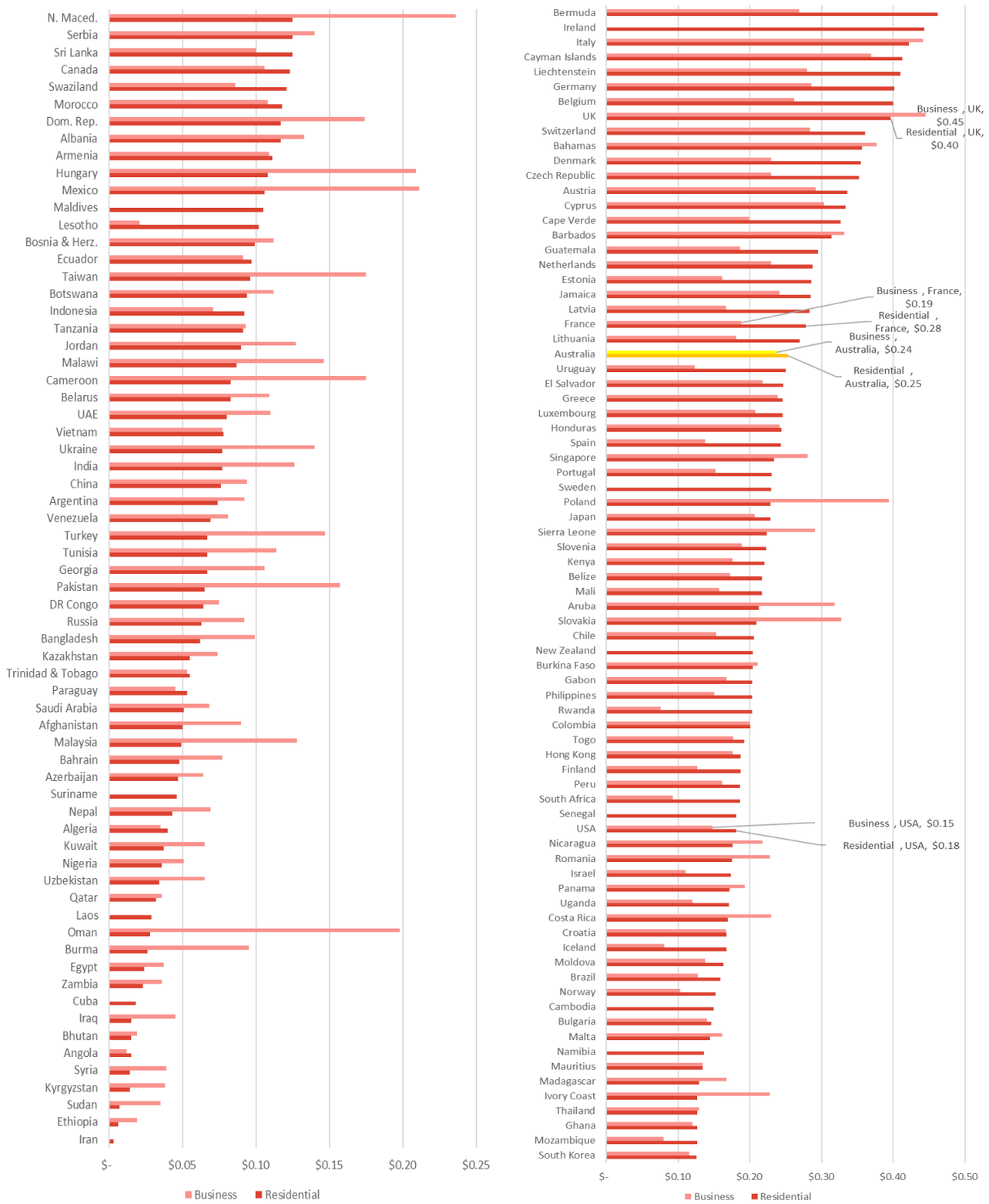
The Australian business electricity price is the 20th highest of 133 countries and household electricity prices is 23rd highest of 144 countries. The USA is 55th on this list and has a business energy cost that is 60.1% lower than Australia’s business energy cost.

Australia's manufacturing sector has faced significant challenges in recent years, with escalating energy costs emerging as a primary factor eroding its viability. As both electricity and gas are fundamental and non-negotiable inputs, their soaring prices have directly increased operational overheads for Australian businesses. The increased cost structure makes it exceptionally difficult for local manufacturers to compete with international counterparts who benefit from more stable and lower-cost energy markets.

The impact extends beyond immediate operational expenses to affect long-term investment and strategic planning. The volatility and high price of energy have created an environment of uncertainty, acting as a significant deterrent to new capital expenditure. Businesses are hesitant to invest in plant upgrades, new technologies, or expanded production lines when a critical input cost is unpredictable and trends consistently upwards. This "investment chill" not only hinders growth and innovation but also forces some companies to curtail operations, reduce shifts, or, in the most severe cases, shut down facilities entirely, leading to the loss of skilled jobs and a hollowing out of the nation's industrial base.

Ultimately, the sustained period of high energy costs is undermining Australia's sovereign manufacturing capability. As production becomes economically unviable for an increasing range of goods, the nation's reliance on imported products grows, exposing it to global supply chain vulnerabilities. While there are ambitions for a manufacturing renaissance in Australia, the reality is that without a nationally cohesive and effective strategy to deliver reliable and affordable energy, the sector's ability to produce goods at a competitive price will remain severely constrained, challenging its long-term sustainability and growth potential.

*Figure 38. Residential and business electricity prices by country 2023 – 2025 average USD/kWh*[231]




[231] GlobalPetrolPrices, *Electricity Prices* (2025), https://www.globalpetrolprices.com/electricity_prices/.

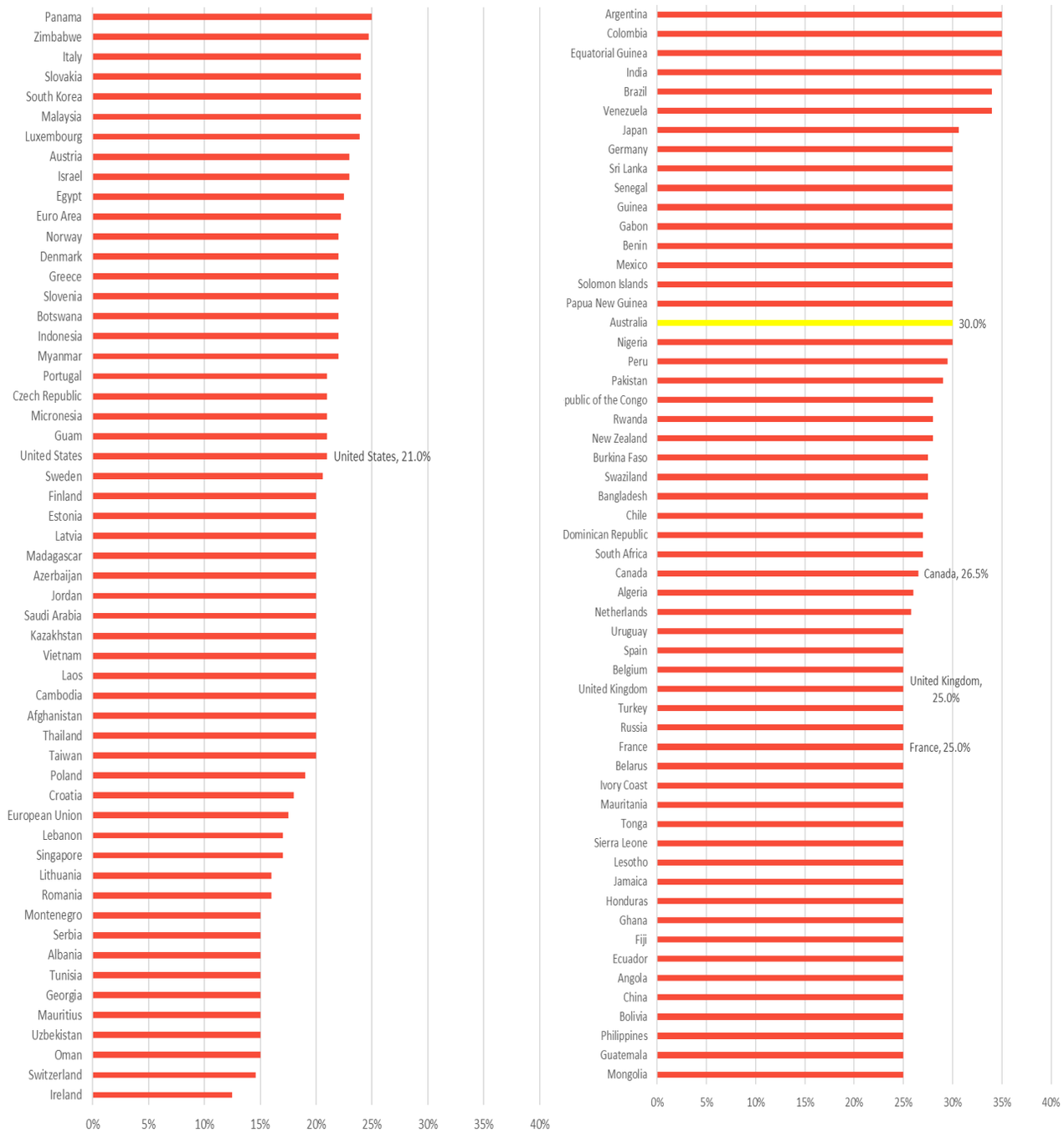
The gap is less stark when comparing effective corporate tax rates (USA 21%, AU 25%) but when compared with the UK (19%), there is a wider gap.

The international competitiveness of Australia's manufacturing sector is significantly hampered by a corporate tax framework that is increasingly out of step with key global economies. In a list comparing corporate tax rates among 111 countries, Australia's corporate tax rate of 30 per cent places it 95th highest. The USA, in 33rd place on this list, has a federal corporate tax rate of 21 per cent, 9% lower than Australia's rate, which provides a 30% lower corporate tax impact. This disparity directly impacts a company's bottom line, reducing the pool of post-tax capital available for reinvestment. Consequently, Australian-based firms have less capacity to fund critical activities such as upgrading machinery, expanding production facilities, or investing in the R&D necessary to innovate and maintain a competitive edge. The gap is less stark when comparing effective corporate tax rates (USA 21%, AU 25%). Nevertheless, Australia's headline rate of 30 per cent for large businesses compared to the 21 per cent federal rate in the USA, places local manufacturers at an immediate financial disadvantage.

The tax differential has profound implications for investment attraction and capital allocation. In a globalised economy where capital is highly mobile, multinational corporations are logically drawn to jurisdictions with more favourable tax regimes. The higher tax burden in Australia acts as a material disincentive for investment in the manufacturing sector and leads potential investors to favour the USA or other lower tax nations, depriving Australia of the new technologies, skills, and industrial capacity that such investment brings. These disincentives not only limit the growth of the sector but can also encourage Australian-owned companies to relocate parts of their operations offshore to improve their financial viability.

Ultimately, when combined with other high operational costs, such as energy and labour, the corporate tax rate serves as a structural impediment to the revitalisation of Australian manufacturing. While tax is just one element in a complex business environment, its role in shaping long-term investment decisions is crucial. A less competitive tax setting makes it more difficult for the sector to achieve the scale required for global relevance, hindering the development of sovereign capabilities and increasing the nation's reliance on international supply chains. For Australia to foster a robust and sustainable manufacturing base, its fiscal policy must be aligned with the goal of creating an attractive and competitive environment for industrial enterprises.

*Figure 39. Corporate tax rate by country 2025*[232]




Australian personal income tax is the 98th highest of 111 countries. The USA is ranked as 74th on this list with a tax rate of 37% compared to Australia's 45%, which is 8% lower (18% difference). The relatively high-income tax level for Australia puts upward pressure on wages and therefore the total cost of production compared to similar countries.

[232] Trading Economics, *List of Countries by Corporate Tax Rate*.

*Figure 40. Personal income tax by country 2025*[233]

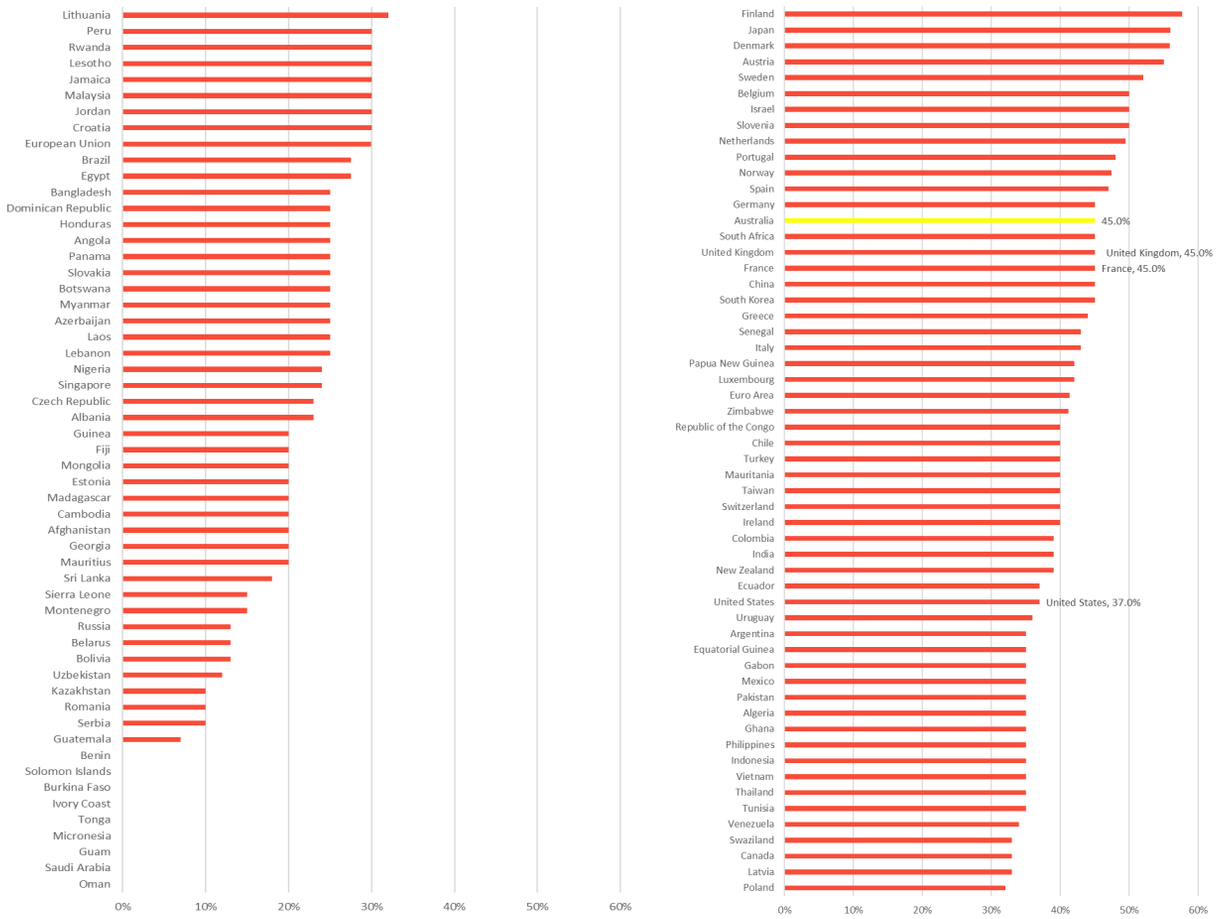
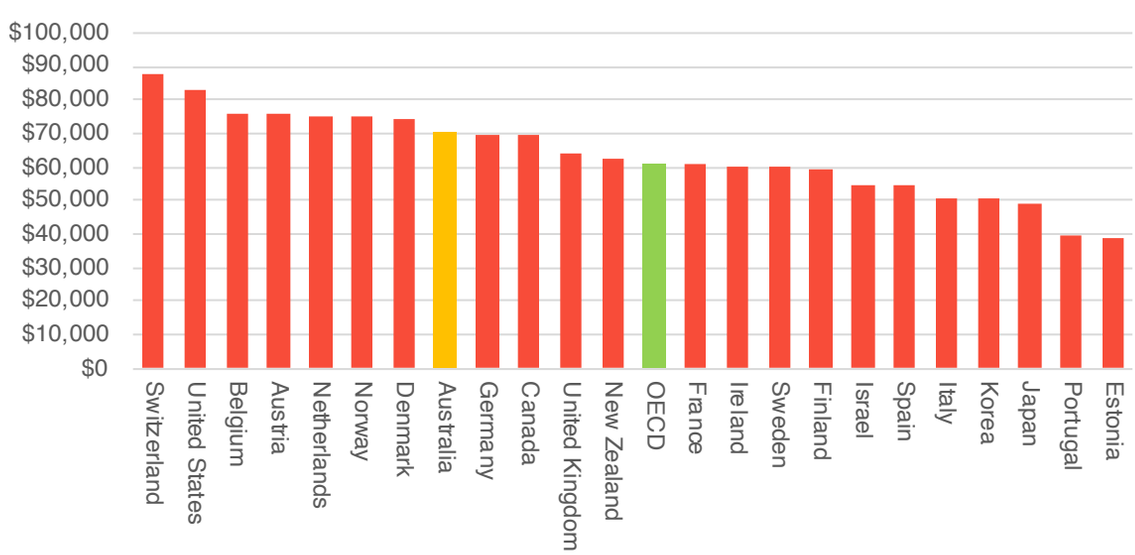



*Figure 41. Average annual wages for a sample of OECD countries, US dollars, PPP, 2024*[234]

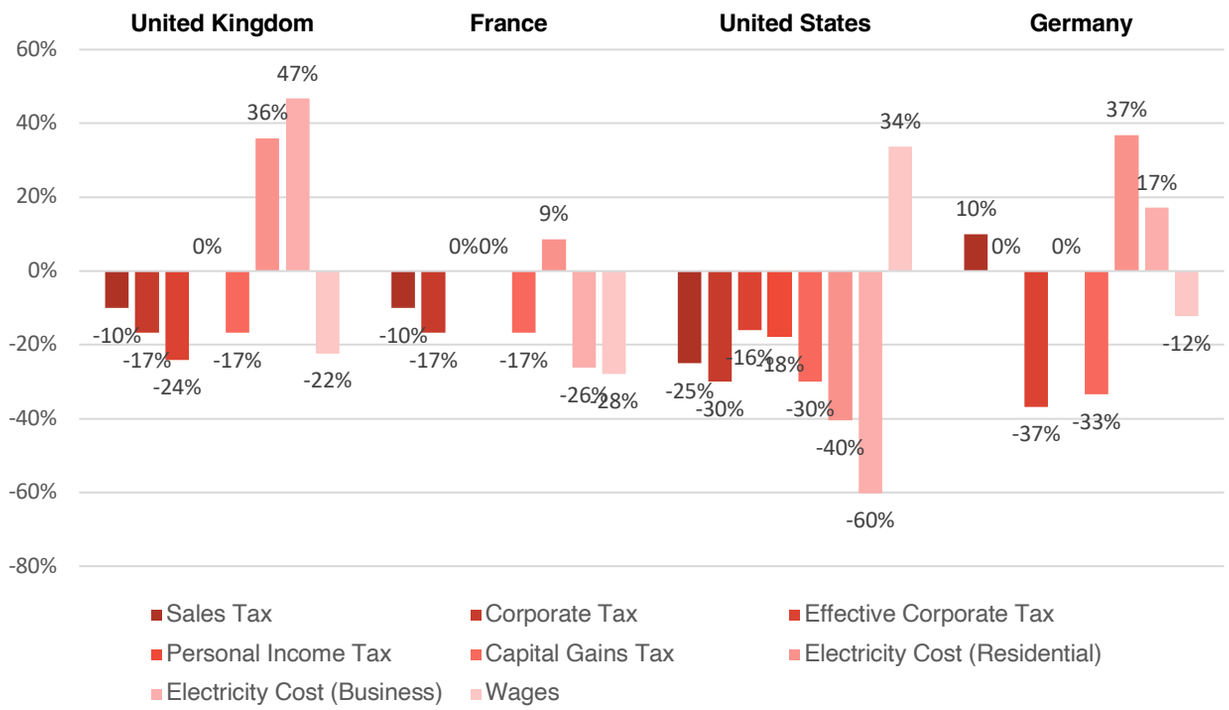



[233] Trading Economics, *List of Countries by Personal Income Tax Rate* (2025), https://tradingeconomics.com/country-list/personal-income-tax-rate.

[234] OECD, *Average Annual Wages* (2024), https://www.oecd.org/en/data/indicators/average-annual-wages.html.

Australian capital gains tax is 124th highest of 139 countries[235]. Given the high taxes, high electricity prices and the high wages for production, companies with options to produce products and services in other countries often find it financially beneficial to do so.

*Figure 42. Percentage difference of costs compared to Australia*




Australia is a very safe country and the compliance cost for businesses is not as high as others; the World Bank ranked Australia 16th highest for ease of doing business out of 213 countries[236]. However, given the high financial costs of production, the small local market, government funding of non-manufacturing sectors, there are high net barriers to entry and operation for Australian-based manufacturing. Other similar countries are also ranked higher including the USA (ranked 7th with a score of 85.2 and the UK 9th with a score of 83.5).

[235] PwC World Tax Summaries, *Capital Gains Tax (CGT) Rates*.
[236] World Bank Group, *Ease of Doing Business Scores*.

# Appendix 5. Environmental, social, & governance

The Australian Government's commitment to high standards of ESG performance represents a cornerstone of modern public policy. These principles, which encompass everything from carbon emissions reduction and ethical supply chains to transparent governance and modern slavery protections, are designed to ensure that government activities reflect national values and contribute to a sustainable and equitable future. The Australian defence industry, as a key sector of the national economy and an instrument of sovereign capability, is rightly expected to meet and often exceed these stringent domestic standards.

This chapter examines the critical intersection of Australia's national ESG ambitions and its international defence procurement strategy. We analyse a fundamental policy paradox: while the Government imposes comprehensive and costly ESG compliance requirements on Australian defence companies, it concurrently directs a majority of its multi-billion-dollar defence budget towards acquiring products and services from overseas. This analysis compares the ESG outcomes of Australia's defence industrial base against those of four key international partners and suppliers: France, Germany, the United Kingdom, and the United States.

The central argument of this chapter is that Australia's current procurement model creates a deeply uneven playing field. Australian governments hold domestic industry to world-leading ESG standards—increasing its cost base and complexity—while simultaneously the rewarding international competitors who often operate under less demanding regulatory frameworks and can therefore offer lower-cost solutions. This practice effectively outsources not only manufacturing and sustainment but also the social and environmental responsibilities that the Australian Government champions at home.

To explore the disconnect, this chapter will undertake a comparative analysis across the three pillars of ESG.

- Environmental: using generally reported national targets and outcomes of emissions, air quality, and other metrics.
- Social: testing each countries outcomes looking at deaths at work and other reported metrics.
- Governance: corruption index and general outcomes.

By juxtaposing Australia's high domestic standards against the realities of its major international suppliers, this chapter exposes a critical incoherence in national policy. It questions whether the current approach truly delivers the best value for the Australian taxpayer, whether it supports the development of a resilient sovereign industrial capability, and whether it ultimately undermines the very ESG principles it purports to uphold.

# Australian ESG

## The Regulatory Landscape

### A Fragmented National Framework

Australia does not possess a single, consolidated ESG framework. Instead, its approach is characterised by a fragmented and complex collection of laws, regulations, and codes of practice distributed across federal, state, and territory jurisdictions. This piecemeal structure means that an organisation's ESG obligations depend heavily on its size, corporate structure, industry, and geographical location of its operations. While this creates a comprehensive web of regulation, it lacks a unified, overarching strategy.

## Environmental

Australia's environmental regulation is driven by national commitments and implemented through a combination of federal and state-based legislation.

Climate Change and Emissions: The federal Climate Change Act 2022 now legislates national targets, including an emissions reduction of 43% by 2030 and net zero by 2050. This is supported by key mechanisms such as:

- The National Greenhouse and Energy Reporting Act 2007 (Cth), which mandates reporting of greenhouse gas emissions and energy use for large corporate groups.
- The Emissions Reduction Fund, which incentivises carbon-abatement projects and includes a 'safeguard mechanism' requiring large emitters to keep their net emissions below a baseline, often through purchasing carbon credits.

Approvals, Pollution, and Waste: Both Federal and State Governments regulate environmental approvals and licensing. Federal laws focus on activities impacting matters of "national environmental significance," while state and territory regimes manage local impacts, pollution, contamination, waste, biodiversity offsetting, and water management. Most jurisdictions impose a general environmental duty on organisations to minimise harm.

## Social

The social pillar is governed by a diverse set of laws covering human rights, labour standards, and community engagement.

Human and Workers' Rights: While Victoria, Queensland, and the ACT have their own human rights legislation, Australia remains the only OECD country without a federal bill of rights. Workers' rights are primarily codified in the Fair Work Act 2009 (Cth), which establishes the 11 National Employment Standards as minimum entitlements for most employees, alongside a system of industry-based awards and collective bargaining.

Work Health and Safety (WHS), Discrimination, and Equal Opportunity: Federal, state, and territory laws oblige businesses to ensure a safe workplace, free from physical and psychosocial hazards like bullying and harassment. Comprehensive anti-discrimination laws prohibit unfair treatment based on protected attributes.

Indigenous Rights and Cultural Heritage: The Native Title Act 1993 (Cth) provides a framework for recognising the land rights of First Nations peoples. This is complemented by various federal and state laws designed to protect Indigenous cultural heritage, with an increasing emphasis on the principle of Free, Prior and Informed Consent in corporate decision-making.

Modern Slavery: The Modern Slavery Act 2018 (Cth) mandates annual reporting for entities with consolidated revenue over A$100 million. These entities must disclose the risks of modern slavery in their operations and supply chains and the actions taken to address them, though the Act currently contains no financial penalties for non-compliance.

## Governance

Governance standards are primarily enforced through corporate, financial, and competition law, with a strong focus on transparency and accountability for listed entities.

Corporate Reporting and Disclosure: While ESG disclosure is not explicitly mandated in a single law, the Corporations Act 2001 (Cth) requires large companies to report on business strategies and material risks, which increasingly includes ESG factors. Listed entities must also adhere to continuous disclosure obligations.

ASX Corporate Governance Principles: The Australian Securities Exchange (ASX) recommends that listed entities disclose their material exposure to environmental and social risks and report on gender diversity metrics on a 'comply or explain' basis.

Directors' Duties, Anti-Bribery, and Whistleblowing: Directors' duties under the Corporations Act are understood to include the oversight of material ESG-related risks. Australia also maintains robust anti-bribery and corruption laws across all jurisdictions and provides statutory protections for corporate whistleblowers.

## Enforcement, Corporate Practice, and Future Trends

### Regulatory Bodies and Enforcement

Reflecting the fragmented legal landscape, a multitude of regulatory bodies oversee and enforce ESG-related compliance. Their approaches and powers vary significantly depending on their specific mandate.

Environmental: The Clean Energy Regulator administers national emissions and energy reporting schemes. State-based Environment Protection Agencies (EPAs) issue licences and enforce pollution and waste laws, while federal and state environment departments manage biodiversity and water compliance.

Social: The Australian Border Force administers the Modern Slavery Register. The Fair Work Ombudsman enforces national workplace laws, while state inspectorates manage local industrial relations issues. The Australian Human Rights Commission investigates and conciliates discrimination complaints, and Safe Work Australia develops national WHS policy, which is enforced by state regulators.

Governance: The Australian Securities and Investments Commission (ASIC) is the primary corporate regulator, enforcing the Corporations Act and targeting misconduct such as 'greenwashing' (misleading environmental claims). The Australian Prudential Regulation Authority (APRA) oversees climate-related financial risk in the banking, insurance, and superannuation sectors. The Australian Competition and Consumer Commission (ACCC) also identify greenwashing as a key enforcement priority.

### Corporate Response and Best Practice

In response to this complex environment and increasing stakeholder pressure, Australian companies are moving beyond mere compliance and adopting voluntary ESG initiatives.

Voluntary Reporting: Many large entities now voluntarily report against global standards such as the Task Force on Climate-related Financial Disclosures framework, the UN Sustainable Development Goals, and the Global Reporting Initiative. The development of Reconciliation Action Plans has also become a standard practice for engaging with First Nations peoples.

Board and Management Role: Best practice sees the board taking ultimate responsibility for setting ESG strategy, approving key policies, and signing off on major disclosures like the Modern Slavery Statement. Management is responsible for implementation, operationalising risk frameworks, and integrating ESG considerations into day-to-day decision-making.

Strategy and Incentives: Leading organisations are embedding ESG into core strategy through materiality assessments, stakeholder consultation, and cross-functional risk management. A growing number of companies are also linking executive compensation to the achievement of specific ESG targets, such as emissions reduction or diversity metrics.

### The Influence of Investors and Activists

The ESG agenda in Australia is significantly shaped by non-government actors.

Institutional Investors: Australia's compulsory superannuation scheme gives institutional investors immense influence. These funds increasingly integrate ESG factors into investment decisions, engage directly with companies to improve performance, and use their proxy voting power to drive change on issues like climate action and board diversity.

Shareholder Activism and Litigation: Activist shareholders are using their statutory rights to requisition resolutions on ESG matters. Furthermore, Australia has become a prominent jurisdiction for strategic

ESG litigation, particularly concerning climate change. High-profile cases have tested directors' duties in relation to climate risk, the adequacy of climate disclosures, and the government's duty of care.

## Future Outlook

The Australian ESG landscape is dynamic and rapidly maturing. The prevailing trend is a clear shift from a voluntary, 'soft law' approach towards mandatory, 'hard law' regulation. Key developments to watch include:

- Legislative Reform: The newly legislated climate targets, a statutory review of the Modern Slavery Act (which may introduce penalties), and proposed reforms to enhance workplace protections and corporate integrity signal a more assertive regulatory future.
- Heightened Regulatory Scrutiny: Regulators like ASIC and the ACCC are intensifying their focus on greenwashing and misleading ESG claims, moving from guidance to enforcement.
- Supply Chain Due Diligence: International trends towards mandatory supply chain due diligence are influencing Australian corporate practice, pushing companies to look beyond their first-tier suppliers to manage human rights and environmental risks.

# Emissions targets

The clearest ESG targets being reported is the emissions targets, which means the CO2-e emissions targets for Australia. The table below shows the range of emissions targets currently proposed in Australia.

*Figure 43. Australian emissions targets*[237]

| Jurisdiction | Target reference year | Emissions reduction targets | Percentage change in emissions between 2005 and 2022 |
|---|---|---|---|
| Commonwealth | 2005 | 43% by 2030<br>Net zero by 2050 | -29.0% |
| ACT* | 1990 | 50–60% by 2025<br>65–75% by 2030<br>90–95% by 2040<br>Net zero by 2045 | -9.7% |
| NSW | 2005 | 50% by 2030<br>70% by 2035<br>Net zero by 2050 | -27.3% |
| NT | n/a | Net zero by 2050 | 49.2% |
| Qld | 2005 | 30% by 2030<br>75% by 2035<br>Net zero by 2050 | -35.3% |
| SA | 2005 | 50% by 2030<br>Net zero by 2050 | -56.7% |
| Tas | n/a | Net zero or lower from 2030<br>(negative emissions since 2014) | -128.0% |
| Vic | 2005 | 28–33% by 2025<br>45–50% by 2030<br>75–80% by 2035<br>Net zero by 2045 | -31.3% |
| WA | n/a | Net zero by 2050 | 8.3% |

Comparing the Australian targets to other countries is complex, however, there are some large differences in key defence trading partners. The EU and UK have very ambitious targets. The USA and the Republic of Korea have zero or increased low targets compared to 2005 emissions. The impact of the different targets will be felt throughout the whole economy in may direct and indirect financial costs to businesses and households.

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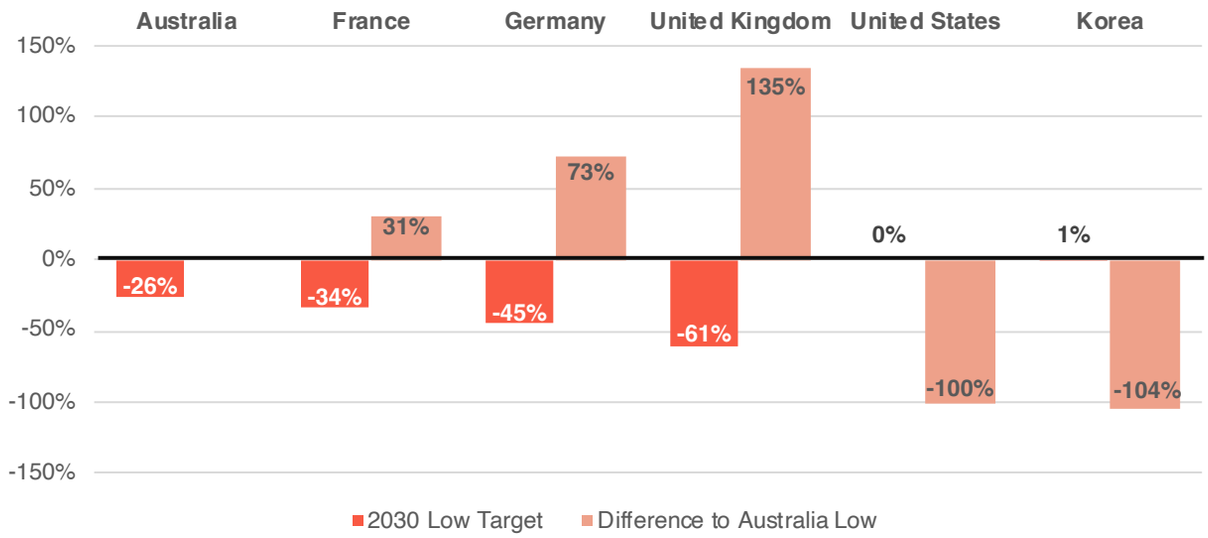
[237] Department of Climate Change, Energy, the Environment and Water, *Annual Climate Change Statement 2024* (2024), https://www.dcceew.gov.au/climate-change/strategies/annual-climate-change-statement-2024.

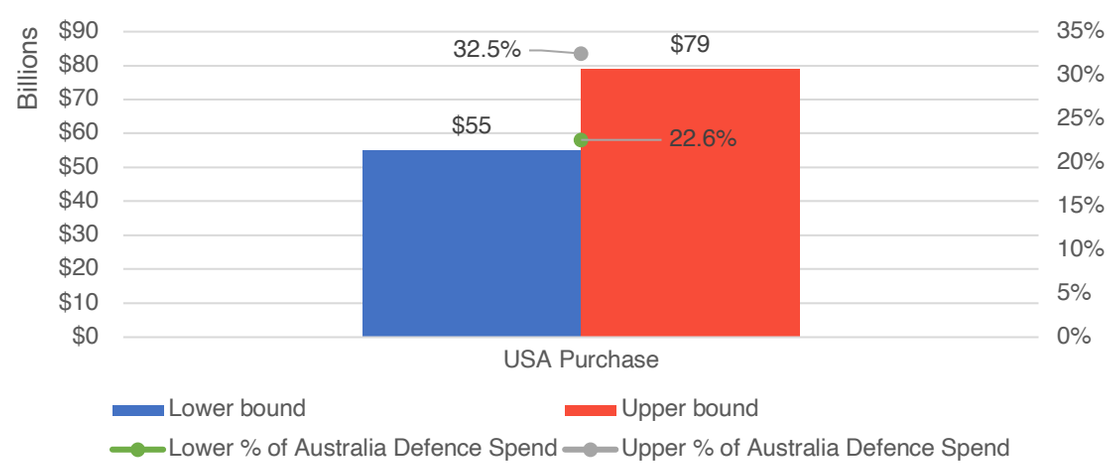
*Figure 44. Comparing Australian 2030 emissions target to other countries (change from 2005)*[238] [239]




# Measures of outcomes

There are no clear cross country comparable measures of ESG targets and results, however, here we provide some key metrics that seek to demonstrate the actual measured outcomes of parts of the ESG policy goals. Including workplace deaths, environmental performance, emissions, coastal protection, wealth distribution, and life expectancy. The countries selected for this comparison are key high-value defence partners and countries ADF regularly purchase goods and services. The USA is by far the largest supplier of defence equipment and services to ADF, which should bring into focus the ESG outcomes of the USA as a key factor in procurement. The graph below shows an estimated dollar spend by ADF on USA products and the percentage of ADF's budget.

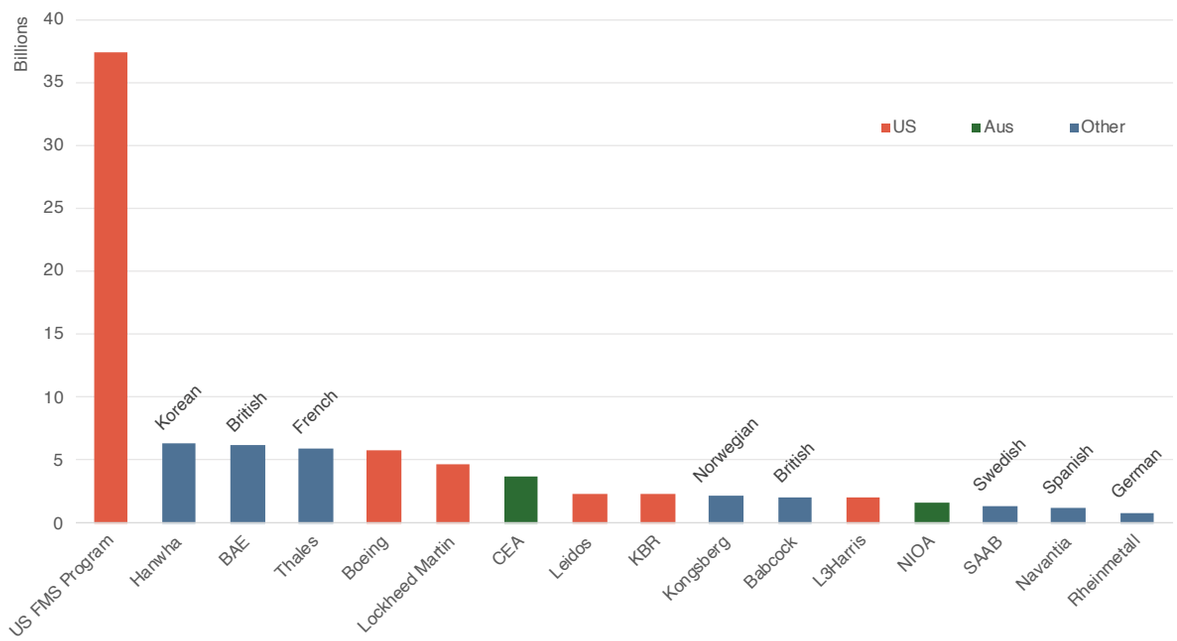
*Figure 45. Estimate of ADF spending on USA products and services, 2021-25*[240]




[238] Climate Change Authority, *Comparing Countries' Emissions Targets* (n.d.), https://www.climatechangeauthority.gov.au/comparing-countries-emissions-targets.
[239] Carbon Brief, *Chart: Trump's 'Big Beautiful Bill' Blows US Emissions Goal by 7bn Tonnes* (2025), https://www.carbonbrief.org/chart-trumps-big-beautiful-bill-blows-us-emissions-goal-by-7bn-tonnes/.
[240] Mark Segal, *U.S. Rejects UN Sustainable Development Goals* (ESG Today, 2025), https://www.esgtoday.com/u-s-rejects-un-sustainable-development-goals/.

The graph below shows more detailed breakdown of how the top 15 ADF contractors are separated between value and company origination country. Clearly, the USA is a favoured country of ADF products and services. Therefore, the USA economies ESG outcomes are important to understand how the ADF purchases are impacting on the global ESG outcomes. That is, how Australian Government investments do or do not invest in their stated objectives in meeting global ESG goals.

*Figure 46. Value of Australian defence contracts awarded to the top 15 defence contractors, FY2021-2025*[241]

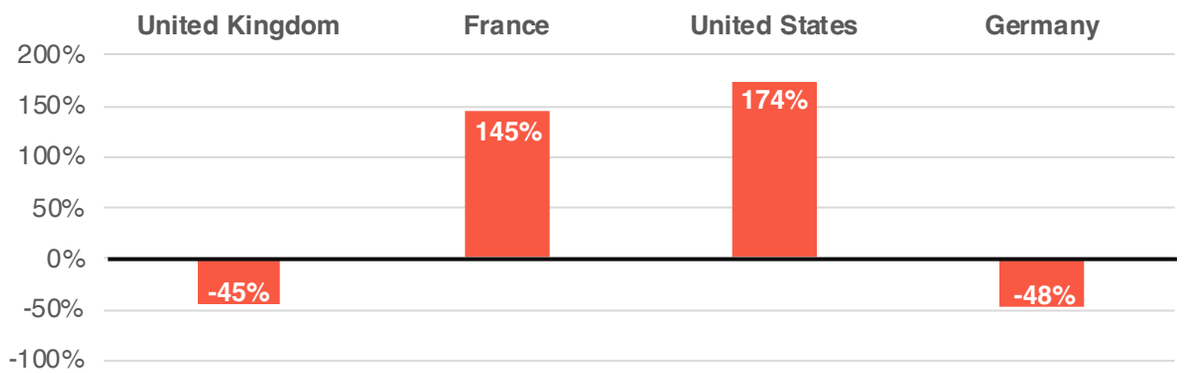



Without having to dig into the depths of each countries legal, legislative, or regulatory systems, the real outcomes of ESG are observed in the measured results of the desired outcomes. Below a key measure of workplace health and safety outcomes is the deaths per 100,000 workers of each selected country compared to the Australian outcome. Workplace deaths are an indicator of the countries OH&S systems being effective or not and are typically only a small portion of all workplace injuries.

The UK and Germany have significantly lower workplace deaths compared to Australia, but France and the USA are significantly higher than Australia. ADF purchases from France, and the USA are very likely to be causing a higher number of workplace deaths compared to if those contracts were delivered in Australia by Australian companies.

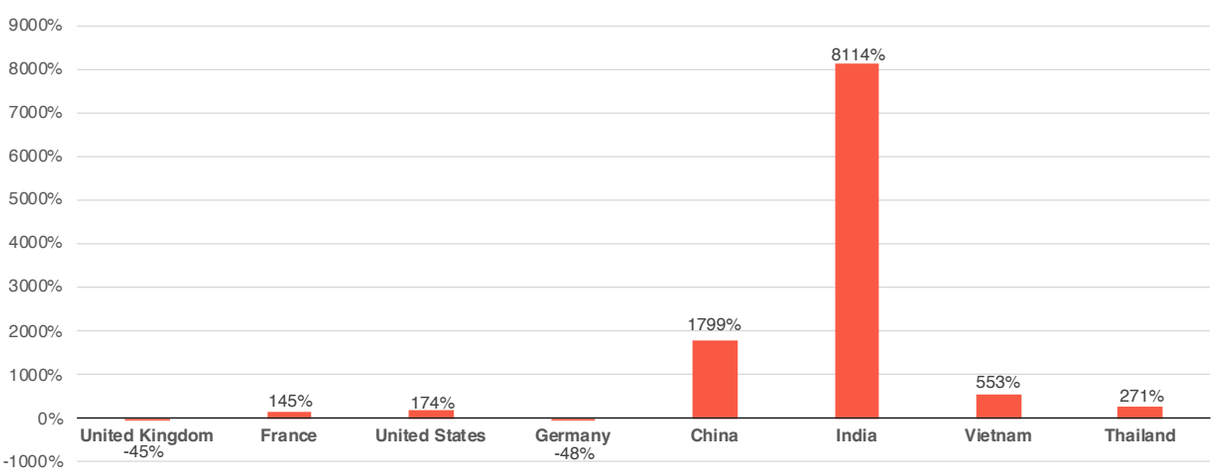
[241] DeltaPearl Partners, from; AusTender, *Contract Notices 2020-2025*.

*Figure 47. International workplace deaths comparison ADF trading countries to Australia, percentage difference to Australia per 100,000 workers 2022*[242]




Expanding the list of countries to the wider list of Australian trading locations, we can observe very large negative outcomes for workplace health and safety. Many products and services depend on original items that are produced in these lower income countries but are not included in the value for money assessment. Clearly, Australia is importing the negative outcomes in that are imbedded in the production of items in these countries.

*Figure 48. International workplace deaths comparison to Australia, percentage difference to Australia per 100,000 workers 2022*[243]




Environmental controls met by each countries organisations and companies are many and hidden in all types of regulatory controls from town planning, waste management, construction, vehicle registration, and many others. Observing the different outcomes of each country we can see the environmental impacts of the regulations without needing to try to untangle each country system. Below is a general measure of each country environmental outcomes that shows France, Germany, and the UK are all approximately similar or higher to Australia. The USA is much lower than all other countries in this list of ADF key contracting countries. Although this measure is high level and is aggregating a wide range of environmental outcomes, it does give an indication of the different outcomes that are driven by each country's environmental rules and regulations.

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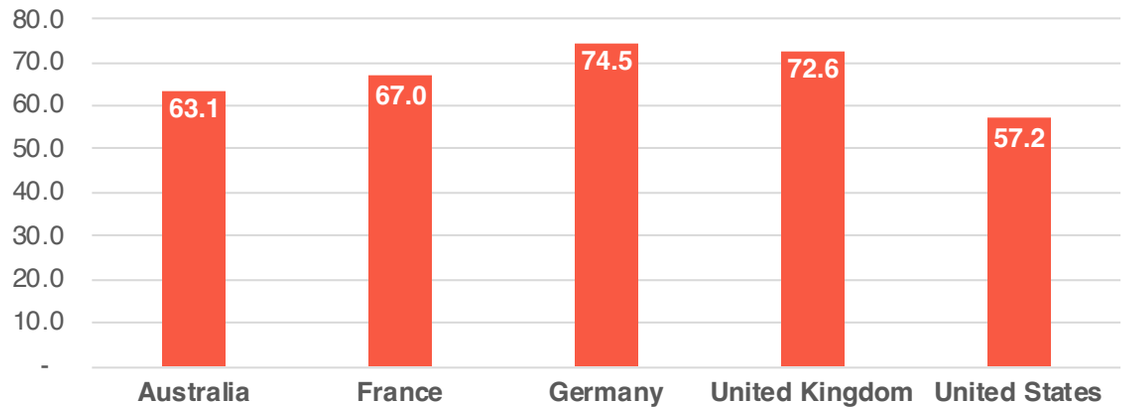
[242] National Safety Council, *Work-Related Deaths Around the World* (2025), https://injuryfacts.nsc.org/international/work-related-injuries-around-the-world/work-related-deaths-around-the-world/.
[243] Ibid.

*Figure 49. Environmental Performance Index by Country 2024*[244]




A major focus of ESG efforts globally is clearly the drive to reduce CO2 emissions that are linked to climate change. CO2 emissions are measured as CO2 equivalent (CO2-e) emissions, where non-carbon emissions are calculated into CO2-e units allowing for easier comparison of all climate change related emissions[245]. There are many complex issues in measuring and understanding emissions in each country and many parts of the emissions profiles that are only partly or not measured at all. The graphs below are provided as examples of the measured emissions of the key ADF trading partners, but do not include changes in land use, like deforestation or reforestation, which Australia has a high beneficial emission profile from changes in land use.

The below graphs show the direct emission, not the scope 2 or 3 emissions of each country. Given the global economy and supply chains are highly interconnected to a wide range of high wealth and less wealthy countries, the full view of scope 2 and 3 emissions of each product is likely to be much higher. For example, minerals extracted from Africa are likely being refined and sheltered in other countries like China or India, who have much lower ESG levels to Australia. The sheltered minerals are often added to many products, like computer chips that are included in high wealth countries products.

Australia has a relatively high rate of emissions per capita, which may be seen as a negative factor of production. Measuring per capita emissions can be misleading given the different history, natural resources, economic operations, and supply chains of each country. Wealthy countries generally have a higher emissions per capita compared to lower wealth economies, simply because the higher standard of living allows for higher levels of consumption and free time to do more than less wealthy countries. Higher wealth countries are likely to be more accurately and more often measuring and reporting emissions compared to less wealthy countries. Countries that are closely geographically connected to other countries can more easily trade goods, services, and energy where the emissions are produced in the other countries. Small geographic countries with high populations will have lower marginal cost of production as the fix costs and related fixed emissions of infrastructure and industrial production are shared among a large population. Geographically large countries have higher transport costs and related emissions due to the large travel time/distance between domestic population and production sites. Many EU countries, for example, allow domestic nuclear energy production and buy their gas from Russia.

Australia's relatively high emissions per capita are related to these issues as it is a high wealth economy, has a very large land mass, with a small population, not connected to any other countries by land, and do not allow nuclear power production. The USA also has many of these characteristics, except it has a much larger population density compared to Australia, does allow for nuclear energy, and is well connected to other large wealthy countries by land. Key difference is the USA has a much lower focus on regulation, including recently removal of all emissions targets.

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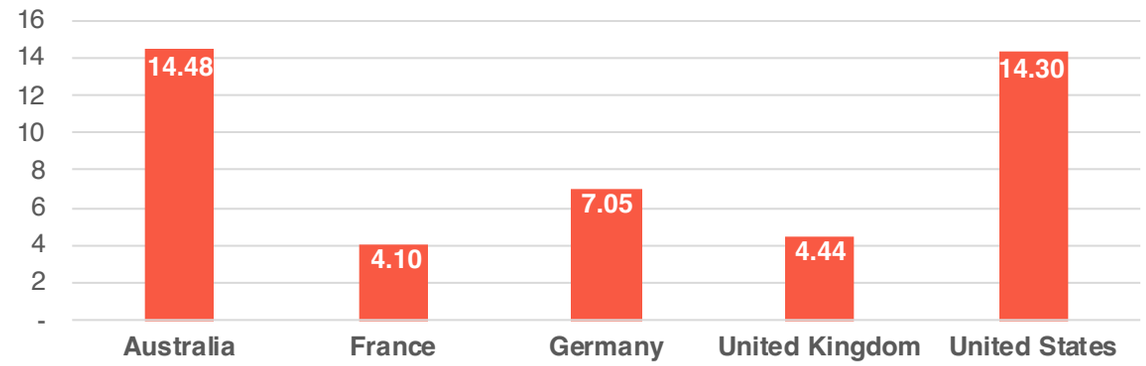
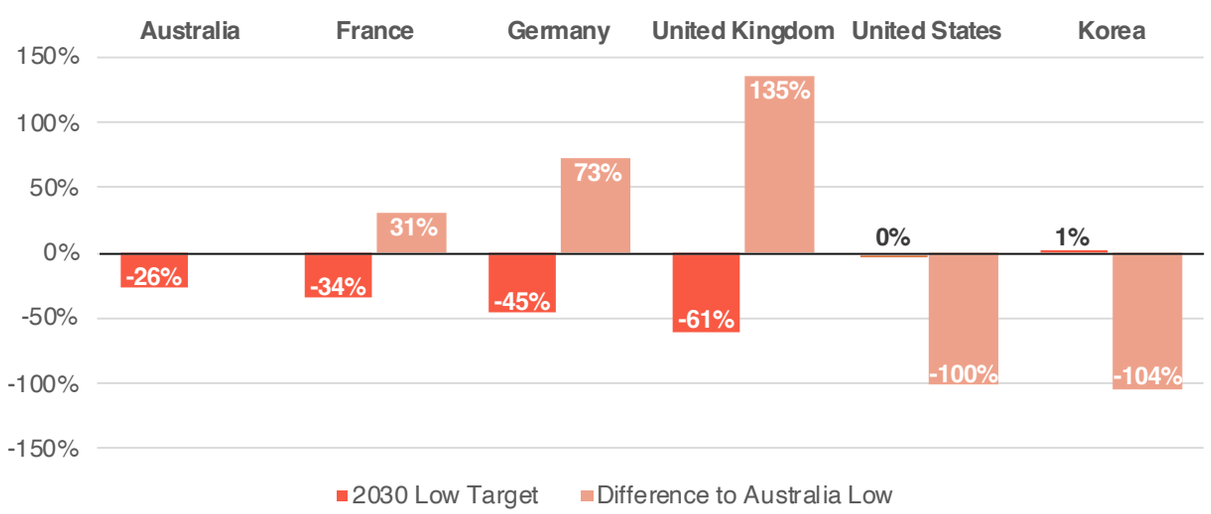
[244] World Population Review, *Environmental Performance Index by Country 2025* (2025), https://worldpopulationreview.com/country-rankings/environmental-performance-index-by-country.
[245] Clean Energy Regulator, *Global Warming Potential* (2024), https://cer.gov.au/schemes/national-greenhouse-and-energy-reporting-scheme/about-emissions-and-energy-data/global-warming-potential.

*Figure 50. Annual CO2-e emissions per capita 2023*[246]




The graph below is an example of the differences in the emissions targets between the ADF trading companies. EU countries have a very different set of economic parameters that allow for those countries to have very high emissions targets relative to other countries. As stated, the USA have removed their emissions targets to allow for a large increase in domestic manufacturing. The Republic of Korea is included here as it is a large seller of products to the ADF and has a target of increasing emissions by only 1% by 2030.

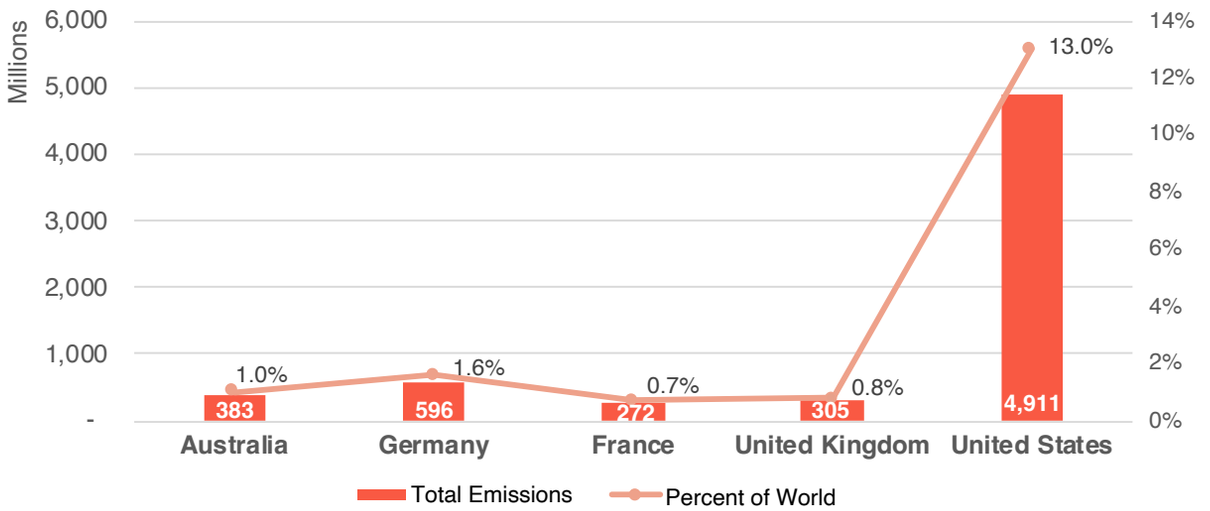
*Figure 51. CO2-e 2030 low emission targets and percent difference to Australian*[247]




Emissions production and the impact on climate change is a clear example of a global negative externality that cannot be solved by only focusing on reduction of emissions in a single country. As discussed above, the wealthy countries generally produce a high volume of emissions per capita, however, the vast bulk of emissions are produced in low-income countries. Even though Australia may be measured as having relatively high emissions per person, the total emissions are insignificant on the global scale (approx. 1%). The USA is by far the largest single emitter of the ADF purchasing partners (approx. 13% of global emissions).

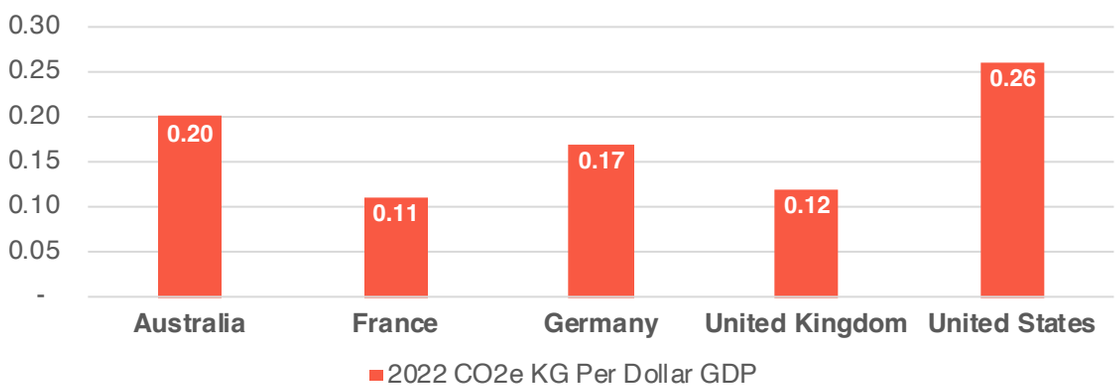
[246] Ritchie and Roser, *CO2 Emissions*.
[247] Climate Change Authority, *Comparing Countries' Emissions Targets*.

*Figure 52. Total emissions of selected ADF trading countries and percentage of global emissions 2023*[248]




Another, possibly more insightful, measure of a country's emissions in relation to the economic production, is the emissions intensity. The CO2-e emission kilograms per dollar of GDP demonstrates the emissions produced to enable the economic output. The graph below shows Australia as still relatively high compared to the EU countries but less than the USA.

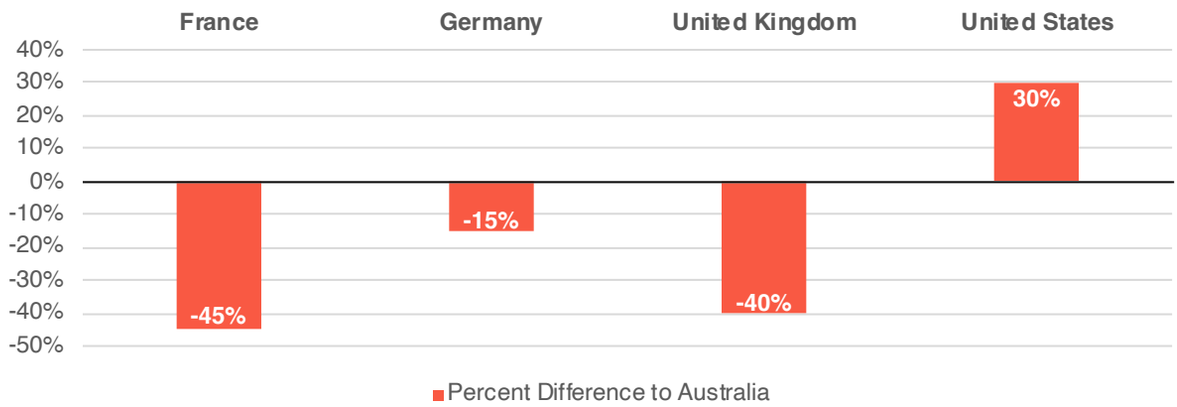
*Figure 53. Emissions intensity by selected ADF trading countries, 2022*[249]




Again, the USA as a key manufacturer of ADF products and services has a 30% higher emissions intensity compared to Australia, which was measured when there was a political push in the USA for reducing emissions. The current USA policy is to remove all restrictions on emissions, which is going to lead to much higher emissions intensity in the coming years. The ADF are part of the funding of the emissions production of the USA, which is increasing the global climate change emissions by at least 30% more than if that funding was spent on Australian-based and owned companies.

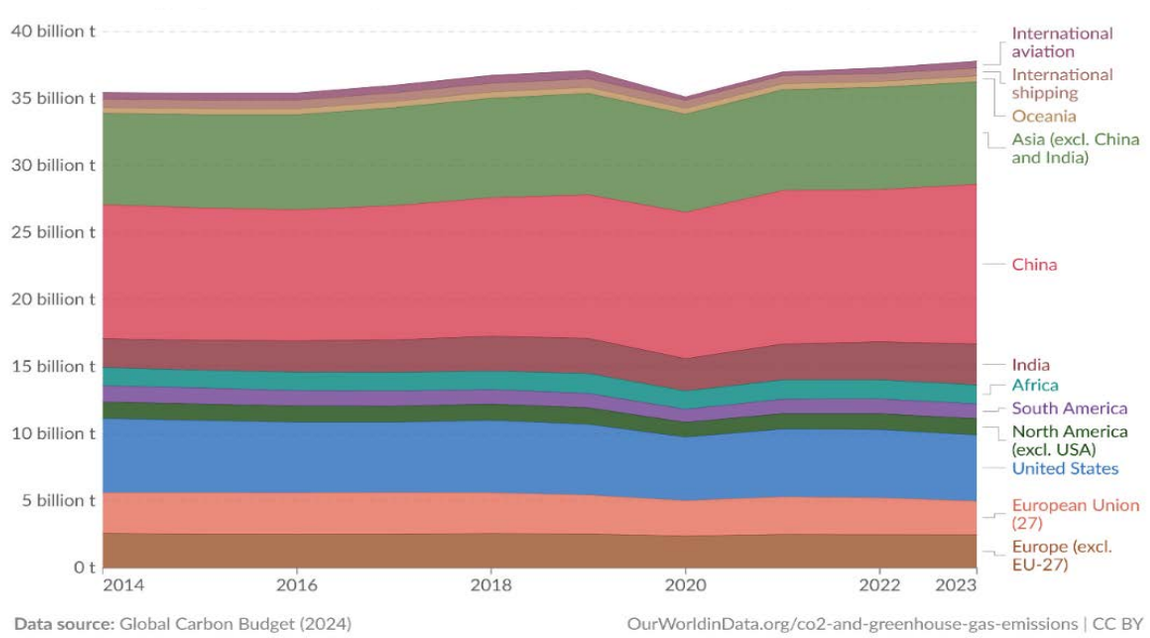
[248] Ritchie and Roser, *CO2 Emissions*.
[249] Our World in Data, *Carbon Intensity: CO2 Emissions per Dollar of GDP* (2025), https://ourworldindata.org/grapher/co2-intensity.

*Figure 54.Emissions intensity percentage difference to Australia by selected ADF trading countries, 2022*[250]




Putting the global picture into perspective, below there are a few graphs that show the emissions related to wider set of countries and global regions. Although Australia may appear to have higher emissions per capita, the global impact on any increase/decrease in emissions is insignificant and easily washed out by the larger emissions of other countries Australia imports products and services from throughout the supply chain.

*Figure 55. Annual CO2 emissions by world region 2014-2023*[251]

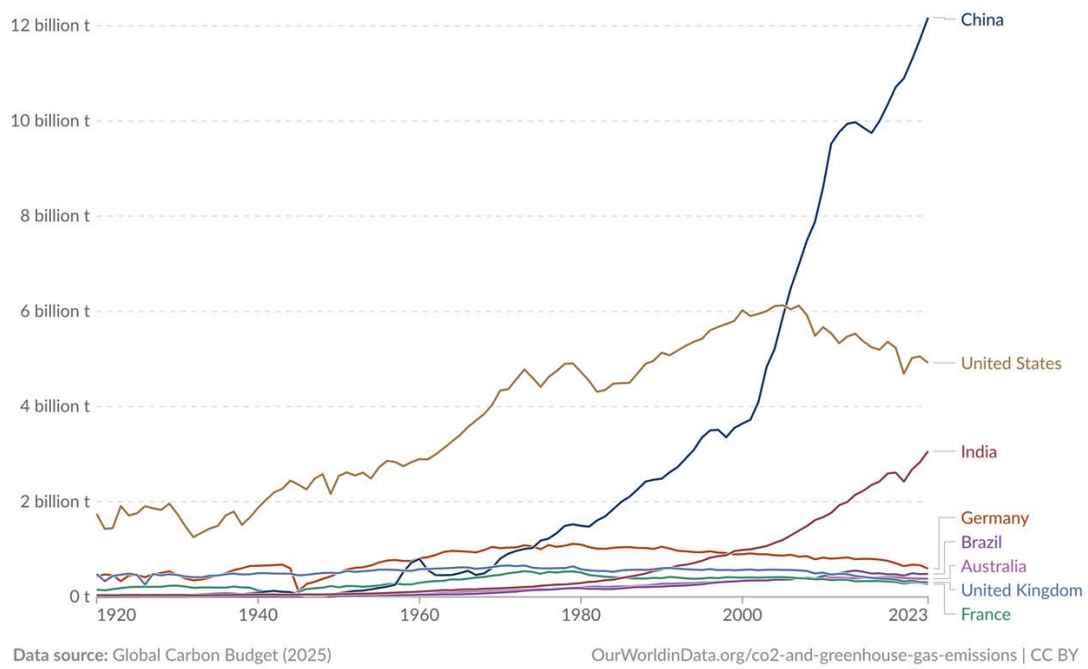



China, India, USA, and the Asian region are by far the largest emissions producers globally. Many developing countries are lower income countries that do not have as accurate measures of emissions and are rapidly increasing emissions because they form the manufacturing hubs of the global supply chains and do not have capacity to reduce emissions, or adopt any other ESG measures.

[250] Ibid.
[251] Ritchie and Roser, *CO2 Emissions*.

The graph below demonstrates the extent of growth trends of a selected set of countries, including Australia. The USA stands out as the greatest emissions growth country in the early part of the 1900s with a definite shift to reducing emissions in the early 1980's and again in the 2000s. China and India clearly start to rapidly grow their emissions in the early 1980's and again in the 2000s. The early 1980s is also the period where the western economies moved away from the gold standard, opened trade, reduced regulation, and privatised many government-owned organisations. Many low-income countries that were previously blocked from trade with western countries developed their manufacturing bases using the much lower cost of labour, lower regulations, and need for capital to take over the production of most goods in the world. The emissions shown in the graph below reflects this process.

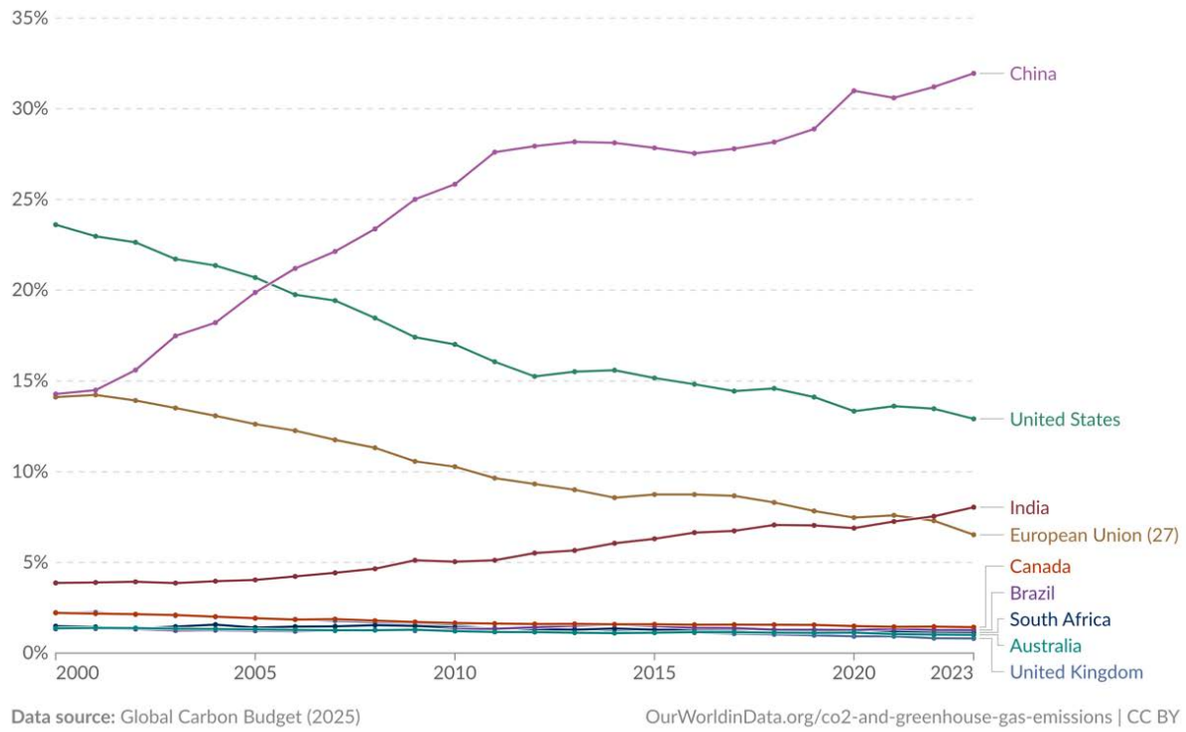
*Figure 56. Annual emissions from fossil fuels and industry by selected countries, 1920-2023*[252]




Considering the global transition from western economic production to lower income countries production from the emissions view, the graph below shows the more recent trends from the year 2000 to 2023. The share of global emissions has changed rapidly and continues to trend in the same direction. China is growing as the largest single country emitter, and the USA is reducing as a percentage of the total. The USA reduction as a percentage may be more related to the much larger growth of China and India rather than any actual reduction in the USA. The most powerful direct emissions reduction effort Australia could have would be to reduce the import of good and services from high emission countries.

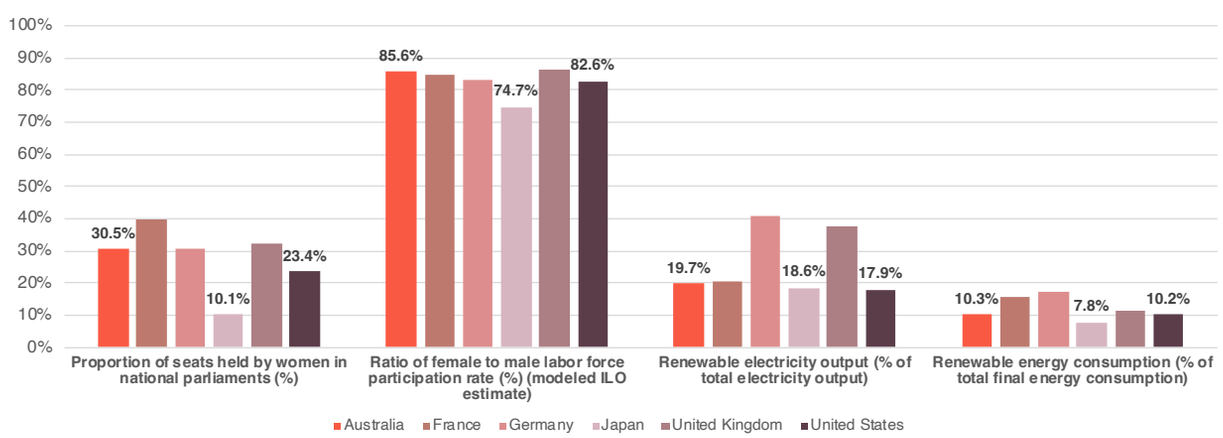
[252] Ibid.

*Figure 57. Share of global CO2 emissions by selected countries, 2000-2023*[253]




Expanding the measures of ESG to women's representation and renewable energy further demonstrates the difference between ADF trading countries and Australia. Recent ADF contract to purchase $10 billion work of Navy ships from Japan[254] indicates that the ESG credentials of that country should be included in some of these results. Below the graph shows representation of women in Japan and the USA in Parliament and the labour force are much lower than Australia. Supporting Japan's economy with large ADF contracts is partly supporting the country that has 3 times less women represented in their Parliament. Renewable electricity as a percent of electricity output and final energy consumption is lower than Australia.

*Figure 58. Female representation and renewable electricity output and consumption percentage 2019*[255]




[253] Ibid.
[254] Nicola Smith, *Japan Wins $10 Billion Bid to Build Australian Navy's Frontline Warships and Replace Anzac-Class Fleet* (The Nightly, 2025), https://thenightly.com.au/politics/australia/japan-wins-10-billion-bid-to-build-australian-navys-frontline-warships-and-replace-anzac-class-fleet-c-19582420.
[255] World Bank Group, *Environment Social and Governance* (n.d.), accessed November 1, 2025, https://databank.worldbank.org/source/environment-social-and-governance.

ESG targets include issues related to environmental protection, wealth distribution, and welfare of the citizens. The graph below seeks to demonstrate the differences between ADF import countries compared to Australian performance.

Coastal protection in Australia is an important environment given the high-value ecosystems compared to the relatively low activity internal areas of Australia, where there are deserts. Germany and Japan have slightly more coastal area protection compared to Australia, however, all other measured countries have much less protected areas (UK 40% less and USA 17% less compared to Australia).

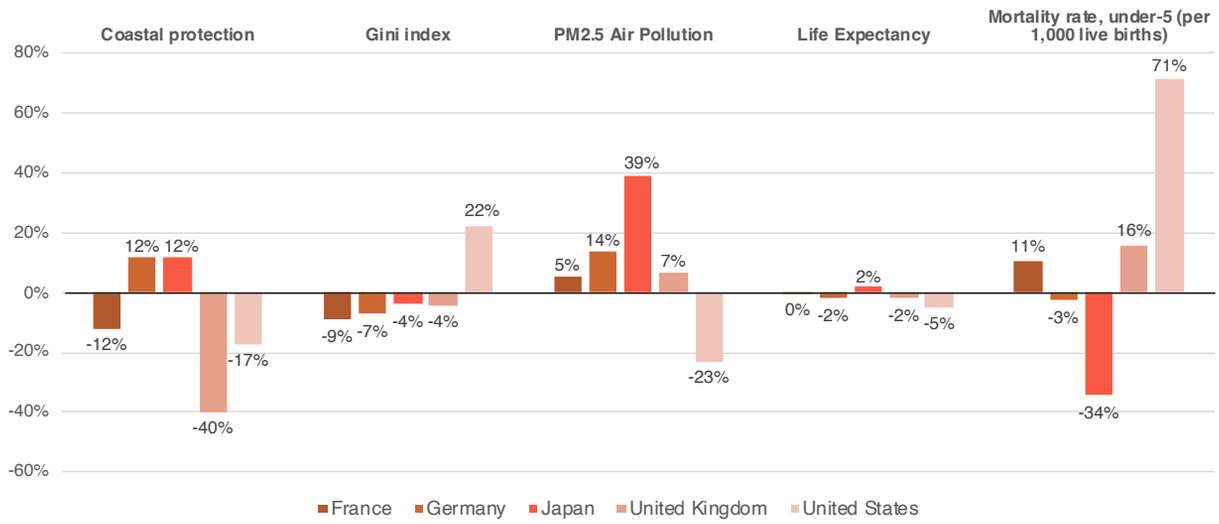
The Gini index, also known as the Gini coefficient, is a statistical measure used to represent the inequality of a distribution, most commonly the distribution of income or wealth within a population. *The Gini index* operates on a scale from 0 to 1 (or 0 to 100 when expressed as a percentage), where 0 signifies perfect equality—a scenario in which every individual has the exact same income or wealth. Conversely, a Gini index of 1 represents perfect inequality, where a single person holds all the resources and everyone else has none. Therefore, a higher Gini index indicates greater disparity in a society, making it a crucial tool for economists and policymakers to *analyse* and compare levels of economic inequality across different countries or over time. All measured countries here have a lower (better) Gini index compared to Australia, except for the USA, who has a much higher (22% worse) than Australia.

PM2.5 is a critical measure of air pollution that refers to fine, inhalable particulate matter with a diameter of 2.5 micrometres or smaller—more than 30 times smaller than the width of a human hair. Because of their minuscule size, these particles can bypass the body's natural defences, be breathed deep into the lungs, and even enter the bloodstream. This deep penetration is what makes PM2.5 particularly dangerous, as it can cause or exacerbate a wide range of serious health problems, including asthma, heart attacks, strokes, and other respiratory and cardiovascular diseases. These particles originate from various combustion sources like vehicle exhaust, industrial emissions, power plants, and smoke from wildfires or burning wood. Consequently, monitoring PM2.5 levels, typically measured in micrograms per cubic meter of air ($\mu g/m^3$), is essential for assessing air quality and protecting public health. All measured countries in this graph demonstrate higher (worse) PM2.5 levels compared to Australia, except for the USA. Japan and Germany are particularly high in this group, with Japan 39% and Germany 14% higher than Australia. The high levels of PM2.5 are very likely linked to many secondary health related sicknesses and deaths that would not have happened if ADF purchased the goods and services from an Australian company based in Australia.

Life expectancy is a powerful indicator of a country's social and economic situation because it serves as a holistic measure of the overall quality of life available to its citizens. A high life expectancy is rarely achieved by chance; it is the result of a robust and stable economy that can fund critical infrastructure and services. This includes access to quality healthcare from prenatal care to old age, widespread sanitation and clean water systems, and a consistent and nutritious food supply. Socially, it reflects high levels of education, which lead to better health awareness and lower infant mortality rates, as well as political stability and low levels of violence. Conversely, a low life expectancy can signal significant underlying problems such as widespread poverty, political turmoil, a collapsed healthcare system, or the prevalence of disease, revealing a nation's struggle to provide even the most basic conditions for a long and healthy life.

The two life expectancy related measures in the graph below, total life expectancy and mortality rate of people under 5 years of age per 1,000 live births, are key indicators. Relative to Australian life expectancy, in France and Japan are the same or better. Germany, UK and the USA are all relatively worse than Australian life expectancy, with the USA 5% lower than Australia. Mortality rates of people under 5 years of age have much larger and concerning outcomes. Germany and Japan have better results than Australia, with Japan achieving much higher outcomes, 34% better (less deaths). France, UK, and the USA are significantly worse (more deaths) compared to Australia, devastatingly the USA has 71% more deaths than Australia.

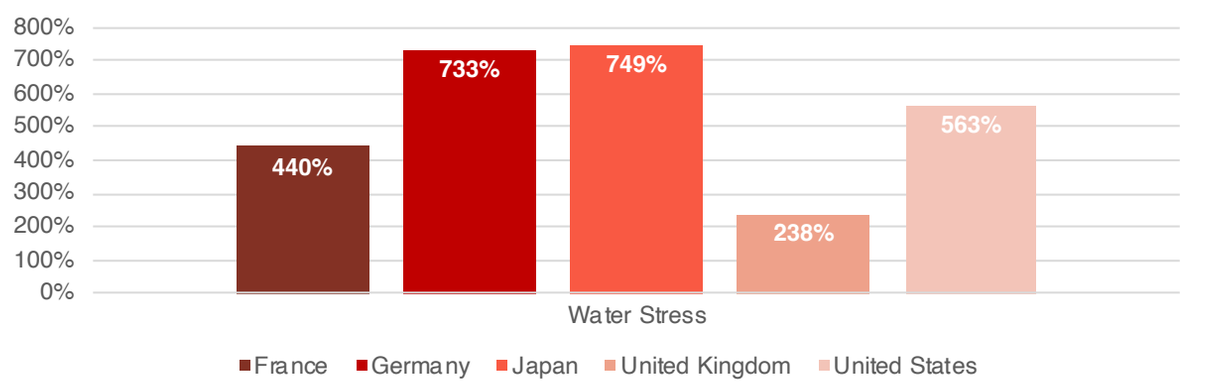
*Figure 59. Other ESG percentage difference to Australia[256]*




Water stress, which measures the ratio of total water withdrawn by all sectors to the available renewable surface and groundwater supplies, is a critical indicator of a country's economic and social outcomes. Economically, high water stress directly threatens the foundational pillars of a nation's economy, particularly agriculture, which is often the largest consumer of water. Scarcity can lead to reduced crop yields, food insecurity, and diminished export revenues, while also constraining industrial growth and energy production, as factories and power plants are often heavily reliant on water for cooling and processing. Socially, the ramifications are equally profound; a lack of sufficient and clean water can lead to poor public health, the spread of waterborne diseases, and increased malnutrition. Furthermore, competition over dwindling water resources can ignite social unrest, exacerbate inequalities as the poor struggle for access, and even trigger migration, ultimately revealing a nation's vulnerability and its capacity to provide a stable and healthy environment for its citizens.

All measured countries indicate much higher levels of water stress relative to Australia, which is concerning given Australia is the driest inhabited continent in the world[257]. The poor management of highly valuable water resources are a risk for the human population but also causes risk and damage to the wider environment. ADF purchasing from these countries is part of the pressure on the water resources of those countries and is very likely to be increasing human and environmental damage.

*Figure 60. Water stress percentage difference to Australia[258]*




[256] Ibid.
[257] James Chesters, *Beyond Drought: How We're Combatting Our Dry Continent* (CSIRO, 2024), https://www.csiro.au/en/news/all/articles/2024/june/combat-drought-australia.
[258] World Bank Group, *Environment Social and Governance*.

# Regulatory costs on Australian business

Australian businesses are increasingly grappling with a complex and costly operating environment, heavily shaped by a world-leading, yet financially burdensome, framework of ESG-related regulations. While the objectives of these policies are commendable, their cumulative financial impact creates a significant drag on national competitiveness, compelling a growing number of companies to consider offshoring their operations. The economic and financial pressures stem from a uniquely Australian combination of high costs across nearly every facet of production and service delivery, many of which are not mirrored in competitor nations (US, UK, France, Germany, Japan, Korea, and other countries that Australia trades defence products and services).

At the forefront of these challenges are energy and emissions costs. Australian businesses, particularly in manufacturing and heavy industry, face some of the highest electricity prices in the developed world. This is driven by a complex transition away from traditional energy sources, significant investment in grid infrastructure, and stringent carbon-abatement schemes like the Safeguard Mechanism. The direct costs of measuring, reporting, and reducing CO2-e emissions add another layer of expense that is less onerous in many other jurisdictions. Further compounded by state and federal regulations governing air quality and water usage, which mandate costly investments in new technologies and processes for pollution control and water-saving measures—a critical but expensive reality on the world's driest inhabited continent.

Beyond direct environmental compliance, the cost of core business inputs in Australia is exceptionally high. Our industrial relations framework supports high wages and robust worker conditions, which, while socially beneficial, place Australian labour costs among the highest globally. This directly impacts the viability of labour-intensive industries. Furthermore, high land costs, driven by restrictive planning and zoning laws, make establishing or expanding industrial facilities prohibitively expensive compared to regions in Asia or North America. When combined with substantial waste disposal costs, inflated by state-based levies designed to encourage recycling, the overall cost of production escalates significantly.

The sheer geography of Australia imposes a "tyranny of distance" that translates into exceptionally high transport and logistics costs. Fuel excises, vehicle emission standards, and extensive supply chains across a vast continent amplify these expenses. The financial calculus for many businesses is becoming stark: the combined weight of high energy, labour, land, compliance, and transport costs creates a formidable barrier to profitability. Consequently, companies are actively re-evaluating their domestic footprint, recognising that moving production or services offshore to countries with a lower regulatory burden presents a pragmatic, and sometimes necessary, strategy for survival and growth in the global marketplace. This trend represents a direct flight of capital, jobs, and industrial capability, driven by a regulatory environment that, despite its positive intentions, may be undermining the very economy it seeks to sustain.

# Global economic impacts

While Australia champions a robust and demanding ESG framework for its domestic industries, a significant paradox emerges from our consumption patterns. By offshoring production and importing vast quantities of goods and services from nations with comparatively lax standards, Australia inadvertently undermines its own principles and contributes to negative global outcomes. This dynamic creates a moral and strategic inconsistency where we maintain a clean house by exporting our environmental and social footprint, a practice with profound consequences for the global economy, international communities, and the planet itself.

The most immediate environmental outcome is the phenomenon of "carbon leakage." Australia can meticulously legislate reductions in its domestic CO2-e emissions, yet our total carbon footprint as a nation remains stubbornly high due to the embedded emissions in imported goods. We effectively outsource our pollution to manufacturing hubs in Asia and elsewhere, where less stringent regulations on air quality and industrial emissions are the norm. This not only shifts the environmental burden onto other nations but also negates the global benefit of our domestic climate policies. Similarly, our consumption of goods with a high water-use content—often referred to as "virtual water"—from water-stressed countries places immense pressure on their fragile ecosystems and local communities, a direct contradiction to the stringent water-saving measures we impose on our own agricultural and industrial sectors.

On a social and human level, this trade imbalance creates a troubling ethical dilemma. Australian law mandates high wages, world-class OH&S standards, and comprehensive employee entitlements. However, by sourcing products from low-cost labour markets, Australian consumers and businesses are indirectly supporting systems that often feature weak labour regulation, inadequate worker healthcare, and tragically poor safety standards. This de facto endorsement perpetuates a global economic model where a competitive advantage is gained through practices that would be illegal and unacceptable in Australia. We become complicit in supply chains where lower prices are achieved at the cost of human well-being, evidenced by the higher rates of workplace injuries and fatalities in the very economies from which we import.

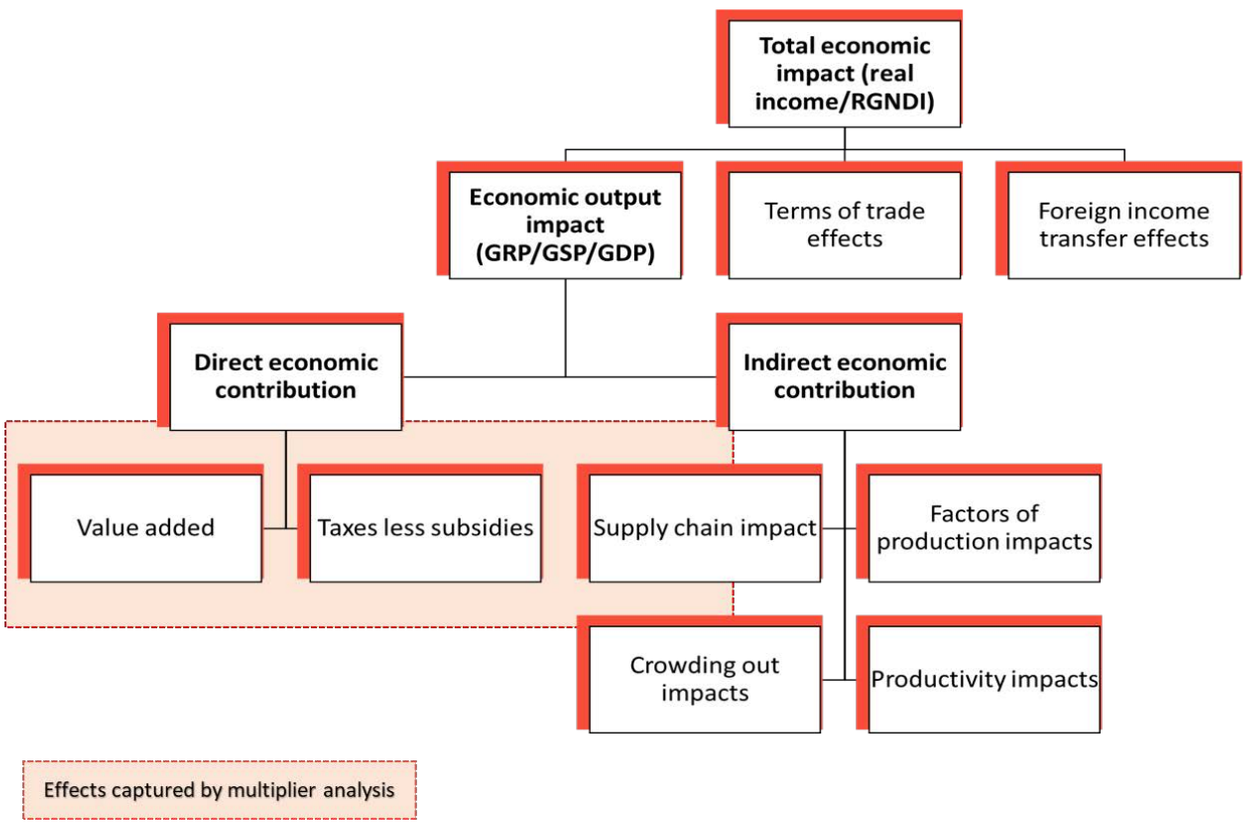
Economically, this situation creates a fundamentally uneven playing field that penalises Australian businesses. Local companies that invest heavily to comply with our high ESG standards find themselves unable to compete on price against imports produced without the same financial burdens. This fuels the cycle of offshoring, hollowing out our domestic manufacturing capabilities and eroding our economic sovereignty. It creates a perverse global incentive, rewarding countries for regulatory arbitrage rather than for improving their environmental and social performance. Ultimately, the disconnect between our domestic ideals and our international purchasing power reveals a critical flaw in our approach. A genuine commitment to ESG cannot exist in a vacuum; it requires a holistic view that extends to our supply chains and consumption habits, ensuring that the standards we demand at home are not built upon the externalisation of environmental degradation and social inequality abroad.

# Appendix 6. Quantifying the net impacts

## Conceptual framework

The macroeconomic impacts of changes to CPRs can be assessed using a range of economic analysis tools. Among these, IO multiplier analysis and CGE modelling are the most commonly employed methodologies. The conceptual framework for assessing the potential impacts of changes to the CPRs is presented below, integrating key microeconomic and macroeconomic linkages.

*Figure* 61. Economic modelling framework




The principal measure of macroeconomic impact is the change in the total income of the economy resulting from the purchasing of defence acquisitions and sustainment from Australian-based sources. This is most commonly assessed through changes in real gross national, state, or territory disposable income (RGNDI). The key factors to consider when analysing the macroeconomic impacts of changes to CPRs include:

- The nature and scale of the domestic investment;
- The structure and interlinkages of the affected activities;
- The extent of market and non-market effects, where the latter may include national security implications, infringements on property rights, potential biodiversity loss, changes in air quality or greenhouse gas emissions, and broader social justice considerations;
- The distributional consequences across regions and population groups;
- The timeframe over which impacts are assessed;
- The direct and indirect contribution to the economy due to the activities associated with this new investment;

- Any crowding out implications, as resources are potentially diverted from other productive activities to undertake the sovereign capabilities;
- Any productivity effects generated directly from the sovereign capability investments – particularly any enduring productivity changes or productivity impacts on other activities not directly associated with the defence;
- Any changes to the factors of production in the economy;
- Any implications associated with trade or foreign income transfer changes; and
- The extent of any dynamic element to the size of any of the above effects (for example, associated with different project phases).

This section estimates the direct and indirect economic contributions resulting from an increase in local content, projected to impact the Australian economy through to 2035. IO multipliers and CGE models primarily capture market-based impacts, that is, effects on activities with observable market prices. We also discuss non-market impacts from a qualitative perspective.

## Input–Output analysis

The intermediate inputs used by eligible defence contractors as a result of CPR changes can be sourced from either within the Australian economy or from foreign economies. If purchased from within the Australian economy, then the portion of value-added embodied in the intermediate input is indirectly associated with the activity of the purchaser. For example, building a naval ship requires steel and other metals, such as steel products, iron ore mining, and so on. The magnitude of this effect is quantified using supply chain data embedded in the IO tables of the Australian economy. IO tables and their corresponding multipliers are valuable tools for estimating the indirect effects of sectoral activity. These multipliers, derived from detailed inter-industry data, help quantify the overall economic influence of shifts in demand within a particular sector. In addition, they elucidate the structural connections across industries, offering insights into how different parts of the production system contribute to national economic performance.

IO multipliers rely on assumptions that can limit their accuracy, primarily when economic constraints exist or when a project differs from industry norms. However, these limitations are not relevant to this analysis, making the use of multipliers a suitable approach for estimating the economic impact of additional defence spending in Australia as a result of CPR changes.

We first use I-O tables to generate an initial estimate of the indirect jobs and revenue supported in supplier industries. Drawing on data from the ABS, DeltaPearl Partners has developed and regularly updates detailed IO tables for Australia, each state and territory, and selected regional areas where necessary.

Using these tables, DeltaPearl Partners has calculated a suite of multipliers to support economic footprint analysis of changes in the local content of defence procurement in Australia. These multipliers enable the estimation of the broader economic effects resulting from increased domestic activity following changes to the CPRs.

## Computable General Equilibrium model

This analysis uses a CGE model to estimate the macroeconomic impacts of modifying the CPRs. The model specifically assesses the economic effect by projecting outcomes to 2035 based on Treasury and ABS data.

A CGE model is a powerful economic simulation tool used to analyse the potential economy-wide impacts of a specific policy or economic shock. Unlike simpler models that might look at a single industry in isolation, a CGE model maps the entire economy, showing the complex web of relationships between industries, households, the government, and international trade partners.

The "General Equilibrium" aspect is key; it means the model captures how a change in one part of the economy creates ripple effects everywhere else. For instance, if the government increases spending in the defence industry, a CGE model doesn't just show growth in that sector. It also calculates how this new demand pulls skilled labour from other industries, how those industries might adjust their prices, what the

impact is on household incomes and spending patterns, and how trade balances might shift, which provides a solid understanding of the net effect of changes in the economy.

The "Computable" part simply means it is a computer-based model that uses real-world data from sources like the ABS to build its economic snapshot. Analysts use CGE models to answer "what if" questions and produce numerical estimates of how variables like GDP, employment, and investment might change in response to a policy, providing a holistic view of the potential consequences before a decision is made.

## Gross National Disposable Income impacts

CGE models use Gross National Disposable Income (GNDI) to reflect the total purchasing power of an economy's residents, making it a key indicator of national welfare. GNDI represents the income available for spending or saving, encompassing not only GDP but also net income flows from abroad, such as investment income, remittances, and current transfers. In essence, GNDI equals GDP plus net external income flows, offering a more comprehensive measure of economic well-being than GDP alone.

In the context of local content policies, GNDI may rise more significantly when domestic production replaces foreign production and stimulates activity in targeted sectors e.g., shipbuilding, ICT, sustainment. Increased demand for domestic inputs raises output and employment, thereby boosting income and purchasing power, particularly in regions hosting defence projects.

Changes to the CPRs that increase local content requirements in defence procurement can influence GNDI through several channels:

- Altering relative prices, terms of trade, and exchange rates
- Affecting the profitability of domestic industries
- Increasing government expenditure
- Impacting the efficiency of capital and labour usage

These effects are typically assessed through counterfactual simulations, comparing economies with and without the policy.

Moreover, replacing imported production with domestic alternatives can have a marginal impact on Australia's international purchasing power. If increased domestic defence production leads to higher aggregate export prices, it may improve the terms of trade, enhance the real value of national income, and contribute positively to GNDI.

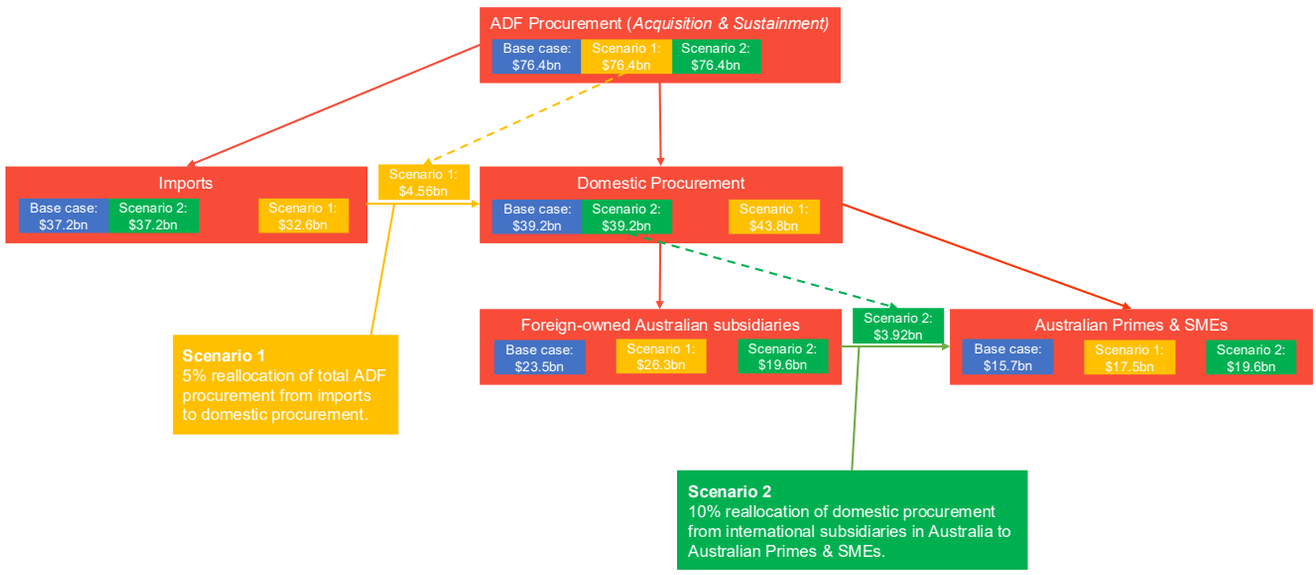
## Project baseline and scenarios

The project baseline is the level of activity the scenarios are tested against to understand the net difference in economic costs and benefits from the measured variables. In this project the baseline is the assumption that Defence continues to spend in the same way it has in the recent past with the allocation of domestic primes, international subsidiaries in Australia, and international imports allocated in the same proportions.

The focus of this analysis is to understand the potential net economic impact of Defence increasing its spending on domestic primes over the international subsidiaries based in Australia.

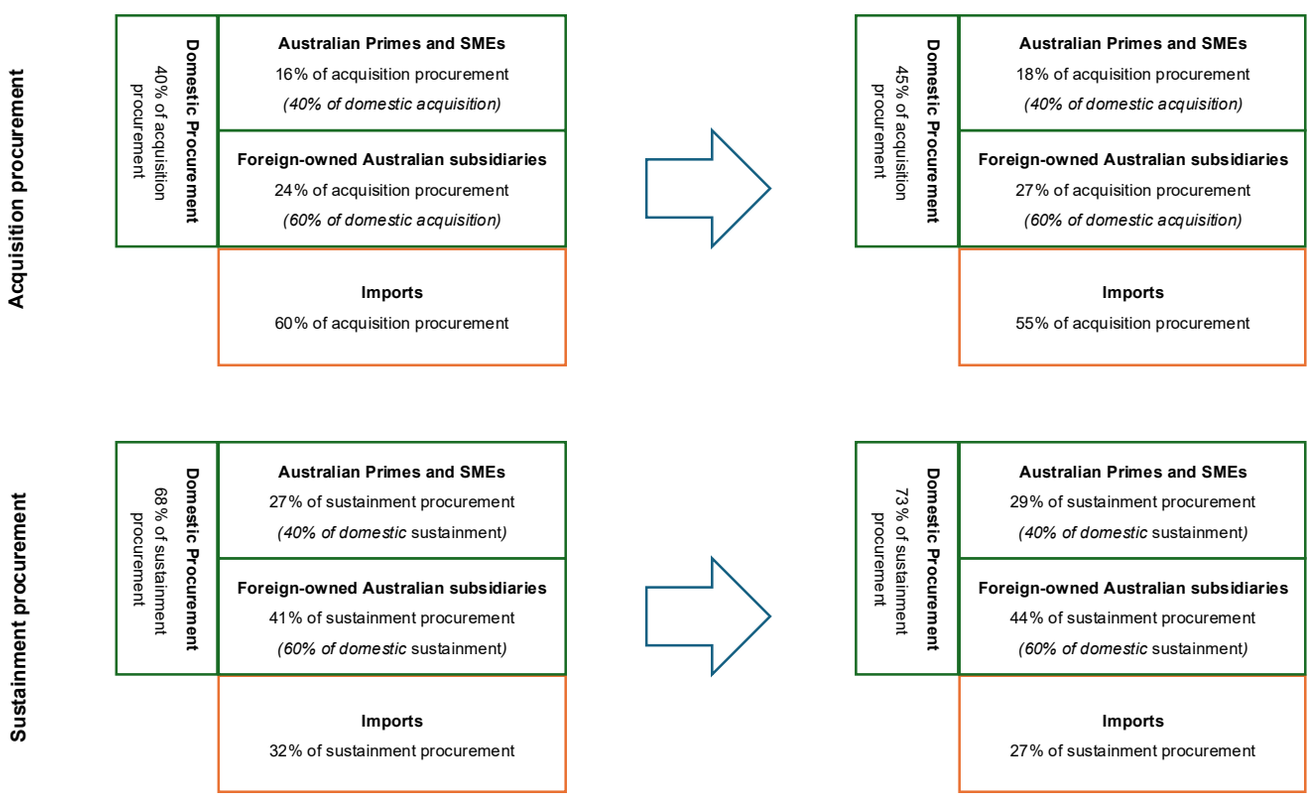
Scenario 1 models a reallocation of 5% of total ADF procurement from imports to domestic procurement. Scenario 2 models a reallocation of 10% of domestic procurement from Australian subsidiaries of international companies to Australian primes and SMEs. Scenario 3 simply combines Scenarios 1 and 2, which are not mutually exclusive.

*Figure 62. Reallocation scenario overviews*




## Scenario 1. Five percent reallocation to domestic procurement

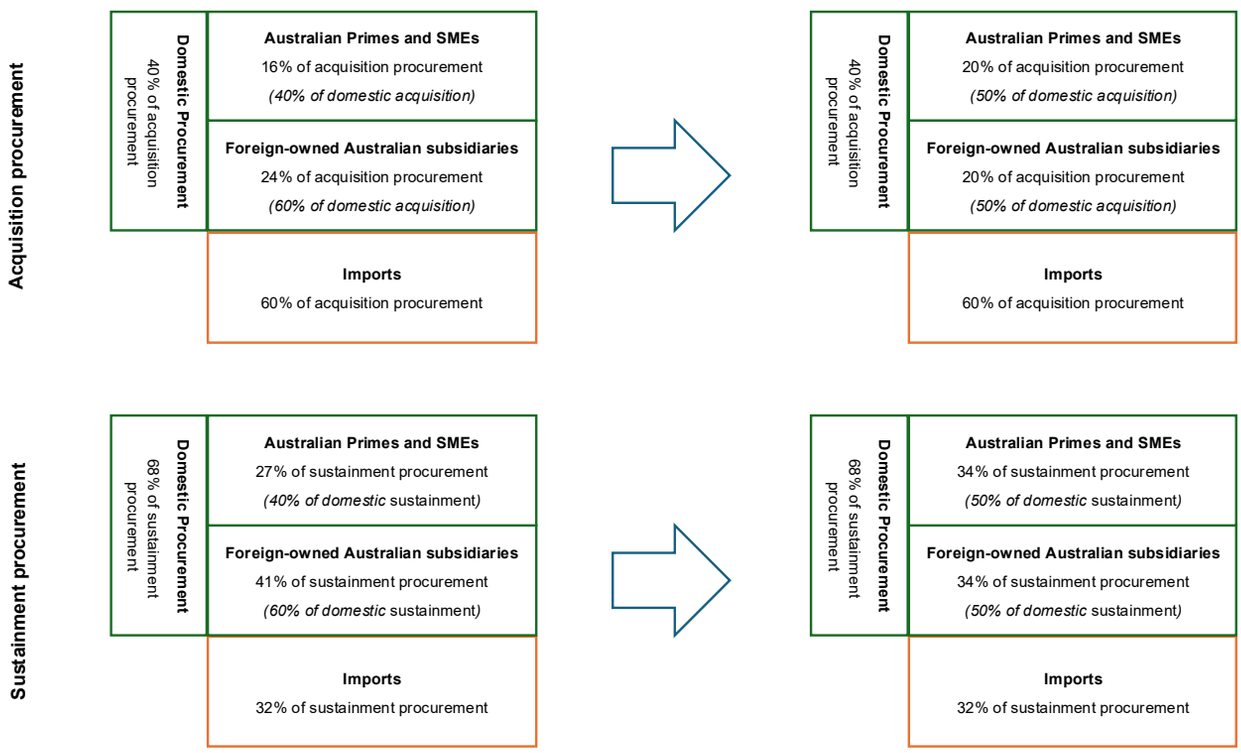
Using a conservatively estimated 5 percentage point increase over the established baseline for local content procurement for sustainment and acquisition expenditures.



### Scenario 2. No change in domestic spending but a larger proportion of ADF domestic prime and SME spending

Holding the total domestic spending at the baseline reduces the moving parts of the model to identify the specific net economic change from the reallocation of funds from international subsidiaries based in Australia to domestic prime defence contractors.

By examining various economic indicators, such as employment rates, local business growth, and overall expenditure patterns, this research aims to illuminate how these changes will impact the Australian economy and jobs.

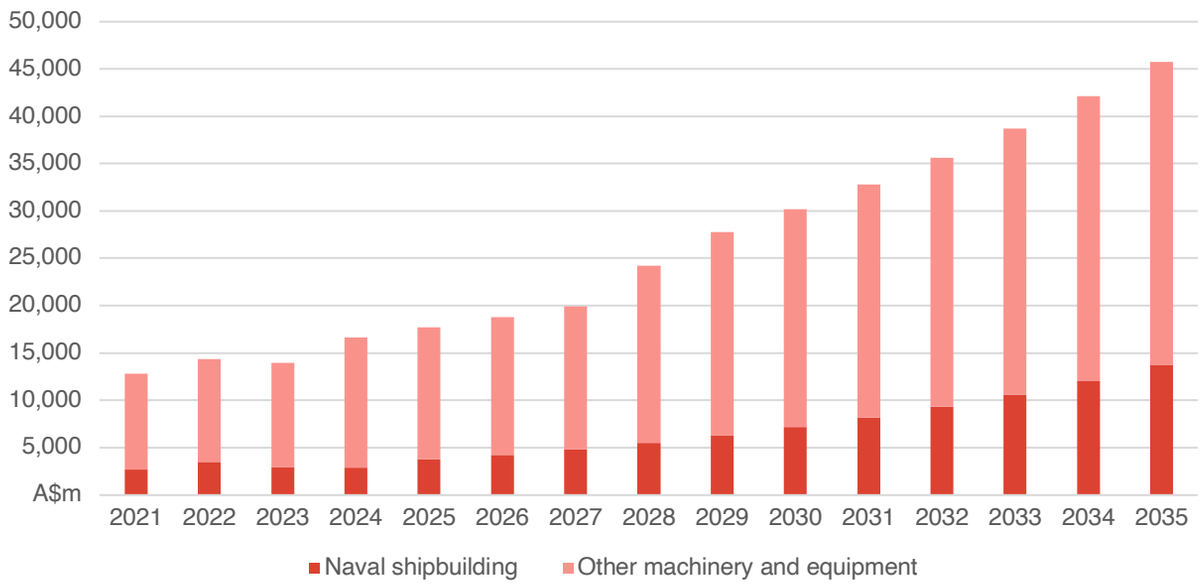



## Baseline

Acquisition expenditure includes all direct procurement in two main categories: shipbuilding and all other machinery and equipment. In 2024-25, the Australian Government allocated over $17.7 billion for acquisition expenditures through direct procurement, which encompasses the purchase of machinery and equipment, as well as defence shipbuilding.

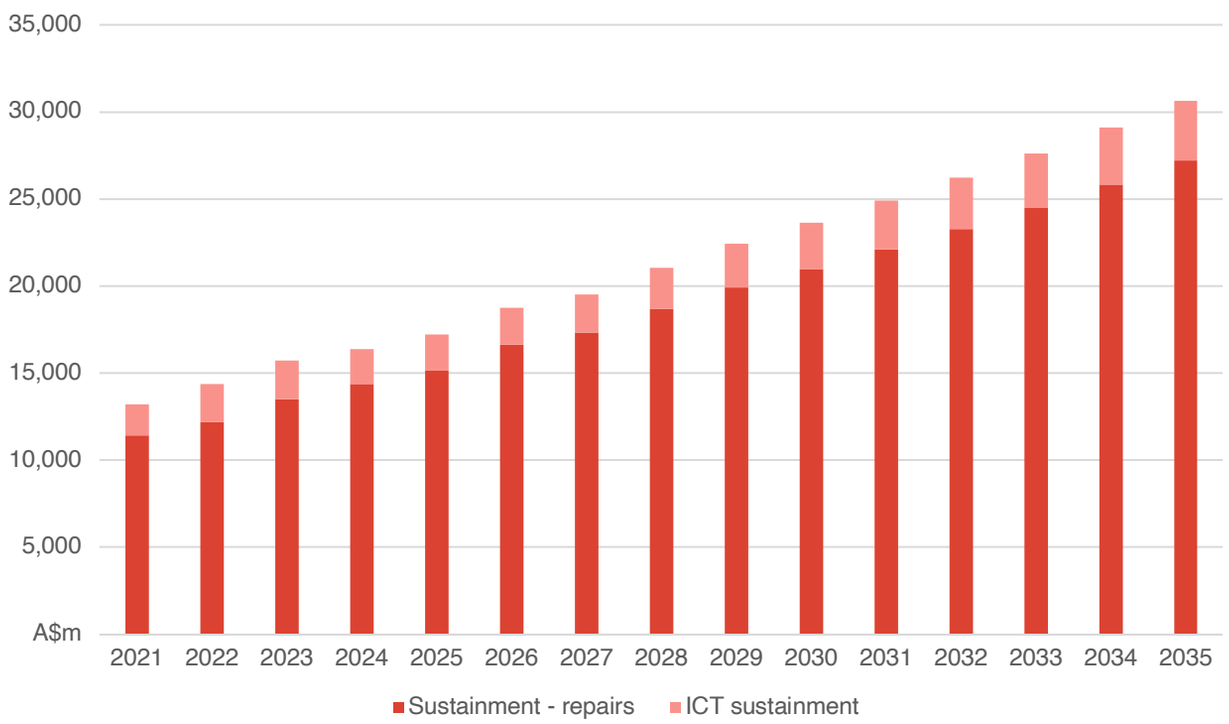
Around 39% of this expenditure was sourced from Australian providers. Looking ahead, this spending is projected to grow at an average annual rate of 8.7% in nominal terms, reaching approximately $45.8 billion by 2035. This projection is based on the government's announced spending plans, which include increased investment in fighter jets, submarines, armoured vehicles, and other weapons systems.

*Figure 63: Acquisition expenditure, FY2021 to FY 2035[259]*




Defence allocated $17.2 billion for sustainment expenditure in 2024-25, with projected nominal growth of 5.3% annually, reaching $30.7 billion in 34-45. A greater proportion of defence procurement on sustainment expenditure is directed to local content than on acquisition expenditure. In 2024-25, approximately 68% expenditure was sourced from Australian providers.

*Figure 64: Sustainment expenditure, FY2021 to FY 2035[260]*




[259] DeltaPearl Partners based on Defence Annual Reports
[260] DeltaPearl Partners based on Defence Annual Reports

## Scenario 1 outcomes

Scenario 1 models increasing procurement from local providers from approximately 5% by 2035. This includes procurement awarded foreign firms operating in Australia that hold an ABN. The approximate change in the share of local content is shown in the graph below.

The baseline and projected domestic content resulting from the 5% increase in local procurement for acquisition and sustainment expenditure are shown in the graphs below. Scenario 1 is estimated to achieve approximately 47% sourcing from local providers for acquisition expenditure, and 72% for sustainment expenditure.

*Figure 65: Share of local content spend on defence acquisitions in baseline CRP change scenario, FY2021 to FY 2035*[261]

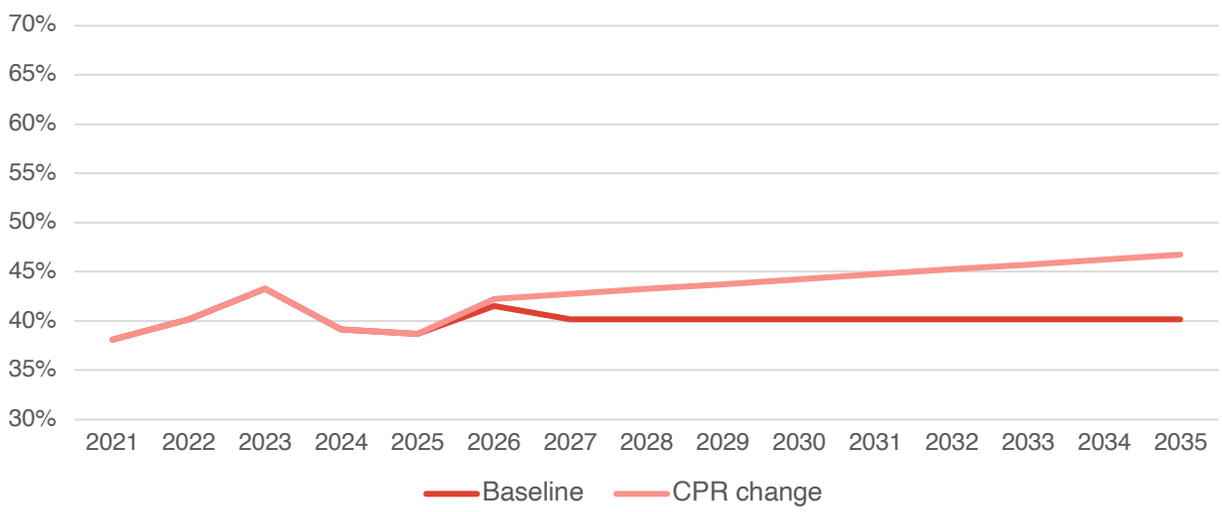
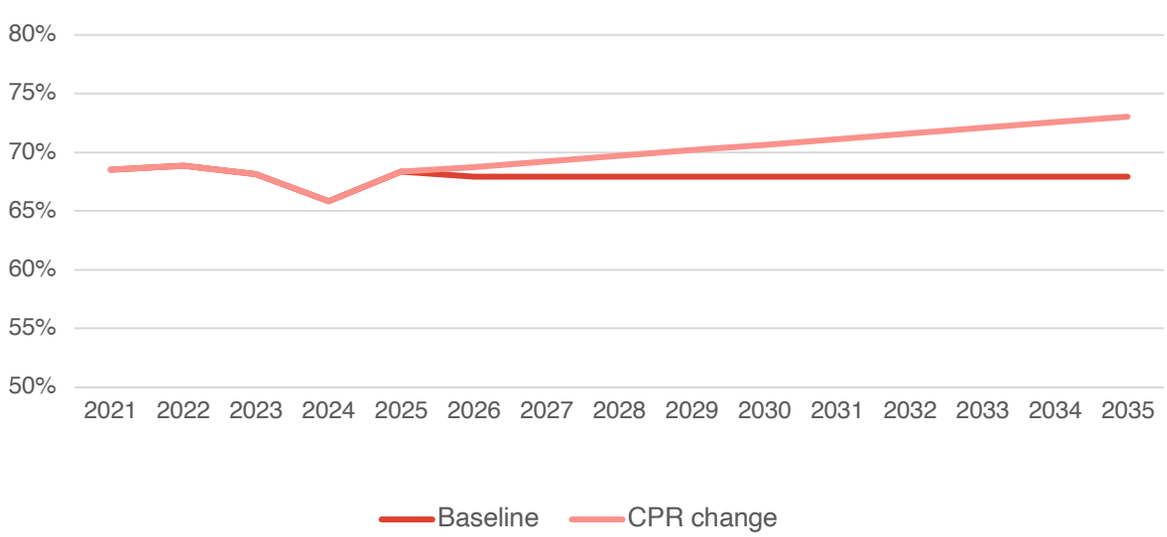



*Figure 66: Share of local content spend on defence sustainment in baseline CRP change scenario, FY2021 to FY 2035*[262]

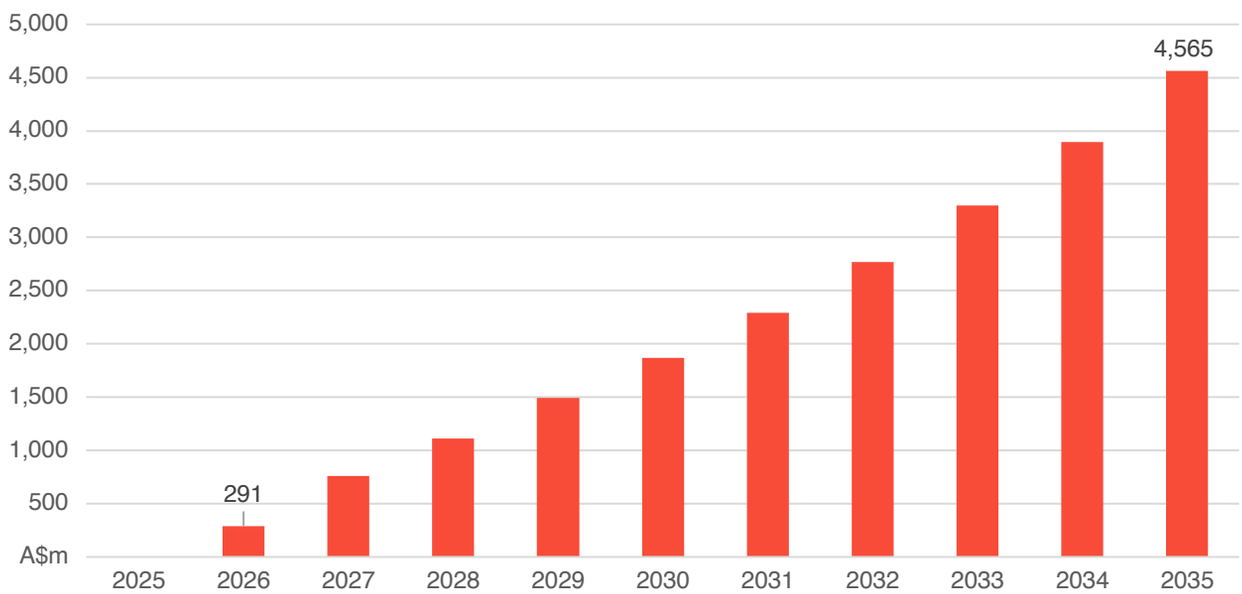



[261] DeltaPearl Partners based on Defence Annual Reports
[262] DeltaPearl Partners based on Defence Annual Reports

## Scenario 1 total direct contributions

The graph below shows the estimate of the value of additional defence spending in Australia. An increase in domestic economic activity of over $4.5 billion in acquisition and sustainment contracts could be awarded to Australian-based companies.

*Figure 67: The estimated total additional domestic activity, FY2021 to FY 2035*[263]




The additional value of defence spending activity undertaken by Australian-based companies would rise from $291 million in FY2026 to nearly $4,565 million in FY2035. The direct economic contribution embodied in this spend in Australia is estimated at $1,679 million in FY2035. Australia's forecast GDP in FY2035 is $4,509 billion, implying that the direct economic contribution of the additional defence activity is 0.04 per cent of Australia's FY2035 GDP. The direct employment from additional defence activity will be at 7,038 FTE persons in FY2035, which represents 0.05 per cent of Australia's total FTE employment of 15.8 million. The estimated total direct annual income, value-added, tax receipts and employment estimate attributable to additional defence activity in Australia are summarised in the table below.

*Table 18: Total direct economic contribution of additional defence domestic activity, FY2026 to FY2035*[264]

| (Millions $) | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|
| Additional spend | $291 | $761 | $1,114 | $1,492 | $1,869 | $2,292 | $2,767 | $3,300 | $3,897 | $4,565 |
| Income | $69 | $181 | $265 | $356 | $447 | $549 | $664 | $794 | $939 | $1,102 |
| Value-added | $104 | $277 | $405 | $543 | $681 | $836 | $1,012 | $1,209 | $1,430 | $1,679 |
| Taxes | $26 | $70 | $102 | $137 | $171 | $210 | $254 | $304 | $359 | $421 |
| Employment (FTEs) | 652 | 1,432 | 2,030 | 2,649 | 3,254 | 3,905 | 4,605 | 5,357 | 6,167 | 7,038 |

## Scenario 1 indirect impacts

Beyond the direct economic contribution of additional local procurement, further indirect economic impacts arise from the defence sector's purchase of intermediate inputs from a wide range of businesses and the spending of incomes generated through this additional local defence procurement. To inform the

[263] *DeltaPearl Partners' estimates.*
[264] *DeltaPearl Partners' estimates.*

calculation of the indirect economic contribution, we gather primary data on FTE employment, gross wages, and project-specific GVA. This data is validated against contracts and ABS benchmarks and form the primary input for both the I-O and CGE analyses. In FY2035, an estimated $4,565 million in additional production is expected to generate around $2,884 million in demand for goods and services, with approximately $1,952 million directed towards domestically produced inputs. We estimated that:

- Domestic spending of $1,952 million would indirectly contribute between $1,747 million (lower bound) and $3,917 million (upper bound) to the Australian economy (0.04% to 0.09% of GDP) in FY2035.
- Between $1,747 million and $3,917 million in household income is indirectly supported by this additional activity.
- Between 10,093 and 22,240 FTE jobs are indirectly supported by this additional activity.

The table below provides the estimated total indirect contributions at the national level with lower and upper bounds.

*Table 19: Indirect economic contribution of all activities, FY2026 to FY2035*[265]

| (Millions $) | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|
| Income (low) | $64 | $165 | $241 | $323 | $405 | $497 | $601 | $717 | $848 | $993 |
| Income (high) | $126 | $323 | $473 | $634 | $796 | $977 | $1,239 | $1,463 | $1,714 | $1,994 |
| Value-add (low) | $113 | $291 | $426 | $571 | $715 | $878 | $1,060 | $1,264 | $1,492 | $1,747 |
| Value-add (high) | $247 | $635 | $929 | $1,246 | $1,562 | $1,918 | $2,444 | $2,881 | $3,371 | $3,917 |
| Taxes (low) | $5 | $12 | $18 | $24 | $30 | $37 | $44 | $53 | $62 | $73 |
| Taxes (low) | $7 | $19 | $28 | $38 | $47 | $58 | $73 | $86 | $101 | $117 |
| Employ (low) FTEs | 654 | 1,681 | 2,459 | 3,294 | 4,128 | 5,066 | 6,118 | 7,297 | 8,617 | 10,093 |
| Employ (high) FTEs | 1,404 | 3,604 | 5,272 | 7,071 | 8,868 | 10,887 | 13,865 | 16,350 | 19,132 | 22,240 |

## *Scenario 1 total impact*

Combining direct and indirect contributions provides the total contribution of the additional economic benefits generated by changes in the CPR.

A five-percentage-point change in domestic content resulting from changes in CPR in FY 2035 would result in:

- A lower bound contribution of $3,426 million to the Australian GDP, comprising:
  - $1,679 million directly from the benefited industry (direct contribution)
  - $1,747 million indirectly from demand generated through benefited contractors' purchases of inputs and services (indirect contribution)
  - contributes a minimum of 0.08% to GDP in FY2035.
- An upper bound contribution of $5,596 million to GDP, comprising:
  - $1,679 million directly from the benefited industry (direct contribution)
  - $3,917 million generated indirectly through demand created by benefited contractors' purchases of inputs and services (indirect contribution) and $905 million indirectly from the after-tax wage income spent by employees of the domestic supply chain.
  - Overall, this additional activity could contribute 0.12% to GDP in FY2035.

[265] *DeltaPearl Partners' estimates.*

The additional domestic production could support up to 29,278 FTE jobs, which means that for every $1 million in revenue earned by defence contractors, up to 6.4 FTE jobs are supported across the Australian economy. Since FTEs combine full-time, part-time, and casual roles, the actual number of people whose jobs are supported by defence procurement changes is likely higher than the FTE estimate.

*Table 20: Total economic contribution of all activities, FY2026 to FY2035*[266]

| (Millions $) | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|---|---|---|---|---|---|---|---|---|---|---|
| Income (low) | $134 | $346 | $506 | $679 | $852 | $1,046 | $1,265 | $1,511 | $1,787 | $2,095 |
| Income (high) | $195 | $505 | $738 | $990 | $1,242 | $1,526 | $1,903 | $2,257 | $2,653 | $3,096 |
| Value-add (low) | $217 | $568 | $831 | $1,114 | $1,396 | $1,714 | $2,071 | $2,472 | $2,922 | $3,426 |
| Value-add (high) | $351 | $912 | $1,334 | $1,789 | $2,243 | $2,754 | $3,455 | $4,090 | $4,801 | $5,596 |
| Taxes (low) | $31 | $82 | $120 | $160 | $201 | $247 | $298 | $356 | $421 | $494 |
| Taxes (high) | $34 | $89 | $130 | $174 | $218 | $268 | $327 | $389 | $460 | $538 |
| Employ (low) FTEs | 1,306 | 3,113 | 4,489 | 5,943 | 7,382 | 8,971 | 10,723 | 12,654 | 14,784 | 17,131 |
| Employ (high) FTEs | 2,056 | 5,036 | 7,302 | 9,720 | 12,122 | 14,792 | 18,470 | 21,707 | 25,299 | 29,278 |

The Australian defence industry contributed approximately $11.9 billion to GVA in 2023–24, representing 0.47% of national GVA, an increase of 12.4% from the previous year. Employment in the sector rose by 9.1%, reaching 69,400 workers.[267]

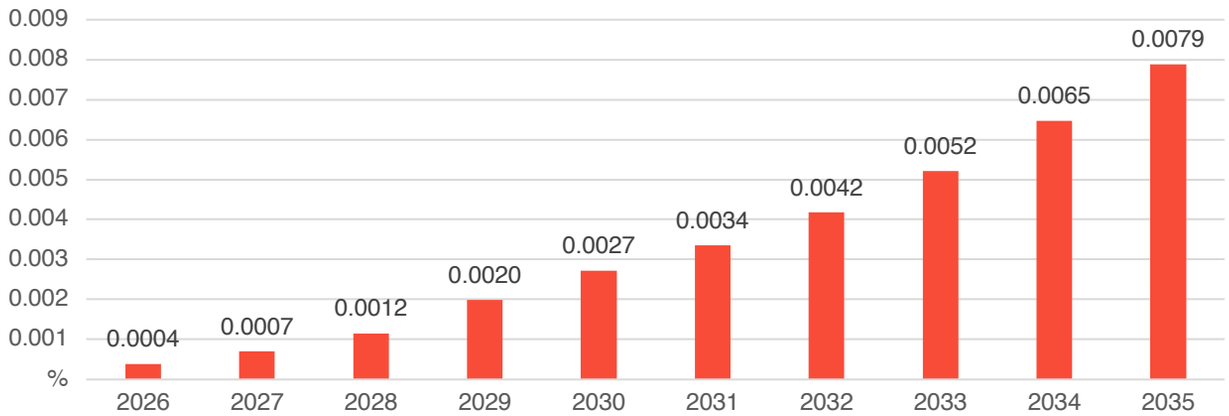
Changes to CPRs may distort market mechanisms by favouring domestic production over potentially more efficient foreign alternatives, thereby raising input costs and prices. In defence, the relative efficiency of foreign-sourced products and services is unclear. Given that defence is a public good, the expected GDP impact may not translate into reduced economic welfare, at least in the short to medium term. The government typically absorbs any price increases and may not directly pass them on to consumers in the form of higher prices.

Modelling by the Productivity Commission in 1990s[268] and other analysts suggests that while local content rules can support strategic and employment goals, they may reduce overall income levels if they divert resources from sectors where Australia holds a comparative advantage. Nonetheless, in industries like defence, where strategic autonomy and supply chain resilience are paramount, the trade-off may be justified.

Scenario 1 real GDP impacts are summarised in the graph below. Relative to the baseline, the projected GDP effects of changes to CRP would boost the Australian GDP by 0.0079% by 2035. GDP measures production within the domestic economy. A modest increase in GDP due to higher domestic production in defence-related sectors.

[266] *DeltaPearl Partners' estimates.*
[267] Australian Bureau of Statistics, "Australian Defence Industry Account, Experimental Estimates 2023-24 FY."
[268] Productivity Commission, *Defence Procurement: Industry Commission Inquiry Report* (1994), https://www.pc.gov.au/inquiries-and-research/defence-procurement/.

*Figure 68: The estimated real GDP impacts, FY2026 to FY2035*[269]




Higher domestic production leads to increased employment, wages, and capital utilisation, particularly in defence-related industries. This expansion in factor income directly boosts GNDI, which reflects the total purchasing power of residents and serves as a key indicator of national welfare.

The magnitude of this effect depends on the scale of procurement, the responsiveness of domestic industries, and the extent to which local production substitutes import without significant efficiency losses. In regions hosting major defence projects, such as shipbuilding or sustainment hubs, the rise in GNDI can be more pronounced due to concentrated economic activity and multiplier effects.

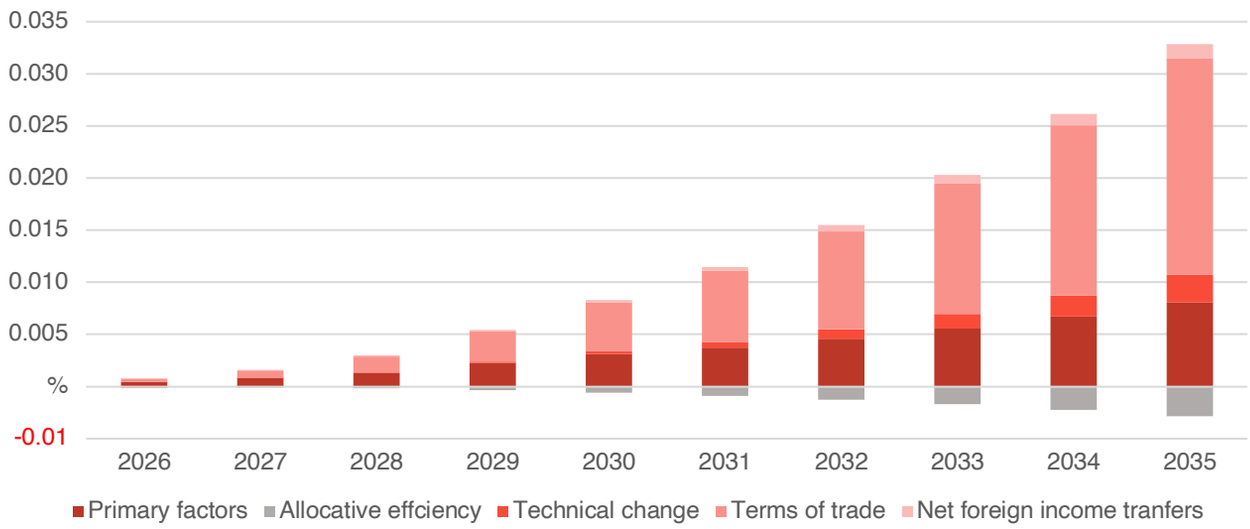
Some allocative efficiency losses are expected from the shift to domestic production. If domestic inputs are less efficient or more costly than imported alternatives, resources may be diverted from higher-productivity sectors. This misallocation can reduce overall economic efficiency and dampen long-term growth potential. However, in this simulation, these adverse effects are outweighed by gains in other macroeconomic variables, particularly increased returns to labour and capital, as well as improvements in the terms of trade, which boost household income and consumption. These gains contribute positively to GNDI, reflecting an overall improvement in national welfare despite the efficiency trade-offs.

Terms of trade refer to the ratio of export prices to import prices. An improvement means a country can buy more imports for a given quantity of exports, effectively increasing its international purchasing power. Local content policies may reduce import volumes and increase demand for domestic inputs. If this leads to higher export prices through innovation, strategic capability, or enhanced competitiveness, terms of trade can improve, further supporting national income.

Net income transfers are generally part of the balance of payments and do not directly affect the calculation of GNI, which focuses on primary income flows such as labour and property income from abroad. However, net current transfers (a form of secondary income) are added to GNI to derive GNDI. A positive net transfer indicates that a country receives more resources via these transfers than it sends out, thereby increasing the total income available for consumption or saving. In this simulation, this effect is partly attributed to the appreciation of the Australian dollar, which is itself a consequence of improved terms of trade.

[269] *DeltaPearl Partners' estimates.*

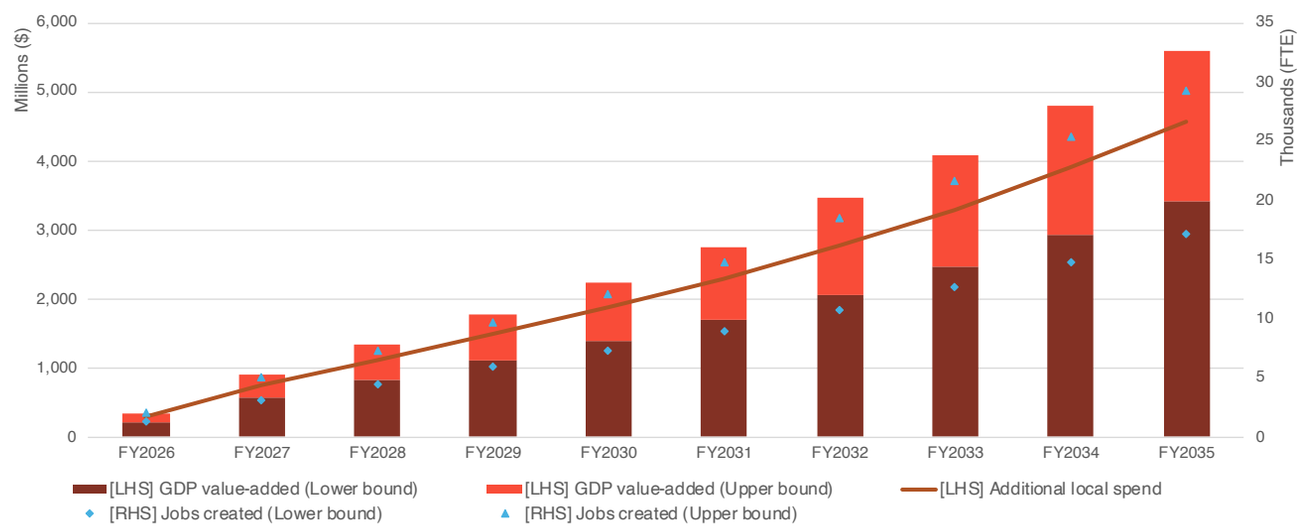
*Figure 69: The estimated real GNDI impacts and its components, FY2026 to FY 2035*[270]




## *Scenario 1 economic dividends*

Beyond the direct impacts, multiplier effects propagate gains throughout the broader Australian supply chain and community. The direct and indirect economic contributions include an estimated $3.4 billion to $5.6 billion value-added to GDP, supporting between 25,569 and 43,205 FTE jobs.

*Figure 70. Estimated contribution to GDP and job growth, of additional local spend from CPR reforms*[271]




[270] *DeltaPearl Partners' estimates.*
[271] *DeltaPearl Partners' estimates.*

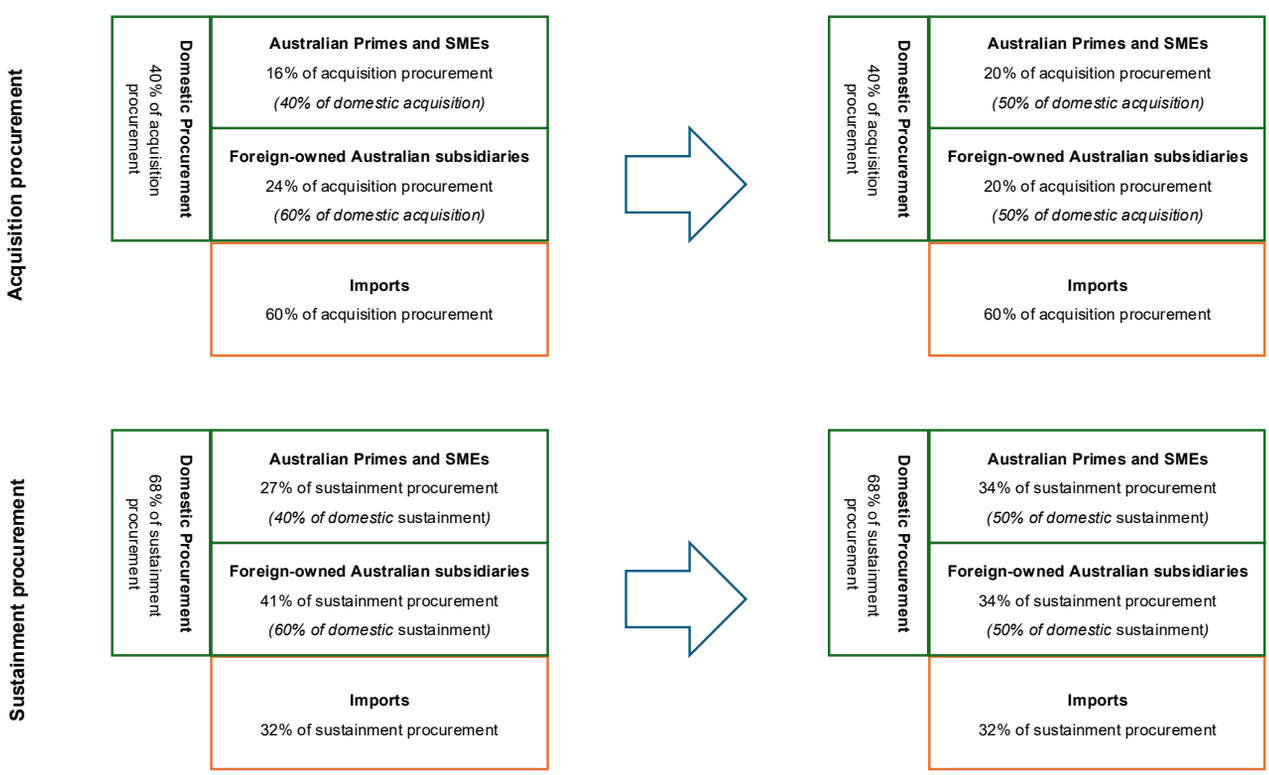
For each $1 million of defence procurement redirected to local content instead of foreign imports, the impact on Australia's economy is estimated to be:

- $0.75 million to $1.23 million value-added to Australia's GDP.
- 3.8 to 6.4 FTE jobs created.
- $0.11 million to $0.12 million in State and Commonwealth taxation revenue.
- $0.46 million to $0.68 million increased household income.

When accounting for the dynamic adjustments in resource allocation, prices, and production across the economy, we estimate that each $1 million spent on local content instead of foreign imports will increase Australia's GDP by $0.82 million in real terms over the following decade.

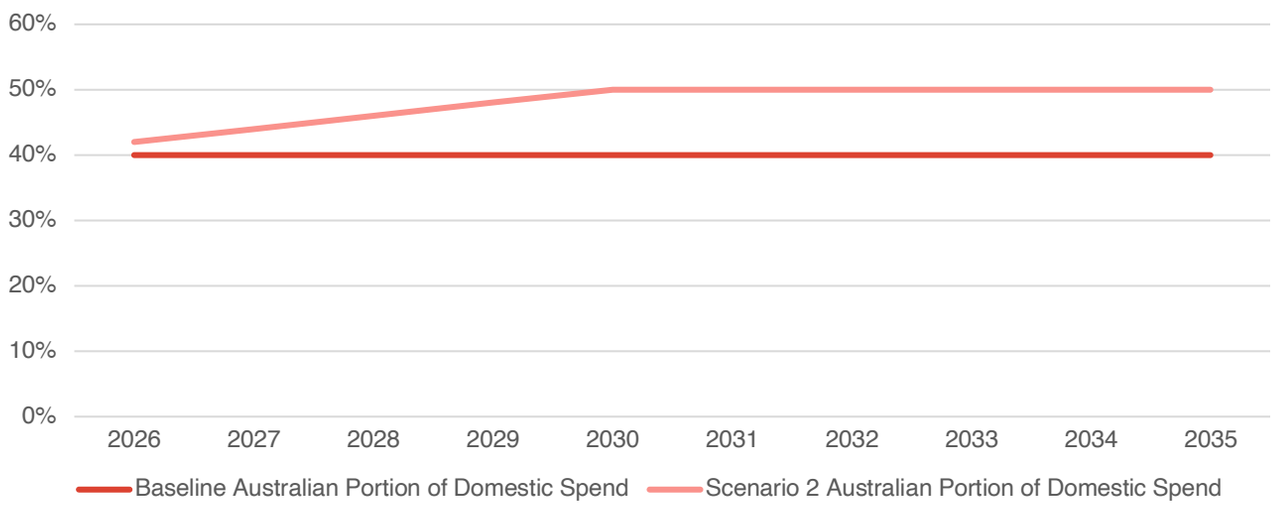
## Scenario 2 outcomes

Scenario 2 is the key measure of the gains to Australia by Defence reallocating a larger portion its domestic spending towards Australian primes instead of international firms with a domestic subsidiary in Australia. The graphic below shows the models assumptions of reallocation, where currently the estimated Australian prime portion of domestic spending is 40. Scenario 2 assumes that Defence shifts 10% of domestic spending to Australian primes between 2026 and 2030. The model has projected the reallocation out to 2036 to show the impacts of a sustained investment.



The graph below shows the assumed change in ADF reallocation of funding from international Australian subsidiaries to Australian primes. The change spread over several years to account for the time it might take for contracts to be changed and procurement to take effect, however, a faster transition is possible and would be more beneficial to the Australian economy.

*Figure 71. Percent ADF domestic budget allocation to Australian primes*



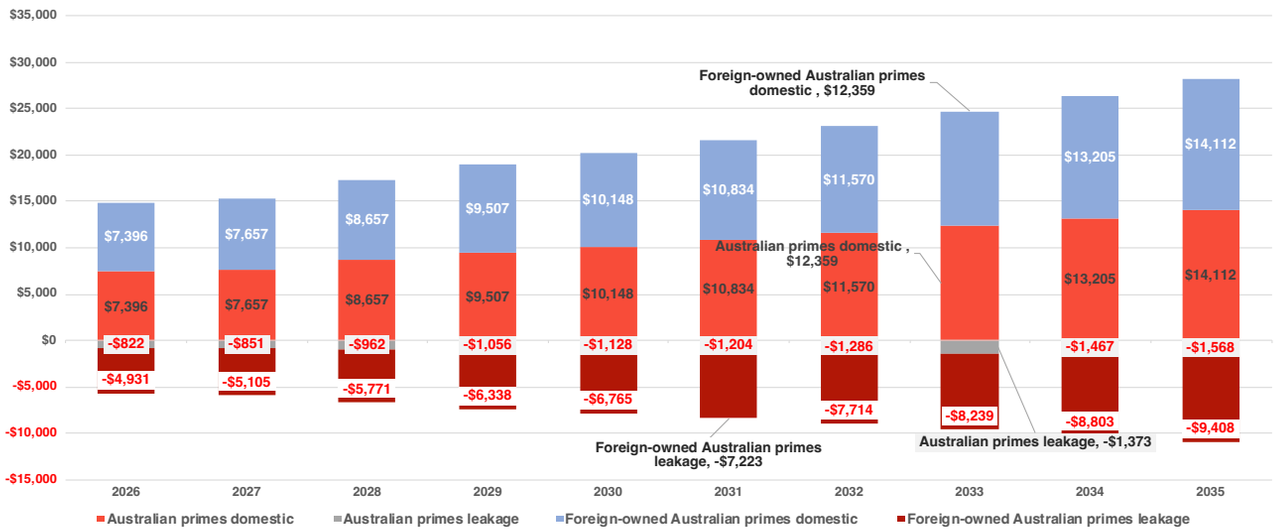

As with all models of economic impact, the first step is to measure the baseline to ensure the net impact can be correctly estimated. The graph below shows the baseline for Scenario 2, where we assume there is some level of "leakage" from both types of firms operating in Australia for ADF. Leakage is a term used to describe the money that is extracted from the Australian GDP due to imports and funds returned offshore. Australian-based primes have a lower level of leakage due to most of their headquarters, shareholders, and suppliers being based in Australia.

*Table 21. Modelled change to domestic spending*

| | Baseline assumption (Share of domestic procurement) | CPR change assumption (Share of domestic procurement) | Assumed Domestic Activity | Assumed leakage |
|---|---|---|---|---|
| Australian-owned primes | 40% | 50% | 90% | 10% |
| Foreign-owned Australian primes | 60% | 50% | 60% | 40% |

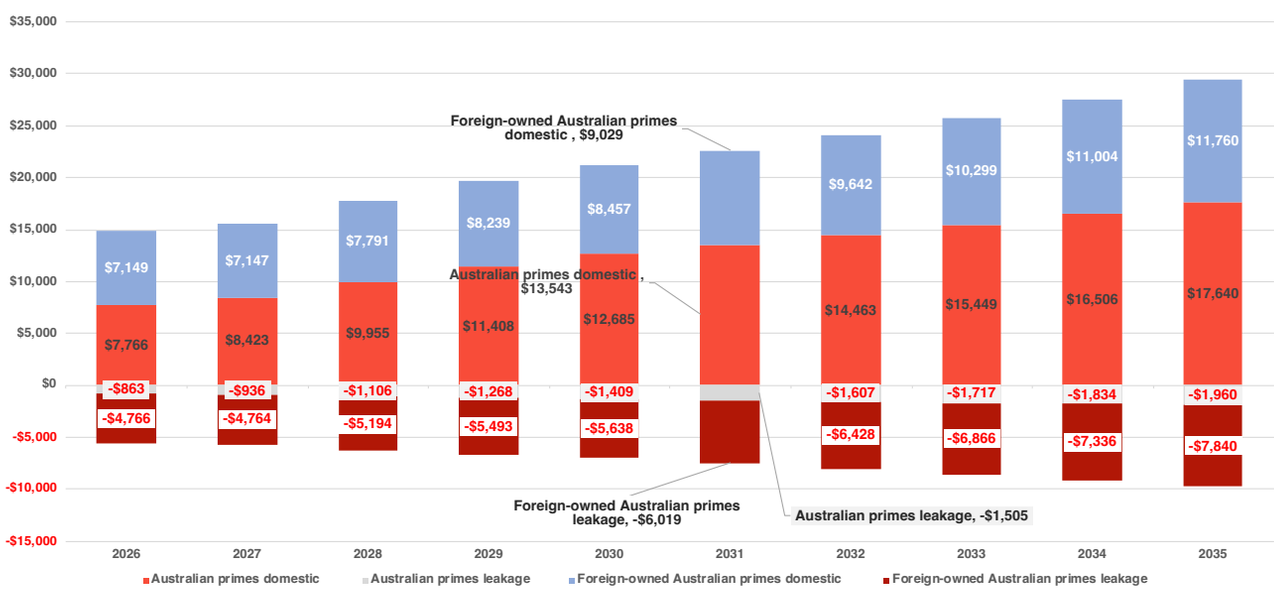
The graph below shows the estimated allocations of funds between the two types of firms suppling ADF over the assessment period. Over the 10-year assessment period, foreign-owned Australian primes are estimated to leak approximately $70.3 billion and Australian primes leak approximately $11.3 billion.

*Figure 72. Scenario 2 baseline*



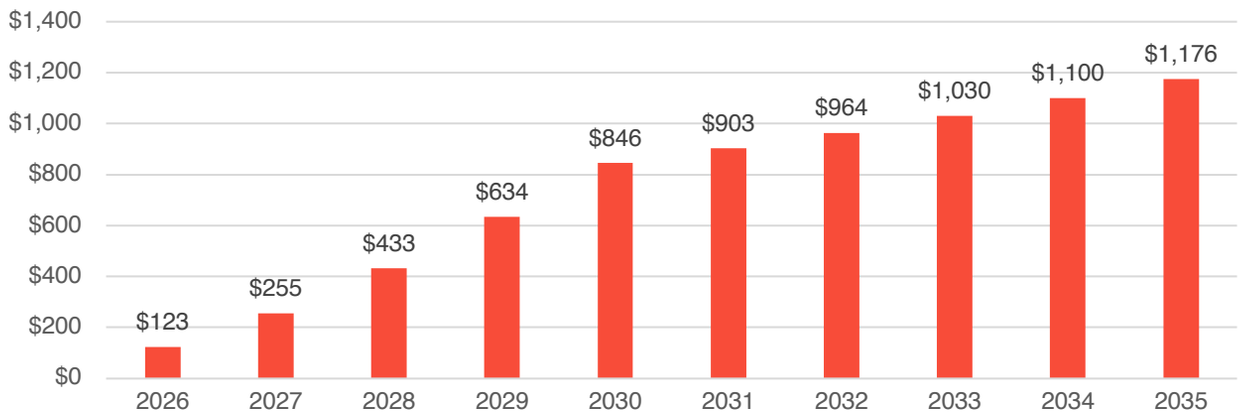

Changing the allocation of domestic procurement is shown in the graph below. Over the 10-year period Australian primes are awarded an additional $24.9 billion, resulting in $2.5 billion leakage. At the same time, the reallocating results in a reduced leakage of $10.0 billion from foreign-owned Australian primes (net $ 7.5 billion).

*Figure 73. Scenario 2 total change*



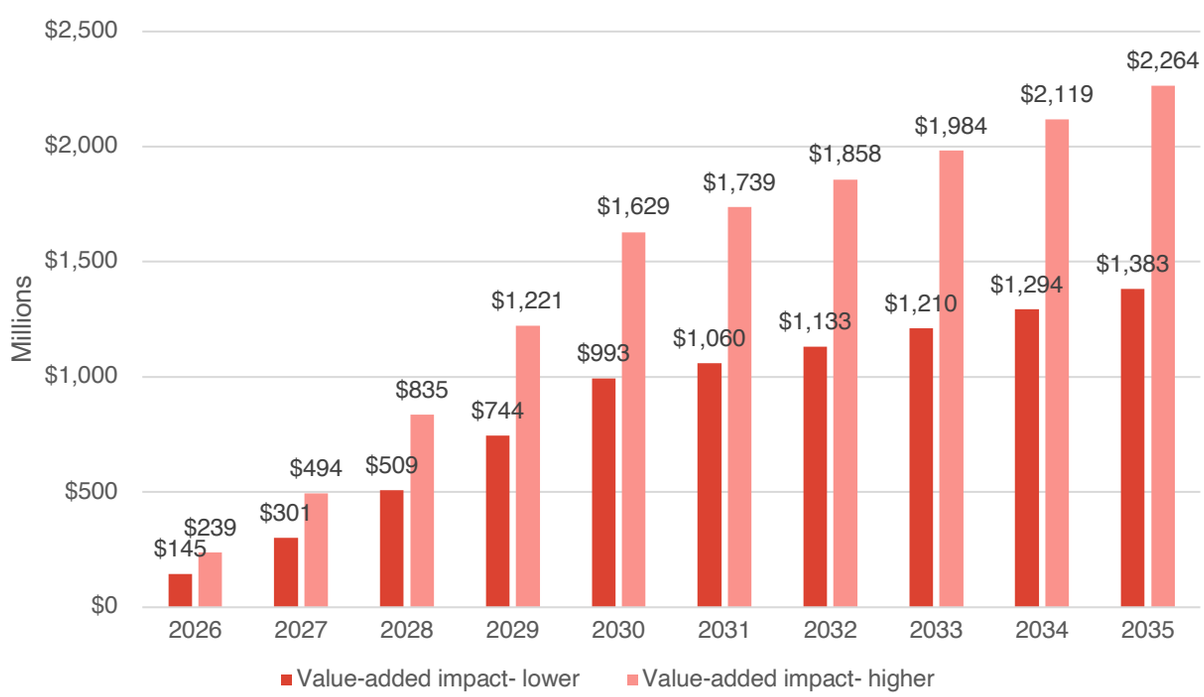

The sum of all these movements in spending and leakage is shown in the graph below. Over the 10-year assessment period the total net spending in retained in Australia is estimated as $7.5 billion. The total assumes Defence spending in Australia is the same as the baseline, but the funds have a larger proportion allocated to Australian primes. Therefore, the simple reallocation provides a large increase in domestic value.

*Figure 74. Total increase in domestic spending*



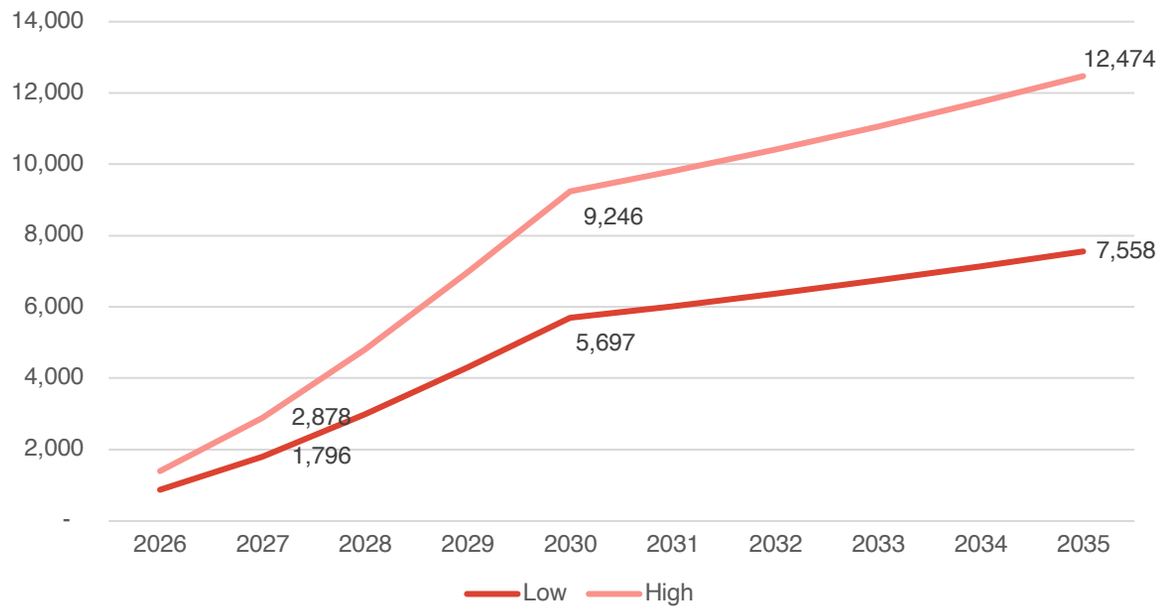

However, the key measure of net gain to the Australian GDP is the net value-added gains. Estimating the net value-added gains is completed using a high and low range to reflect variation in profitability and other factors. Over the 10-year assessment period the lower value-added increase is estimated to be $8.7 billion, and the higher value-added increase is estimated to be $14.4 billion. For every dollar of domestic spending retained within the Australian economy, the downstream return to the Australian economy is between $1.18 and $1.92. By the end of the assessment period, once the full reallocating of procurement has taken effect, this translates to $1.4 billion to $2.3 billion in added GDP annually.

*Figure 75. Net value-added gains low and high estimate*




Employment in Australia would be improved by up to 12,474 FTEs by the end of the assessment period of 2035. The types of jobs in advanced services and manufacturing in defence-related industries are high-skilled and are expected to have high spillover benefits into other industries. Given the nature of defence spending and activity these jobs could be directed into regional areas of Australia to assist with the regional development objectives of the government and assist regions with employment issues related to long-term unemployment and transitioning from high emissions industries. Mining regions or coal fired power plants have high-skilled people seeking employment in new industries, which might be suitable for defence services and manufacturing.

*Figure 76. Scenario 2 FTE projections 2026 to 2035*




The table below presents the economic impacts of scenario two by the end of the 10-year assessment period. Each dollar reallocated to fully Australian-owned primes increase Australian GDP by $0.35 to $0.58 (low to high scenarios), and supports between 3.8 and 6.4 FTE jobs.

*Table 22. Scenario 2 Summary Results*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | GDP Added per $1mn reallocated | Job Creation (Annual) | Job Creation per $1mn reallocated |
|---|---|---|---|---|---|
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian Primes and SMEs | 10% of local Defence procurement | $1.4-2.3 billion | $0.75-1.23 million | 7,558-12,474 FTEs | 3.8-6.4 FTEs |

## Comparison of Scenario 1 and Scenario 2

Both scenarios create positive impacts through local jobs, taxes, and indirect supply chain stimulus. Scenario 1 is projected to generate a greater impact on GDP and number of FTE jobs than Scenario 2. This due both to the larger impact of reallocating procurement from offshore to onshore, and involving a larger total reallocation of spending. However, Scenario 2, which focuses on spending with Australian companies only, keeps profits, taxes, and control within Australia, boosting annual GDP by $1.4–$2.3 billion. That is, there is a large net benefit from moving funds from imports to total domestic spending, but an added incremental benefit from allocating those funds to Australian companies rather than Australian-based foreign subsidiaries. Scenario 2 grows Australia's GDP by $0.35–$0.58 per dollar of the defence budget reallocated. As a result, shift procurement from imports to Australian-owned Primes and SMEs results in a greater economic benefit ($0.96 million to $1.57 million per $1 million reallocated) than shifting procurement to foreign owned Australian subsidiaries ($0.61 million to $1.00 million per $1 million reallocated).

*Table 23. Comparison of scenario impacts per $1 million reallocated.*

| Reallocation option | GDP Added per $1mn reallocated | Job Creation per $1mn reallocated | Economic Leakage |
|---|---|---|---|
| Scenario 1: Shift from imports to domestic procurement | $0.75-1.23 million | 3.8-6.4 FTEs | Medium |
| ○ Shift from imports to Australian Primes and SMEs | $0.96-1.57 million | 4.9-8.3 FTEs | Low |
| ○ Shift from imports to foreign-owned Australian subsidiaries | $0.61-1.00 million | 3.0-5.1 FTEs | High |
| Scenario 2: Shift from foreign-owned Australian subsidiaries to Australian Primes and SMEs | $0.35-0.58 million | 1.9-3.2 FTEs | Reduced |

Australia's defence supply chain is invariably complex, and relies on both strong Australian-owned primes and foreign-owned subsidiaries to meet Defence's capability requirements. Shifting Defence procurement from imports to domestic content (Scenario 1) and targeting domestic procurement towards Australian-owned primes (Scenario 2) are not mutually exclusive. If both reallocations of funding presented in Scenario 1 and Scenario 2 are implemented, there is a small multiplier effect, and the annual gains to total benefit to the Australian economy would be $5.0 billion to $8.1 billion added GDP and 25,569 to 43,205 FTE jobs.

*Table 24. Summary of scenario annual economic impacts.*

| Defence budget reallocation option | Reallocation Assumption | Net GDP Added (Annual) | Job Creation (Annual) |
|---|---|---|---|
| Scenario 1: Shift defence spending from imports to domestic procurement (from Australian-based entities, including foreign subsidiaries in Australia) | 5% of total Defence procurement | $3.4-5.6 billion | 17,131-29,278 FTEs |
| Scenario 2: Shift defence spending from foreign-owned Australian subsidiaries to Australian Primes and SMEs | 10% of local Defence procurement | $1.4-2.3 billion | 7,558-12,474 FTEs |
| Scenario 3: Scenario 1 + Scenario 2 | 1 + 2 | $5.0-8.1 billion | 25,569-43,205 FTEs |

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