

LEVELLING THE PLAYING FIELD



**ENHANCING DOMESTIC CAPABILITY IN
DEFENCE INDUSTRY THROUGH OUR MSES**

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DEFENCE INDUSTRY LEADERSHIP PROGRAM 2024, COHORT ONE

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FOREWORD

This report highlights the growing importance of medium sized enterprises (MSEs) in enhancing sovereign capability within the Australian defence sector, a trend observed globally in recent decades. It outlines the challenges faced by these firms in navigating the complex defence procurement ecosystem, where large multinational corporations traditionally dominate. Despite their vital role in driving local economic benefit, innovation, and national resilience, MSEs often encounter significant barriers, limiting their ability to deliver prime defence capability.

The report combines primary research with a global comparison of similar challenges and strategies to offer practical insights into how Australia can improve its defence industry engagement with MSEs. Acknowledging the constraints of the Defence Industry Leadership Program (DILP) in allowing exhaustive analysis, it stresses the need for further investigation to uncover additional opportunities for improvement.

For now, we hope that this report stimulates thoughts, ideas and action within the Australian defence ecosystem, and implementation of certain actionable recommendations identified through these pages leads to a more diverse industrial base for our nation. Australia is not the first to consider the question of reducing barriers to entry for smaller companies, and it won't be the last; many other nations have been able to tap into the potential multiplier MSEs can provide to defence, and we must make use of lessons learnt by those nations who have gone before. Combining these lessons learnt with listening to the local industry and analysing useful data, we can identify impactful methods to advance Australia's defence industry.



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TABLE OF CONTENTS

1. EXECUTIVE SUMMARY 5

2. ACKNOWLEDGEMENT 7

3. DEFINITIONS 9

4. INTRODUCTION 10

 4.1. Problem Statement..... 10

 4.2. Benefits of MSES in the Defence Industry..... 11

 4.2.1. Enhanced Adaptability and Resilience 11

 4.2.2. Global resilience and adaptability..... 11

 4.2.3. Innovation and Growth 11

5. AUSTRALIAN DEFENCE INDUSTRY..... 12

 5.1. Australian Defence Industry Makeup 12

 5.2. Australian Procurement Environment 13

 5.2.1. Policy For Industry Participation 13

 5.2.2. Indigenous Procurement Policy 14

 5.2.3. Exception 17 To The Commonwealth Procurement Rules..... 14

6. RESEARCH 15

 6.1. Research Methodology 15

 6.2. Research Respondents 15

 6.3. Research Responses – Key Findings 15

 6.3.1. Finding #1 - There Isn’t Enough Being Done 16

 6.3.2. Finding #2 - Upfront Investment..... 17

 6.3.3. Finding #3 - Key Challenges MSEs Face..... 18

 6.3.4. Finding #4 - Current Financial Barriers and Risks 19

 6.3.5. Finding #5 - Potential Changes 20

 6.3.6. Finding #6 - Capability Understanding..... 21

 6.3.7. Finding #7 - Partnering Vs Contracting..... 22

 6.4. Conclusions 23

7. INTERNATIONAL DEFENCE INDUSTRY 24

 7.1. Case Study 1 – Canada 24

 7.1.1. Procurement Policy Overview 24

 7.1.2. ITB Effectiveness..... 25

 7.1.3. Defence Industry Evolution 26

7.1.4.	Observations	27
7.2.	Case Study 2 – India.....	28
7.2.1.	Procurement Policy Overview	28
7.2.2.	Industrial Offsets	28
7.2.3.	Procurement Priorities And Indigenous Capability	28
7.3.	Defence Industry Evolution	30
7.3.1.	Offset Obligation Lag	31
7.3.2.	Observations	31
7.4.	Case Study 3 – Saudi Arabia	32
7.4.1.	Procurement Policy Overview	32
7.4.2.	Defence Industry Evolution	33
7.4.3.	Observations	34
8.	POLICY APPROACHES.....	35
8.1.	Industrial Offsets.....	35
8.1.1.	Implementation Considerations	35
8.1.2.	Corruption Concerns	35
8.2.	Mandated Australian Industry Content	36
8.2.1.	Expected Outcomes	36
8.3.	Bid Credit System For SME/MSES	37
8.4.	Prioritisation Of SME/MSES For Smaller Prime Contracts	39
8.5.	Tender Splitting	40
8.6.	Further Considerations	41
8.6.1.	National Register	41
8.6.2.	Dedicated Procurement Representative.....	41
9.	STRATEGIC RECOMMENDATIONS.....	42
9.1.	Conclusions and Recommendations.....	42
9.1.1.	Adopt a Data Driven approach.....	42
9.1.2.	Increase Engagement and Collaboration.....	42
9.1.3.	Refresh Federal Procurement Policy	43
10.	ACRONYMS.....	44
11.	REFERENCES	45
12.	APPENDIX A - RAW SURVEY RESULTS.....	47

TABLES

Table 1 - Australian Defence Industry employment metrics [2]. 12

Table 2 - Evolution of Canadian Defence Industry metrics 2014 to 2024 [9] [10]. 27

Table 3 - Acquisition Categories (Buy and Make Schemes) [16] 29

Table 4 - Acquisition Categories (Make & Innovation Scheme) [16] 30

Table 5 - Number of SMEs actively involved in the Indian defence sector..... 30

Table 6 - Approved activities to discharge IPP commitments [24]..... 32

Table 7 - Comparison of the EOP and IPP policy requirements 33

Table 8: Summary of participation scenario detailed in Figure 12..... 39

FIGURES

Figure 1 - Thresholds for inclusions of Industry Participation Plans and Schedules [4]..... 13

Figure 2 - Is Enough Being Done to Enhance & Promote MSE Participation 16

Figure 3 - Average upfront investment required to develop a tender bid..... 17

Figure 4 - Top 3 participation challenges for MSEs in defence procurement..... 18

Figure 5 - Top 5 Financial Barriers..... 19

Figure 6 - Potential Changes to Increase Participation of MSEs in the Defence Sector 20

Figure 7 - Understanding of Capabilities..... 21

Figure 8 - Partnering awareness survey results 23

Figure 9 - Breakdown of ITB recipients in 2022. Figure extracted from [8]..... 26

Figure 10 - Number of SMEs actively involved in the Indian defence sector 31

Figure 11 - Increasing trend of defence localisation in Saudi Arabia in the last 8 years 34

Figure 12 - Diagrammatical representation of a bid-credit system 38

Figure 13 - Decision flowchart for a tender prioritisation policy..... 40

1. EXECUTIVE SUMMARY

In an increasingly insular and protectionist global trade environment, developing domestic sovereign supply chain security is critical for Australia's national defence and security. The inclusion of medium-sized enterprises (MSEs) in the domestic defence industry is not only vital for resilience but also for fostering innovation, driving economic growth, and strengthening political support.

The Defence Industry Development Strategy (DIDS) and Sovereign Defence Industrial Priorities (SDIPs), as outlined in the Australian Government's National Defence Statement of 2023, emphasize seven priorities that rely on a competitive and robust national defence industry. Achieving these priorities will require a self-reliant domestic industrial complex, with MSEs playing a pivotal role. By enhancing the competitiveness and inclusion of MSEs in defence procurement, Australia can bolster supply chain resilience while aligning with the strategic goals of the SDIPs.

Challenges for MSEs

Despite their critical importance, MSEs face significant financial barriers and risks that limit their participation in the defence industry—a sector characterised by high entry costs, traditional procurement time cycles, regulatory complexity, and stringent compliance requirements.

This research examines these challenges through a comprehensive analysis informed by industry-wide surveys, stakeholder interviews, and international benchmarking.

Approach

The findings and recommendations presented in this paper are based on a multi-faceted methodology, including:

- Surveys and interviews with key stakeholders across the defence ecosystem, including MSEs, prime contractors, and policymakers.
- Comparative analysis of international strategies for fostering MSE inclusion in defence markets.

Key Insights

Overwhelmingly supported by the industry was a strong indication that the defence industry feels that more effort is needed to maximise MSE involvement.

1. **Financial Barriers:** High upfront costs for bid development and pre-qualification were identified as critical obstacles for companies in entering or expanding in the defence sector, particularly smaller and MSEs.
2. **Risk Factors:** Unsuccessful bid submissions, compliance burdens, and regulatory requirements disproportionately affect smaller companies, often deterring their involvement despite their technical capabilities.
3. **Global Learnings:** International case studies demonstrate effective interventions, such as public-private partnerships, procurement reforms, and targeted funding models, supported by transparent reporting and tracking of MSE participation.

Recommendations

Addressing these barriers requires long-term, coordinated strategies across government and industry. This paper identifies three key recommendations to enhance MSE inclusion in the defence sector and start levelling the playing field:

1. **Adopt a Data Driven approach:** Implement a data-driven approach to defence procurement decisions, particularly concerning industry participation. This involves both tracking industry metrics and using this data to guide informed policy decisions. This is a straightforward yet impactful measure that requires minimal sector-wide changes but will provide significant improvements in decision-making.
2. **Increased Engagement and Collaboration:** Strengthen communication and collaboration among Defence, government, prime contractors, and SMEs to foster a more equitable and transparent procurement environment.
3. **Refresh Federal Procurement Policy:** Align Australia's procurement framework with international best practices by mandating minimum Australian Industry Content (AIC) levels, reducing bidding costs and risks, and leveraging the government's Future Made in Australia agenda to drive local investment.

Key Actions

Implementing these recommendations will require dynamic decision-making and sustained commitment from government, industry, and other stakeholders. The key proposed actions include:

1. Submitting this whitepaper to key stakeholders, including the CASG AIC Division, to explore accountability for defence industry analytics.
2. Submitting a formal request to the ABS to begin collating defence industry participation metrics.
3. Delivering this whitepaper to Chris Deeble, the South Australian Minister for Defence and Space, the CEO of DTC, and the AIDN Board.
4. Proposing trade studies to CASG, ODIS, and Defence SA to evaluate specific procurement policy impacts.

These actions will lay the foundation for a more inclusive, resilient, and innovative Australian defence industry, enhancing domestic industry participation in defence procurement and sovereign capability.

2. ACKNOWLEDGEMENT

This whitepaper would not have been possible without the invaluable guidance and support from: our mentor, Tom Tizzard, Defence Industry Leadership Program (DILP), Defence Teaming Centre (DTC), and SKILLS LAB.

We also extend our sincere gratitude to the stakeholders from over 60 companies across the defence industry who contributed to this research. Their insights, feedback, and shared experiences, gathered through our industry survey and interviews conducted in alignment with Chatham House Rules, have been instrumental in shaping this work. To maintain confidentiality and encourage open dialogue, the identities of contributors remain undisclosed.

AIRBUS DEFENCE & SPACE	JACOBS	ROWLANDS
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ASC	KATE LOUIS	SAGE
ASDAM	L3HARRIS	SECURE STATE
BABCOCK	LEVETT ENGINEERING	SILENTIUM DEFENCE
BAE SYSTEMS	LOCKHEED MARTIN	SOLINNOV
BASTION DEFENCE CONSULTING	LUERSSEN AUSTRALIA	SOUTHERN LAUNCH
BOEING AUSTRALIA	MACTAGGART SCOTT AUSTRALIA	SPRY SQUARED
BRENT CLARK	MBDA	STARKE MFG GROUP
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DE STEFANO & CO	MINETECH	ULTRA MARITIME
DEFENCE TEAMING CENTRE	NOVA	UNITED FASTENERS
DEWC SERVICES	NYLASTEX	
DTC	OPSYS	
EBOR SYSTEMS	PARA BELLUM	
FLEET SPACE	PFITZNER PERFORMANCE GEARBOXES	
GPA ENGINEERING	PMB DEFENCE	
HENDON SEMICONDUCTORS	PRP MANUFACTURING	
HEPHAESTUS GLOBAL	QINETIQ	
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3. DEFINITIONS

Several terms are used frequently throughout this report that can have varied meanings to different audiences. These terms have been outlined below in their context for this report.

Medium Sized Enterprise

Medium Sized Enterprises are considered to be companies with between 20 and 199 employees, in accordance with the Australian Bureau of Statistics definition.

Small and large sized businesses then have 0-19 and 200+ employees respectively. Other nations use different measures for company size; where statistics are presented for other nations, if the Australian MSE definition is not applicable, this will be called out.

Offset Policy

Procurement policy that utilises arrangements between a national government and a foreign military equipment supplier to direct some benefits of the contract back into the purchasing country's economy. (Transparency International, [1])

Industrialisation/ Localisation

The process of implementing policies, actions, and behaviour changes to increase the strength and capability of the local defence industry.

4. INTRODUCTION

For the last two decades, there has been a strong push by many nations to bolster the capabilities of local industry in their respective defence sectors. This concerted effort does not arise on a whim, and, certainly, it does not happen without significant effort and determination on behalf of all parties involved. While the methodologies of implementation have varied, the goal in each case has been to grow the capabilities of small and medium enterprises (SMEs) contributing to the defence industry.

Australia, in contrast, has not undertaken any significant effort at growing this local SME participation in defence procurement. Federal policy has limited mandate for local manufacture, and defence procurement has not taken meaningful steps to make tender opportunities more accessible for smaller companies.

As this report will show, there are many benefits to having a sovereign defence sector with a strong and engaged base of medium-sized enterprises (MSEs), however, there are also significant challenges to facilitating this desired engagement. Growing a company up to a size where they can negotiate directly with the Commonwealth and deliver capabilities supporting the national interest takes time, resources and risk tolerance. Smaller companies lack the resources of larger ones and often flounder in the complex regulatory environment in federal procurement. Compounding this are many significant barriers to entry for smaller companies to enter the well-established defence sector.

This report aims to validate perceived barriers to entry with the local Australian defence industry and utilise a mix of primary and secondary research to analyse the effects of various policy levers that can be pulled to enact change; the experience of overseas nations is invaluable and has been drawn upon to identify lessons learnt in this space.

4.1. Problem Statement

For this report, the problem scope has been narrowed down specifically to MSEs in Australia, rather than looking at the broader group including small enterprises. MSE's offer greater capability to deliver large contracts and are better placed to perform work that traditionally might go to a Prime contractor. Within this scope, the research effort was limited to increasing participation in formal procurement activities within Defence, meaning analysis of grant programs or smaller handout programs has been excluded.

Thus, the problem facing the research team can be distilled down to two simple questions:

1. **“What challenges do Medium Sized Enterprises face in Australia when attempting to win defence work?”**
2. **“How do we lower barriers to entry for these MSEs and increase their defence participation in Australia?”**

Of course, in pursuing the answers to these questions, many more arise. What is the current state of MSE participation? How have other countries managed this problem? Do MSE's actually face any challenges in Australia? These are all powerful questions and have been explored throughout the report as a case is built that the current playing field is tilted heavily in the favour of larger organisations, but there exist strategies that can help level the playing field out.

4.2. Benefits of MSES in the Defence Industry

Australia has a significant number of medium-sized enterprises that form a critical part of the national economy. Leveraging their potential and enhancing MSE participation in domestic defence procurement offers several key benefits, as outlined below.

4.2.1. Enhanced Resilience

A diverse and resilient defence industry not only provides redundancy but also fosters innovation and adaptability in national security. MSEs play a crucial role in this ecosystem; without their involvement, Australia risks losing the ability to quickly respond in a crisis or contested environment.

4.2.2. Global Adaptability

With the war in Ukraine providing context and a real-time demonstration of how rapid evolution of the battlespace occurs and highlighting the fragility of supply chains and production capability of the world's largest defence industrial complexes, namely Russia and the United States, Australia must ensure its defence industry can respond independently. MSEs like Sypaq, which developed an innovative cardboard drone for Ukraine, demonstrate how small, agile companies can deliver rapid, cost-effective solutions at the "speed of relevance." This highlights the need to support MSEs to build a resilient and adaptable defence industry.

4.2.3. Innovation and Growth

Emerging technological development and genuine innovation require confidence, nurturing, trust, and commitment. The Australian Government, as the primary customer, must demonstrate these values to enable the growth of a strong defence industry. A shift in mindset is needed to adapt to the evolving strategic environment.

Economic Advantages

Yet another incentive for the Australian Government to support MSEs are the economic benefits:

1. **Domestic Innovation:** Generation of domestic defence products and technology that are not only sought after by the Australian Government, but also will be exportable to our allies and provide a valuable source of revenue.
2. **Cost Reduction:** Reducing reliance on foreign manufacturing could lower project costs and ensure investments are recycled through the Australian economy, amplifying economic benefits.

5. AUSTRALIAN DEFENCE INDUSTRY

Understanding the current state of play in regards to Australia’s defence industry is critical to enable a balanced assessment of whether there is indeed a lack of engagement with the MSEs in defence procurement. This section takes a brief look at Australia’s current policy environment as it pertains to engaging local industry and attempts to map the current participation levels in the local defence industry.

5.1. Australian Defence Industry Makeup

According to the Australian Bureau of Statistics (ABS), there are 5544 companies operating in the defence sector within Australia [2]. Additionally, as shown by Table 1, the proportion of total employment in the defence sector has been rising since 2019 when compared to the total Australian workforce. However, in undertaking the research for this paper it quickly became apparent that Australia has very limited publicly available statistics on its defence industry. It is difficult to find any breakdown of the defence sector by company size, and no success was found when attempting to quantify the growth, export capability or general health of subsets of the defence sector, such as MSEs, over time. This makes it impossible to have an accurate snapshot of Australia’s defence industry, and, when compared to countries such as Canada, reflects extremely poorly on Australia’s tracking of its defence sector.

Table 1 - Australian defence industry employment metrics [2].

Year	Defence industry share of total employment (%)	Defence industry direct employment headcount ('000)
2019-20	0.39	51.4
2020-21	0.41	54.3
2021-22	0.44	60.3
2022-23	0.45	64.1

Key Finding: Tracking of Australia’s defence industry composition is extremely poor which makes it impossible to establish the current state of subsets of the sector.

5.2. Australian Procurement Environment

5.2.1. Policy For Industry Participation

Unlike many other nations, Australia does not utilise an offset policy or mandate any local industry content. Defence procurement in Australia is governed by the Commonwealth Procurement Rules [3], although there are a suite of accompanying policies that further refine procurement policy. Most importantly for the topic of this report is the Defence Policy for Industry Participation (DPIP), which was released in 2019 [4]. The DPIP sets requirements on industry to provide either an Industry Capability/Participation Plan (ICP) or an Industry Capability/Participation Schedule (ICS) when competing for procurement opportunities above a threshold tender amount. For example, when the procurement is materiel-based, for a tender between AUD\$7.5 million and AUD\$20 million, a bidding organisation will have to provide an ICS as part of the bidding process. If the tender value exceeds AUD\$20 million, they will instead need to provide an ICP. This is captured in Figure 1. The DPIP defines schedules and plans differently, which is not covered here, although both are concerned with identifying areas of planned Australian Industry Content (AIC) commitments.

Defence Procurement			
	Materiel	Non-Materiel	Construction Services
\$20 million	Australian Industry Capability Plan	Industry Participation Plan	Local Industry Capability Plan
\$7.5 million	Australian Industry Capability Schedule	Industry Participation Schedule	
\$4 million			No requirement
	No requirement	No requirement	

Figure 1 - Thresholds for inclusions of Industry Participation Plans and Schedules [4].

While this seems to be a strong indication for providing opportunities in the local defence ecosystem, it must be noted that there is no minimum level of AIC required by prime contractors. The ICP and ICS are used by the Commonwealth as part of the tender evaluation process, however there is no mandated level of AIC that the plans/schedules must contain. Therefore, a situation could arise in which all tender responses for a multi-billion dollar defence acquisition contain ICPs in which only 5% of the tender value is assigned to Australian entities, which would be in full compliance with the legislation but is not likely to deliver the desired outcomes of local defence engagement.

5.2.2. Indigenous Procurement Policy

Another policy with implications on procurement opportunity is the Indigenous Procurement Policy which is designed to stimulate indigenous business and economic development through Mandatory Set-Asides (MSAs) for certain contracts [5]. The policy states that for contracts between AUD\$20,000 and AUD\$80,000, the purchasing agency must set-aside the contract to first be offered to indigenously owned businesses. The procurement official must identify if any indigenously owned businesses can provide the contract capability, and, if they can within the remit of 'value for money', then the contract must be offered to that company.

If no indigenous business has the capability, or they do but cannot show value for money, then the procurement official is free to follow ordinary procurement processes.

This is a whole-of-government policy, and as a non-corporate entity, the Department of Defence must follow this in their procurement rules.

5.2.3. Exception 17 To The Commonwealth Procurement Rules

A final point worth considering in the context of this report is Exception 17 contained within Appendix A of the Commonwealth Procurement Rules [3]. This states:

“Procurements of the following kinds of goods and services are exempt from the rules of Division 2 of the CPRs, and from paragraphs 4.7, 4.8 and 7.26 of Division 1:

....

17. procurement of goods and services valued up to \$500,000 from an SME (note: the requirements under the Indigenous Procurement Policy must first be satisfied before this exemption is applied).”

This exception allows for a procuring agency (such as the Department of Defence) to directly award contracts to SMEs if the contract is less than AUD\$500,000. The only caveat is that the requirements of the Indigenous Procurement Policy must be satisfied, which in effect means that this exemption can be freely applied for tenders worth AUD\$80,000 to AUD\$500,000.

Key Finding: There are no mandated minimum Australian Industry Content levels in Australian Defence Procurement rules, for tenders above \$AUD80,000.

6. RESEARCH

To fully understand the current state of Defence Industry participation challenges data needed to be gathered from the Defence Industry directly. This data collection and subsequent analysis would form the basis of the primary research for this report, along with a series of in-depth interviews with key stakeholders.

6.1. Research Methodology

The research team conducted an online survey, as well as stakeholder interviews to explore the financial barriers that are currently hindering growth, innovation, and operational efficiency within the sector. As defence organisations face increasing pressure to modernize and adapt to new threats, financial constraints often limit their ability to invest in cutting-edge technologies, expand capabilities, or maintain readiness. This survey specifically targeted key decision makers at various levels to gain insight into the financial challenges they face—whether related to funding cuts, budget reallocations, or the high costs of research and development and bidding. By identifying these barriers, the research aims to provide a clearer understanding of how financial pressures are influencing decision-making processes, prioritization of defence initiatives, and the long-term sustainability of defence programs. The results are intended to help inform more effective policy recommendations and highlight potential avenues for addressing these financial constraints to ensure the continued effectiveness and security of national defence strategies.

6.2. Research Respondents

The team pursued a comprehensive approach to conduct both primary and secondary research to explore the topic and had a strong desire to produce conclusions based on statistically significant qualitative data – therefore, it was clear that capturing responses from small (1-19 FTEs), medium (20-199 FTEs) and large businesses (200+ FTEs) was of utmost importance to ensure that any findings were representative of the entire defence industry.

To enable this, people at more than 60 businesses were contacted, receiving 79 responses. Approximately 12% of respondents were from small businesses, 33% from medium sized businesses and the remaining respondents from businesses with 200+ FTEs.

Of these businesses, the mean percentage of revenue attributable to Defence was 65.90%, indicating that the research outcomes are representative of “Defence Industry” rather than “aspirational Defence Industry”.

6.3. Research Responses – Key Findings

Full results from the survey can be found in Section 12 - APPENDIX A - RAW SURVEY RESULTS, however, the main body of this report focusses on the seven most significant findings that were uncovered from the primary research.

6.3.1. Finding #1 - There Isn't Enough Being Done

This finding was overwhelmingly supported across survey respondents, with a strong indication that the defence industry as a whole feels that more needed to be done to maximise MSE involvement. The survey data indicated that 73% of respondents did not believe enough was being done to enhance and promote participation of MSEs within the Australian Defence Sector.

This was slightly weighted towards small and large businesses, with 33% of MSEs themselves stating that MSE participation was at sufficient levels, compared to 27% across the full survey sample.

IS ENOUGH BEING DONE TO ENHANCE & PROMOTE PARTICIPATION OF MSEs WITHIN THE AUSTRALIAN DEFENCE SECTOR?

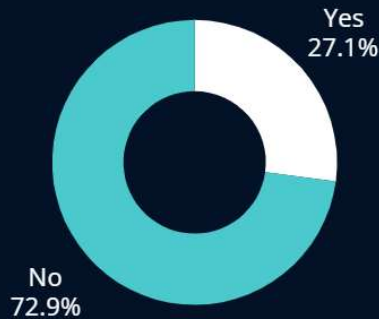


Figure 2 - Is Enough Being Done to Enhance & Promote MSE Participation

6.3.2. Finding #2 - Upfront Investment

A question was asked of respondents to estimate the upfront investment (as a percentage of tender size) needed to generate a bid submission. The mean value for this response was relatively consistent across business size, with the mean for small businesses at 9.11%, medium companies at 7.48% and large businesses at 10.68%. The mean average across the full sample was 9.41%.

Put simply, the response to this question indicates that companies are having to invest \$94,000 up-front for a given \$1,000,000 of tender opportunity, with no guarantee of success. The implications of this are huge, particularly as defence tenders are often in the tens, if not hundreds, of millions of dollars. Businesses can only afford to participate in a few tenders before the cost of unsuccessful tenders becomes a barrier to participation.

**THE ESTIMATED AVERAGE OF UPFRONT INVESTMENT TO FUND THE BIDDING PROCESS
FOR DEFENCE CONTRACTS.**

9.41%

REPRESENTED AS A PERCENTAGE OF BID CONTRACT VALUE.

Figure 3 - Average upfront investment required to develop a tender bid.

6.3.3. Finding #3 - Key Challenges MSEs Face

This finding came from a question which focussed on having participants rank eight perceived barriers in terms of significance, relating to MSEs growing, developing capability and executing on Defence contracts.

Strong alignment was obtained to this question across all respondents; regardless of business size, the top three challenges were consistently:

- Defence Program Timelines, Complexity & Lack of Clarity
- High Upfront Costs (Growth, Compliance & Certification)
- Complex Procurement & Contracting Models

These three were closely followed by “Capability Investments Costs” and “Insufficient Business Finance”, which confirms growing suspicion about the current state of play – the ASDEFCON framework as whole, indecision and delay in Defence procurement, plus financial challenges faced by business are having a material impact on MSE participation in the Australian Defence Sector.

TOP 3 PARTICIPATION CHALLENGES FOR MSEs IN DEFENCE PROCUREMENT



Figure 4 - Top 3 participation challenges for MSEs in defence procurement

6.3.4. Finding #4 - Current Financial Barriers and Risks

The fourth key finding explored the financial barriers specifically, and, once again, survey respondents were asked to rank nine financial barriers in order of impact on their business.

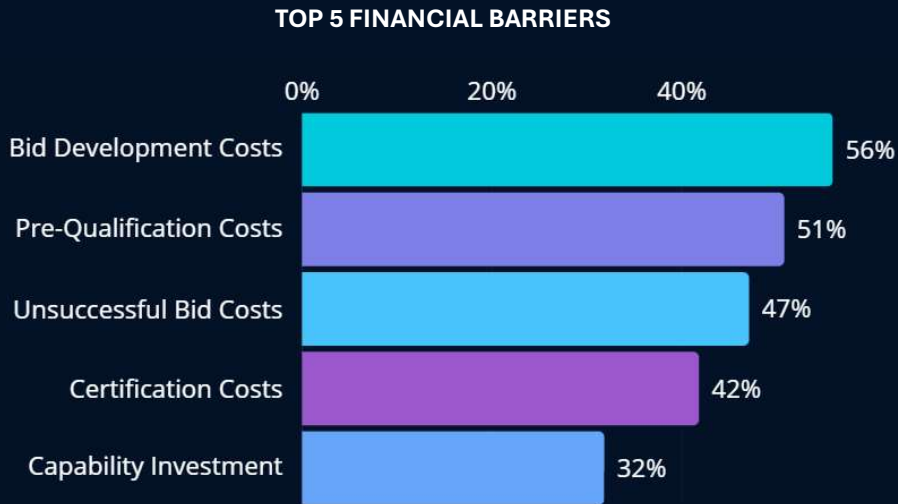


Figure 5 - Top 5 Financial Barriers

The percentages in Figure 5 show the proportion of companies that ranked the financial barriers listed as being in their Top 3 challenges.

Overwhelmingly, but not surprisingly, Bid Development Costs and Unsuccessful Bid Costs featured heavily, however, the cost of Pre-Qualification with Defence Prime Contractors was the 2nd most impactful financial barrier experienced.

This is likely based on the repetitive nature of supplier approvals, with the same hoops needing to be jumped through, but little-to-no interaction between the Primes to streamline this process.

The Joint Supply Chain Accreditation Register (JOSCAR) may well address this particular challenge, but at the time of gathering the response data, the JOSCAR AU program was in its infancy. It would be interesting to revisit this once JOSCAR has had time to make an impact (or not).

6.3.5. Finding #5 - Potential Changes

The fifth key finding focussed on changes that could be implemented to mitigate the challenges identified in previous key questions. As before, the survey asked respondents to rank in order of success/impact, and the results were conclusive, particularly in regards to the Top 3.

Overwhelmingly, a firm AIC Commitment was the top answer – Multiple respondents who were interviewed were sympathetic to this issue, with one interviewee stating:

“It is a long-held view across the industry that AIC is an “aspirational target”, rather than a “contractual mandate”. This won’t change until the Government and Defence start prioritising “Australian Made” – not as a nice-to-have, but a “if you want us to buy your product, you need to give back”. Whether this position will ever be adopted remains to be seen.”

Subsidised Bidding for Tenders was seen as a strong candidate for effective change – this concept is explored further in in Section 8.3 of this report. Simply speaking, encouraging businesses to participate in providing submissions for tenders they might otherwise have “no-bid” as a result of the financial challenges can only increase confidence within the middle tier.

Somewhat surprisingly, the lack of a “Dedicated Procurement Representative” within Defence scored 2nd place in terms of impact. This points towards the lack of personality behind Defence procurement – often dealing with large government entities, rather than a single human being, or a small team, where relationships can be built over time.

“Tender Value Exclusions for Primes” and “Tender Splitting” were also popular. These are also covered later in this report.

POTENTIAL CHANGES TO INCREASE PARTICIPATION OF MSES IN THE DEFENCE SECTOR

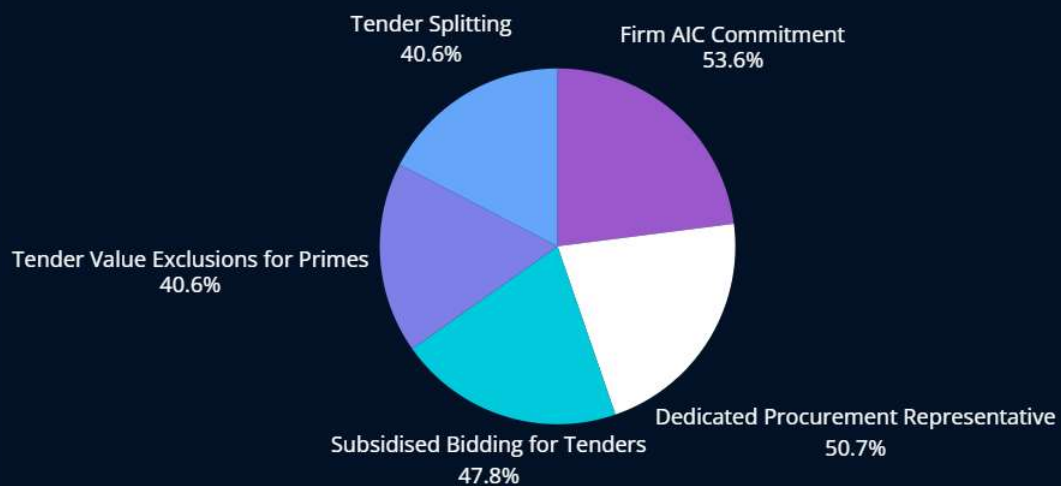


Figure 6 - Potential Changes to Increase Participation of MSES in the Defence Sector

6.3.6. Finding #6 - Capability Understanding

The strength of response to this question surprised the research team; it was anticipated that a few companies and individuals would likely express a lack of awareness of the full suite of capabilities within MSEs, but the extent of ‘No’ responses was overwhelming.

Rather than a select few feeling ill informed, more than three-quarters of respondents indicated that they did not have a clear understanding of capabilities that existed within Australian Defence Sector MSEs.

This lack of awareness and understanding likely contributes to the prevalence of MSEs partnering, which is covered off in the next key question.

77% OF RESPONDENTS REPORTED THAT THEY DO NOT HAVE A CLEAR UNDERSTANDING OF THE FULL CAPABILITIES OF MSEs WITHIN THE AUSTRALIAN DEFENCE SECTOR

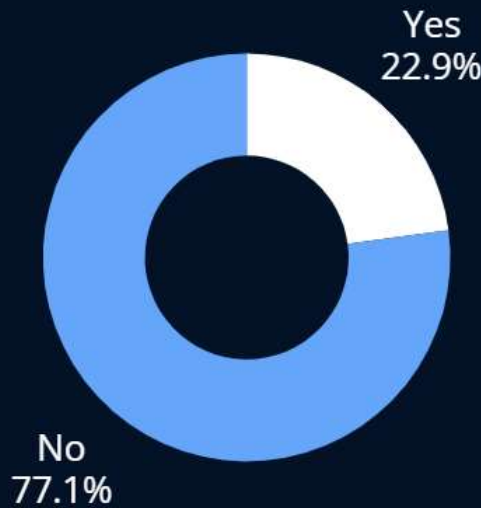


Figure 7 - Understanding of Capabilities

6.3.7. Finding #7 - Partnering Vs Contracting

The final key finding to be highlighted focusses on partnering. Unsurprisingly, based on the lack of understanding of capabilities available in the market, less than 30% of respondents indicated that they had a good understanding of what partnering within MSEs looks like (See Figure 8).

There are numerous examples of Defence Prime Contractors “partnering” with Tier 2 and Tier 3 suppliers, but in reality, this translates to “contracting” – not true partnering. An interview respondent summed up the problem with partnering currently:

“ Simple contractual arrangements in which one party buys from another is not partnering, yet it is likely the understanding most businesses have within the Defence sector. At present, the perception is that the “slice of the pie” that MSEs receive is already significantly diminished – business owners are therefore reluctant to share with others – particularly where there is an overlap of capability, whether actual or perceived”

Increased partnering between MSEs could loosen the stranglehold that Defence Prime Contractors currently have on the Defence Industry, allowing a team of potentially Australian-owned MSE partners to truly compete with a foreign Headquartered Defence Prime, and in turn deliver greater value for money for the Australian taxpayer.

This could potentially be achieved in several ways – some tender specific changes, and some industry-wide changes.

For example, Defence Industry membership bodies such as AIDN and DTC could facilitate and fund “Partnering Awareness Workshops”.

Another potential option would be for Defence to “split” large tenders based on capabilities required for various pieces of equipment. Tender splitting based on capability would allow several MSEs to combine their individual skills and experience to deliver the full suite of a tender – but would require better “Partnering Behaviours” from all involved. Tender splitting is discussed in further detail in Section 8.5 of this report.

LESS THAN 30% OF DEFENCE INDUSTRY STAKEHOLDERS WERE AGREEABLE THAT IT IS WIDELY UNDERSTOOD WHAT GOOD PARTNERING LOOKS LIKE.

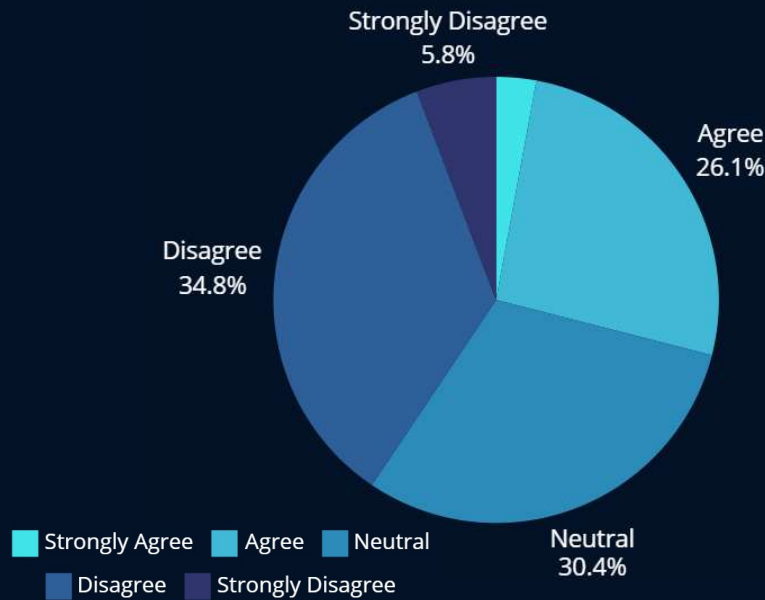


Figure 8 - Partnering awareness survey results

6.4. Conclusions

This survey set out to test the hypothesis that MSE participation in defence procurement is limited by several barriers, financial or otherwise. By surveying 79 respondents from 60 companies, the research team had a strong market survey response on the topic of Defence Industry Participation Challenges. The message from industry is clear – increased focus on AIC, streamlining of the ASDEFCON process and financial compensation for unsuccessful bids would go some way to levelling the playing field for MSEs. Coupled with an increased push for partnering/teaming through increased awareness of capability and collaboration frameworks, there is no reason why, if these areas are addresses, the middle tier cannot deliver Defence capability which would normally be reserved for Defence Prime Contractors.

7. INTERNATIONAL DEFENCE INDUSTRY

Given that MSEs in Australia are facing significant challenges, what is it that other nations have done to support their MSE base? To answer this question, it is useful to analyse the performance of various policy levers in other nations worldwide. While the geo-political and cultural environments in other nations are not a perfect proxy for Australia, analysis of the defence sector performance provides insights and information to enhance the findings of this report.

Presented in this section are brief case studies of three other nations, each of which has a different policy environment when it comes to defence procurement. Two of these nations, Canada and Saudi Arabia, are of comparable population size to Australia, while the other one, India, is significantly larger. In each case, the procurement policy environment is summarised only so far as it pertains to commercial defence industry, and statistics and metrics are analysed to see how the commercial defence sector has evolved under the policy timeframe. These should not be considered as comprehensive analysis of each country's defence policies, but rather contextual observations of relevant international benchmarks to identify potential ingredients for success in enacting change within Australia.

7.1. Case Study 1 – Canada

Canada has a strong local defence industry with many parallels to Australia. It has one of the longest running offset-based defence procurement policies, and one of the few nations requiring 100% offset. Note, rather than the typical SME terminology, Canada utilises the phrase Small and Medium Business (SMBs). This terminology will be used for this case study to align with quoted statistics. In Canada, a small business has 10-99 people and a medium business has 100 – 499 people. As such, Canada's SMBs are essentially analogous to Australian MSEs in terms of size.

7.1.1. Procurement Policy Overview

In 1986, Canada implemented the Industrial and Regional Benefits (IRB) policy, which required that an organisation that won a defence procurement contract make business investments in Canada's economy in an amount equal to 100% of the contract's value [6]. In 2014, this policy was modified to the Industrial and Technological Benefits (ITB) policy which also required the 100% industrial offset. The main difference between the two is that prior to 2014 contracts were only assessed based on price and technical merit, whereas under the ITB, the perceived benefit to Canada from the offset investment is formally evaluated as part of the bid assessment [7].

Industrial & Technological Benefits Policy

Application: All defence and Canadian Coast Guard procurements over \$100 million that are not subject to trade agreements or for which the national security exception is invoked [31].

Effect: The ITB mandates that companies awarded defence procurement contracts must undertake business activity in Canada **equal to the value of the contracts they have won.**

All contractors bidding on the contract must submit a Value Proposition outlining the benefit to local Canadian industry from the activities defined in the bid. The Value Proposition is a key element of the bid process and typically focuses on five key areas:

1. Support the long-term growth and sustainability of Canada's defence industry
2. Support the growth of prime contractors and suppliers in Canada, including small and medium business (SMBs) in all regions of the country
3. Enhance innovation through R&D in Canada
4. Increase the export potential and international competitiveness of Canadian-based firms
5. Fill skills and training gaps within the Canadian economy to support a more innovative Canada

7.1.2. ITB Effectiveness

The Canadian government tracks the effectiveness of its ITB policy at regular intervals. In the latest annual ITB Policy report, it is claimed that approximately \$33 Billion in ITB commitments have been fulfilled to date, with a further \$14.3 Billion in commitments awaiting completion [8]. As shown by Figure 9, the majority of these ITB obligations (by number) active in 2022 are associated with SMBs, with the vast majority of those obligations being focused on direct procurement or supply chain participation. In the period 2017-2021, ITB business activity contributed an average of \$5 Billion to the Canadian Gross Domestic Product (GDP).

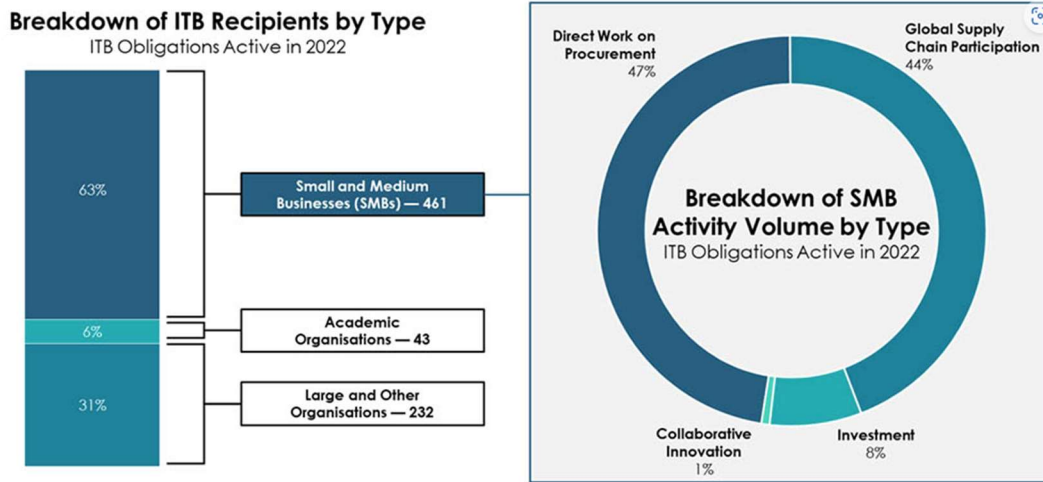


Figure 9 - Breakdown of ITB recipients in 2022. Figure extracted from [8].

Based on tracked metrics, there has been direct GDP growth arising from the obligations under the policy, and, at first glance, the majority of the benefit appears to be within Small & Medium Businesses (SMBs). The desired effect is being reached in that the majority of the ITB obligations focus on direct provision in procurement and supply chains, thus driving revenue for the SMBs. However, consideration should be given to the fact that reported percentages are based on number of obligations, not value, and it is likely that this percentage is lower when considering the value of obligations of SMBs versus larger companies.

7.1.3. Defence Industry Evolution

There is no question that the Canadian defence industry (CDI) has grown since the implementation of the ITB policy. In 2014, defence industry contributed approximately \$6.7B to GDP and employed close to 63,000 people [9]. This contrasts with the numbers from 2022, in which the contribution to GDP and employment from defence industry were \$9.6B and 81,200 respectively [10]. However, while the sector has grown, analysis of the distribution of the industry reveals some interesting results. Table 2 contains a summary of key metrics of the CDI from 2014 and 2022, which shows:

- Minimal change on the number of small and medium businesses within the CDI as a proportion of all CDI businesses.
- Increase of approximately 10% in relation to the revenue of small and smaller medium-sized businesses in the defence industry.
- Increase of approximately 20% in the revenue of larger medium-sized businesses in the defence industry.
- Businesses with less than 250 employees have doubled their export value as a percentage of all export value.
- When the prime contractor is Canadian or US, there has been a 10% rise in the proportion of local Canadian suppliers. However, this change has not eventuated with foreign prime contractors.

Table 2 - Evolution of Canadian Defence Industry metrics 2014 to 2024 [9] [10].

Metric	2014	2022	Change	Relative Change
Proportion of small business in CDI	90%	89%	-1%	-1.1%
Proportion of people employed by sub-250 person companies in CDI	24%	26%	+2%	8.3%
Proportion of defence revenue generated by sub-250 person companies in CDI	17%	19%	+2%	11.8%
Percentage of Defence Exports (value) by sub-250 person companies in CDI	8%	17%	+9%	112.5%
Proportion of 250-500 person companies in CDI	4%	6%	+2%	50.0%
Proportion of people employed by 250-500 person companies in CDI	9%	13%	+4%	44.4%
Percentage of Defence revenue by 250-500 person companies in CDI	10%	12%	+2%	20.0%
Defence Project Supplier Performance				
Percentage of local suppliers when main contractor is local	55%	64%	+9%	16.4%
Percentage of local suppliers when main contractor is US owned	37%	46%	+9%	24.3%
Percentage of local suppliers when main contractor is foreign owned	56%	54%	-2%	-3.6%

7.1.4. Observations

Canada’s ITB policy is an ambitious policy that evidence suggests has delivered real impact. Based on tracked metrics, there has been direct GDP growth arising from the obligations under the policy, and the benefits appear to be distributed in favour of local SMBs. However, this is at odds with the limited growth in many of the defence industry metrics over the same time period. It is clear that the ITB has had significant success in increasing the participation of local companies in support of prime contractors, and elevated the export strength of SMBs by value. However, it has had limited impact in increasing the market share of sub-500 person companies when considering revenue and employment numbers.

Key Finding: Offset-based procurement policy has had very positive effects on MSE output in Canada.

Key Finding: Canada’s defence industry reporting is very strong and allows detailed analysis of the performance of its ITB policy.

7.2. Case Study 2 – India

India is a much larger country than Australia and there are some fundamental differences in the scales of their respective defence industry environments. In India, a company's size is defined by its turnover as opposed to staff numbers. Small enterprises are defined having turnover up to INR 500 million (~AUD\$9 million) and medium enterprises have turnover up to INR 2.5 billion (~AUD\$45 million) [11]. This contrasts with Australia. For example, Fleet Space, an Australian MSE by headcount, employs 139 people and has a yearly revenue of less than AUD\$9 million [12]. In India, Fleet Space would be classified as a small business; therefore, both small and medium enterprises in India must be considered as being equivalent to MSEs in Australia.

7.2.1. Procurement Policy Overview

Prior to 2001, the Indian defence sector was almost wholly dominated by public sector organisations, due to the government's longstanding policy to fund internal Defence activity through the public sector [13]. In 2001, India opened its Defence industry to the private sector and has since implemented policies to drive the growth of this industrial base, with a particular emphasis on indigenous defence capability [13]. India has used multiple different policy mechanisms to achieve this effect.

7.2.2. Industrial Offsets

In 2005, India first introduced a formal industrial offset policy which mandated that at least 30% of the total contract value was re-invested into the nation by the contract winner [14]. While the policy has had multiple tweaks over the years, the offset percentage has remained constant to this day [15]. In the latest procurement policy, this offset requirement applies to the Buy (Global) category of acquisition [16].

7.2.3. Procurement Priorities And Indigenous Capability

In 2014, the Modi government introduced the 'Make in India' initiative and the 'Self-reliant India mission' (Aatm Nirbhar Bharat Abhiyan) which added further impetus for local defence industry participation [17]. This gave rise to the 'Buy and Make' schemes focused on major capability acquisition and the 'Make and Innovation Schemes' focused on R&D development of defence capability within Indian defence industry.

- Buy and Make Scheme

Refined in 2018, policies focus on five priority categories in which there are various levels of mandated indigenous content for procurement projects that fall into these categories. (See

Table 3) This focus on indigenous capability was reinforced in 2022 with the announcement by the government that in future, all acquisitions by the three armed services and the Indian Coast Guard will have to be sourced from domestic industry [18].

- Make and Innovation Scheme

The Indian government is focused on nurturing R&D development within country with the aim of having local industry gain technology superiority to facilitate a strong industrial base. The Make-I

categories as they are known set out rules for defence R&D projects with priority given to projects that make hardware in India from locally designed technology. (See Table 4)

Procurement policy for Micro and Small Enterprises

In 2012, the public procurement policy for Micro and Small Enterprises mandated that 20% of the total annual procurement for all central public departments (eg Ministry of Defence) must be from Micro and Small Enterprises, which was increased to 25% in November 2018 [19].

Table 3 - Acquisition Categories (Buy and Make Schemes) [16]

Category	Description	Indigenous Content (IC) requirement	Maximum FDI allowed by default
Buy (Indian – IDDM*)	Acquisition of products from an Indian vendor that have been indigenously designed, developed and manufactured	Indigenous design & IC > 50%	49%
Buy (Indian)	Acquisition of products from an Indian vendor which may not have been designed and developed indigenously.	If Indigenous design, IC > 50%. Otherwise, IC > 60%	74%
Buy & Make (Indian)	Initial acquisition of equipment from Indian vendor(s) engaged in a tie-up with a foreign Original Equipment Manufacturer (OEM), followed by indigenous production in a phased manner involving technology transfer of critical technologies.	IC > 50% on ‘Make’ portion	74%
Buy (Global – Manufacture in India)	Outright purchase of equipment from foreign vendors, in quantities as considered necessary, followed by indigenous manufacture of the entire/part of the equipment and spares/assemblies/sub-assemblies/Maintenance.	IC > 50%	74%
Buy (Global)	Outright purchase of equipment from foreign or Indian vendors. (Note: 30% offset requirement applies to foreign vendors, and Indian vendors if IC < 30%)	Foreign Vendor – Nil Indian Vendor – IC > 30%	N/A (Foreign) 74% (Indian)

*IDDM stands for Indigenously designed, developed and manufactured

Table 4 - Acquisition Categories (Make & Innovation Scheme) [16]

Category	Description	Follow on procurement	Maximum FDI allowed
Make-I (Govt. Funded)	Projects involving design and development of equipment, systems, major platforms or upgrades thereof by the industry. MoD provides financial support for up to 70% of prototype development cost. Vendor must be Indian owned.	Buy (Indian-IDDM)	49%
Make-II	Design and development and innovative solutions by Indian vendor, for which no Government funding will be provided.	Buy (Indian-IDDM)	49%
Make-III	Projects that are not designed/developed indigenously, but can be manufactured in India. Indian firms may manufacture these in collaboration with foreign OEMs. In this category, an Indian vendor can enter into a Joint Venture with OEM.	Buy (Indian)	74%

7.3. Defence Industry Evolution

India’s total defence sector has grown significantly in the last decade. Since the 2014 reforms, defence exports totalled INR 883.19 billion, which was a 21-fold increase from 2004-2014 decade [17]. Growth has been mainly driven by the private sector, with defence exports, taken here as a metric of activity, increasing to INR 20 billion in 2023 while the public sector’s exports fell from INR 13 billion in 2016 to INR 1 billion in 2023 [17].

However, while the total export power of India’s defence industry has grown, since 2014 the percentage of domestically-sourced procurement by the Indian government has remained relatively steady at around 60%-65% [17]. This can be attributable to multiple reasons including the relatively small size of the local defence sector compared to India’s procurement needs, unfinished rollout of mechanisms for the policy intent and the relative immaturity of the Indian defence sector versus more established foreign industrial bases [17].

Obtaining accurate information in regards to the makeup and activity distribution of SMEs within the Indian defence sector is challenging. and are rarely broken down into individual statistics. Various reports have identified estimates of SME participation throughout the last decade. As shown in Figure 10, the number of SMEs contributing to the defence sector has been exponentially rising since the major reforms were introduced in 2014.

Table 5 - Number of SMEs actively involved in the Indian defence sector.

Year	No. SMEs	Source
2009	6365	[20]
2015	6000	[21]
2019	8643	[17]
2023	14000	[19]

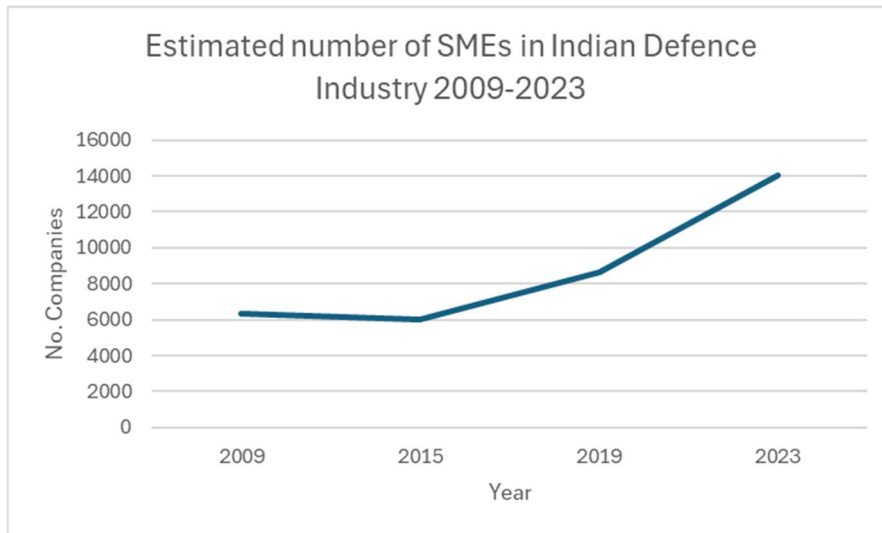


Figure 10 - Number of SMEs actively involved in the Indian defence sector

7.3.1. Offset Obligation Lag

Official records indicate concern that a portion of the offset obligations for foreign companies may never eventuate. As of 2022, 15 companies had missed deadlines for their obligations and of the \$6.8 billion in obligations due by January 2022, only \$3.7 billion worth of claims had been approved [14]. Furthermore, 90% of offset obligations were achieved through direct purchases with no technology transfer to India, and 87% of offset obligations were directed through only 15 Indian companies, indicating the benefits of the obligations are being seen by only a small number of local companies [14].

7.3.2. Observations

India has utilised many policy levers to promote a strong agenda for increasing its industrial base. It is difficult to quantify the specific effects the policies have had on increasing the participation of medium-sized enterprises in defence acquisition specifically due to the nature of reporting on SMEs in India. However, if the number of SMEs actively participating in the defence industry is taken as a proxy, then the ‘Make in India’ policies introduced in 2014 have had a resounding positive impact. SME numbers prior to 2015 were relatively stagnant, indicating that perhaps India’s offset policy was not having the driving effect desired. Considering that the majority of offset obligations were conveyed to only 15 companies, this is not unexpected. However, the newer approach of mandating a set amount of contract value for SMEs, prioritising acquisition projects where the vendor is Indian and incentivising R&D to occur in local organisations has clearly brought many more companies into the defence pipeline.

Key Finding: India’s offset program was taken advantage of by foreign suppliers and benefits were not realised throughout the sector.

Key Finding: India had great success when transitioning away from offset-based procurement policies, to a stronger, more directed industrialisation policy

7.4. Case Study 3 – Saudi Arabia

While Saudi Arabia has a population of similar size to Australia at approximately 36 million people, its defence spending is much greater, totalling around SAR\$269 billion (AUD\$105.7 billion), or 23% of its total budget [22]. In 2023, Saudi Arabia was fifth in total defence spending [23].

7.4.1. Procurement Policy Overview

Pre-2019: Economic Offset Program

Saudi Arabia implemented a procurement offset program called the ‘Economic Offset Program’ (EOP) in 1984, which required all successful bidders to invest at least 35% of the contract value into the country through a variety of approved methods, including Joint Ventures (JVs). The offset obligation was to be discharged within 10 years, however there was no non-performance penalty established initially. No less than 60% of the investment had to be in local industry and at least 20% of the obligation had to be cash equity contribution. The relative weightings of offset credits from approved activities could not be ascertained in the research timeframe.

Post-2019: Industrial Participation Program (IPP)

In 2019, GAMI overhauled the offset policy to implement additional requirements and rigour, as well as changing the name to reflect the new framing as ‘industrialisation’ rather than ‘offset’. The policy focuses on building Saudi Arabia’s local defence industry by defining nine key eligible activities such as use of local suppliers, encouraging technology transfer and generally driving investment in-country [24]. The policy applies formally to contracts in excess of SAR150 million, and informally to those below that threshold, through what is termed The Acquisition Process [24]. The IPP is a key pillar of Saudi Arabia’s ‘Vision 2030’ program in which the Kingdom aims to localise 50% of its defence procurement by 2030 [25].

The IPP requires that bidders for an eligible supply contract submit an Industrial Participation Proposal demonstrating how the IPP objectives will be addressed [24]. The winner of the contract is then held to an industrial participation commitment of at least 60% of the contract value. Discharging the IPP commitments uses a credits based system, whereby the contractor must achieve enough credits to cover the dollar value by the required date. The approved activities are not considered equal, with different ‘valuation factors’ as shown in Table 6, meaning that the contractor does not need to actually invest the full 60% contract value to achieve the IPP obligation. There are additional clauses around credit banking and use of surplus credits for subsequent IPP commitments that are not covered in this case study.

Table 6 - Approved activities to discharge IPP commitments [24].

Category	Activity	Valuation Factor
A.1	Purchase order to Local Company for production of Military Goods and Services or approved Dual Use Goods and Services for Saudi Arabia	1.0
A.2	Purchase order to Local Company for production of Military Goods and Services or approved Dual Use Goods and Services for export	1.0 - 2.0
A.3	Technical support for the production of Military Goods and Services or approved Dual Use Goods and Services	1.0
B.1	Foreign Direct Investment into a Local Company to produce Military Goods and Services or approved Dual Use Goods and Services	2.0 - 5.0

Category	Activity	Valuation Factor
B.2	Special to type equipment	1.0 - 2.0
B.3	Transfer of Technology (to local companies)	1.0 - 3.0
B.4	Technical/Specialised Training	1.0 - 2.0
B.5	Undertaking research and technology program (in country) in approved technologies	2.0 - 5.0

Table 7 contains a comparison of key characteristics of the EOP and IPP policies, showing obligation percentage and non-performance penalties are key differentiators.

Table 7 - Comparison of the EOP and IPP policy requirements

Category	EOP (from [26])	IPP (From [24])
Threshold	-*	Projects > SAR\$ 150 million
Obligation Percentage	35%	60%
Credit based?	Yes	Yes
Timeframe	10 years	Where localisation directly relates to contract: within contract time period. Where localisation does not directly relate to contract: within 2 years of contract ending.
Non-Performance penalty	None	Up to 10% of total obligation.
Other	60% must be in industry >20% Cash Equity	

* Research efforts were unable to yield this value – reliable documentation from this period is difficult to find.

7.4.2. Defence Industry Evolution

According to official GAMI reporting in 2021, the localisation of the defence industry in Saudi Arabia has increased from 2% in 2016, to 4% in 2017 and sat at 8% in 2021 [27]. This increased to 13.7% in 2022 and is estimated to have reached 15% in 2024 [28] as shown in Figure 11. The GAMI report also indicates that 85% of the companies acquiring licences to operate in the defence sector are local, with only 6% being completely foreign owned [27].

A major development in the Saudi defence industry is the growth of the Saudi Arabian Military Industries (SAMI), a subsidiary of the Public Investment Fund, initiated in 2017. SAMI has been built up as a national champion and since inception has acquired a conglomerate of other local defence industry companies [28]. SAMI has grown almost 1000% since 2020 by employee size and entered into more than 12 major JVs with foreign companies.

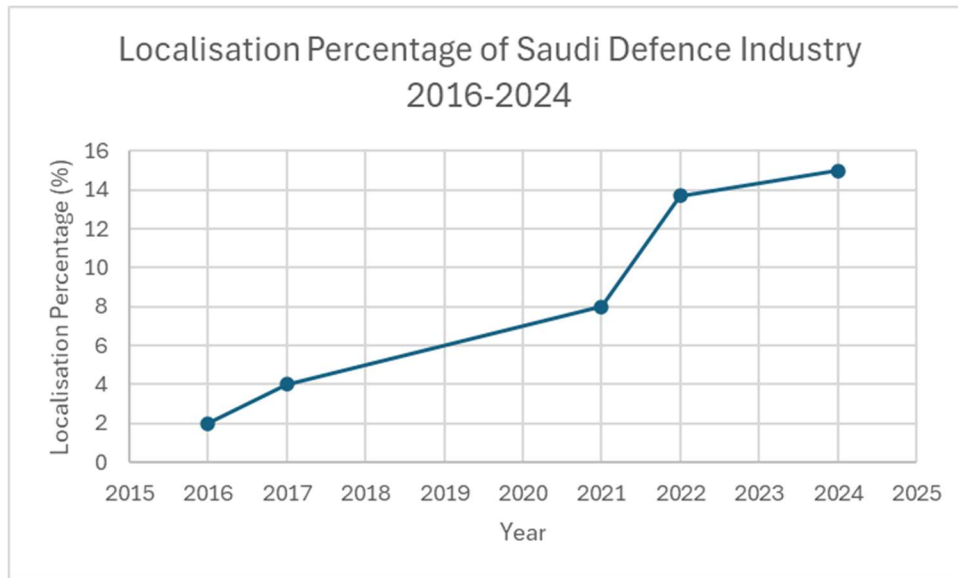


Figure 11 - Increasing trend of defence localisation in Saudi Arabia in the last 8 years

7.4.3. Observations

The contrast between the pre-IPP and post-IPP periods in terms of defence industry localisation in Saudi Arabia is stark. Despite 30 years of the offset program, the rate of localisation remained below 2%. In the 8 years after the IPP implementation, the rate of localisation has exploded. The two policies are similar, other than the obligation percentage and the fact that the IPP has penalty clauses where the EOP did not. It may be that the IPP has benefited from unified governmental policy direction in the last few years, or maybe the rise of offset and industrialisation in defence industries around the world has shaped the expected behaviour of foreign companies.

It should be noted that while it is clear that the local content and industrial capability of the Saudi defence industry has significantly improved, there is no evidence that the MSE base of the industry has felt the benefits. Saudi Arabia tracks the SME sector throughout the whole country through the Monsha`at organisation, however their reports do not break down SME numbers by industry, nor by company size, making it difficult to accurately assess the growth of MSEs in defence over time. Given this, extracting the effect on MSEs specifically is impossible. SAMI remains the shining light of Saudi industrialisation policy, however it is firmly beyond the MSE category now, and it is unclear if SAMI’s success is an indicator of success for other Saudi MSEs.

Key Finding: Saudi Arabia has only experienced success with offset policies once their mandated obligation percentage was more than half the contract value, and they combined it with targeted industrialisation practices.

8. POLICY APPROACHES

This report has identified barriers facing MSEs and reviewed the effects of strategies employed in similar nations to grow their industrial base. In this context, several potential approaches that Australia might take to increase MSE participation in defence procurement have been outlined, along with some discussion about implementation and associated considerations.

8.1. Industrial Offsets

Industrial offset policies such as those implemented by Canada and India (pre-2014) could indeed be used by Australia to bolster its local defence industry, if the desired outcome is increasing the local supplier base for defence projects. Without further study it is impossible to accurately estimate the benefit of such a policy in Australia, however gains in local supplier usage of up to 10% is not unreasonable to expect based on evidence from Canada.

8.1.1. Implementation Considerations

Two key decisions await policy-makers if this route is chosen. First, identification of the tender value percentage of the offset obligation; based on the results from Canada, Saudi Arabia and India, a stronger value up above 75% would appear to lead to the best results, however this would require more in-depth research and modelling to optimise.

Secondly, decisions must be made on the approved activities that firms may partake in to discharge their offset obligations. This is extremely important as this is the primary control the government has in directing investment under this policy. If the number of allowed activities is too broad, companies will naturally pick the cheapest and least effort option to discharge their obligations, which risks nullifying the benefit of the offset policy.

8.1.2. Corruption Concerns

When evaluating the implementation of an industrial offset strategy, policy makers must balance the benefits against potential for corruption. The Indian case study has already shown how its offset policy was taken advantage of, with the vast majority of the offset benefits going to just 15 companies. This outcome was actually lawful, and simply exploited loopholes in legislation. However, there have been many cases of genuine corruption tied to the process of negotiating side-benefits for offset obligation discharge. As outlined in *Transparency International's* reports *Blissfully Blind: The new US push for Defense Industrial Collaboration with Partner organisations and its corruption risks* and *Defense Offsets: Addressing the Risks of Corruption & Raising Transparency*, there is a rich history in corruption associated with offset policies [29] [1].

Continuing the analysis of India, the reports identify the corruption of offset brokers in India being bribed by AgustaWestland to rig the procurement of 12 helicopters in favour of the multinational organisation, before creating imaginary companies to falsify the discharge of AgustaWestland's offset obligations. Bribery in relation to offsets is also suspected in the case of Airbus' sale of the Eurofighter Typhoon aircraft to Austria. Case analysis suggests that a senior Austrian minister attempted to extract offset agreements from bidders for personal gain. The situation has become further complicated with legal action against Airbus on accusations of overcharging on offset arrangements.

The reports provide multiple other examples of corruption which won't be detailed here, however, it is recommended that serious consideration is given to anti-corruption measures should an offset policy be pursued in Australia.

8.2. Mandated Australian Industry Content

As shown earlier in this paper, there is currently no mandate for Australian Industry Content in successful defence tenders. Implementing such a mandate in the defence industry would stipulate the requirements for origin of materials and goods procured under federal contract, and place limits on location of final assembly.

There are a number of benefits of mandating local content in federal defence procurement, as it:

- Supports small to medium size businesses (helping to level the playing field).
- Boosts local employment.
- Increases skills development in Australia.
- Reduces reliance on imports, promoting industrialisation.
- Encourages innovation.

However, if not implemented correctly, this policy may lead to significant confusion within defence industry. In order to develop a successful mandated AIC approach, consideration must be given to a number of regional and political factors. A possible approach to developing a robust AIC mandate is outlined below:

1. Develop consistent definition of local content.
2. Create alignment of specification inputs and regulatory requirements across jurisdictions.
3. Undertake a geographic scoping effort to determine how various state requirements could be integrated.
4. Understand Federal involvement and the ways to better facilitate and manage state and territory involvement and their future role.
5. Review the evaluation mechanism for local content outcomes in tenders.
6. Review auditing and compliance to ensure information provided by tenderers is accurate and compliant.
7. Generate greater market awareness and networks to share information on suppliers' and manufacturers' capabilities and requirements.

8.2.1. Expected Outcomes

Should such a policy be implemented, it would lead to the following benefits for Australia:

Long term strategic perspective

- Improves consideration of jobs and skills requirements for the future.
- Enhancing (existing) national capabilities and contributing to long term innovation.
- Providing commercial and social benefits jurisdictions nationally.

- Providing increased certainty to support industry in making longer term investments.

Transparency and simplicity

- Easier more efficient tender responses.
- Increased accountability for tender inclusions and requirements post award of contract.
- Achieving more consistency of componentry, standards and regulatory requirements nationally.
- Providing an incentive for a national approach by Government for procurement.

Improved commercial framework

- Improved focus on cost management.
- Increased competition overall through improved participation and awareness across industry.
- Improved national cooperation.

8.3. Bid Credit System For SME/MSES

The industry survey conducted as part of this report highlighted that bidding for opportunities in defence contracts is a significant financial burden. When coupled with the low probability of winning, this can be a barrier to entry for smaller companies in the defence procurement space. The Australian Defence Magazine (ADM) highlighted in 2024 the frustration of defence industry in steadily reducing opportunities [30] [31], which only heightens competition and reduces the probability of winning further.

If the financial burden of bidding can be alleviated somewhat, it is likely that this will boost participation from smaller companies as the upfront investment (and hence, risk) is significantly lower. One option to encourage their participation and level the playing field is to introduce a subsidised bidding system. A subsidised bidding system enables MSE's who have the capability / product to compete with primes for a particular contract to offset some of the costs associated with bidding on a contract using a structured credit system that rewards companies for progressing through the standard tender process. By participating in bids, companies earn these credits which can be redeemed to alleviate MSE bid costs including but not limited to; JOSCAR fees; certification fees associated with the bid; tax offsets.

Table 8 and

Figure 12 illustrate how this proposal might work in practice:

1. A pool of pre-vetted Small and Medium Enterprises are invited to respond to a tender opportunity, to which organisations can take up the offer.
2. These organisations progress through a competitive tender process as per normal, with several being cut along the way.
3. Eventually one company is victorious and awarded the tender.

- Each of the other companies is awarded credits based on how far along the tender process they made it which can be redeemed to offset costs. No credits are awarded to the tender winner.

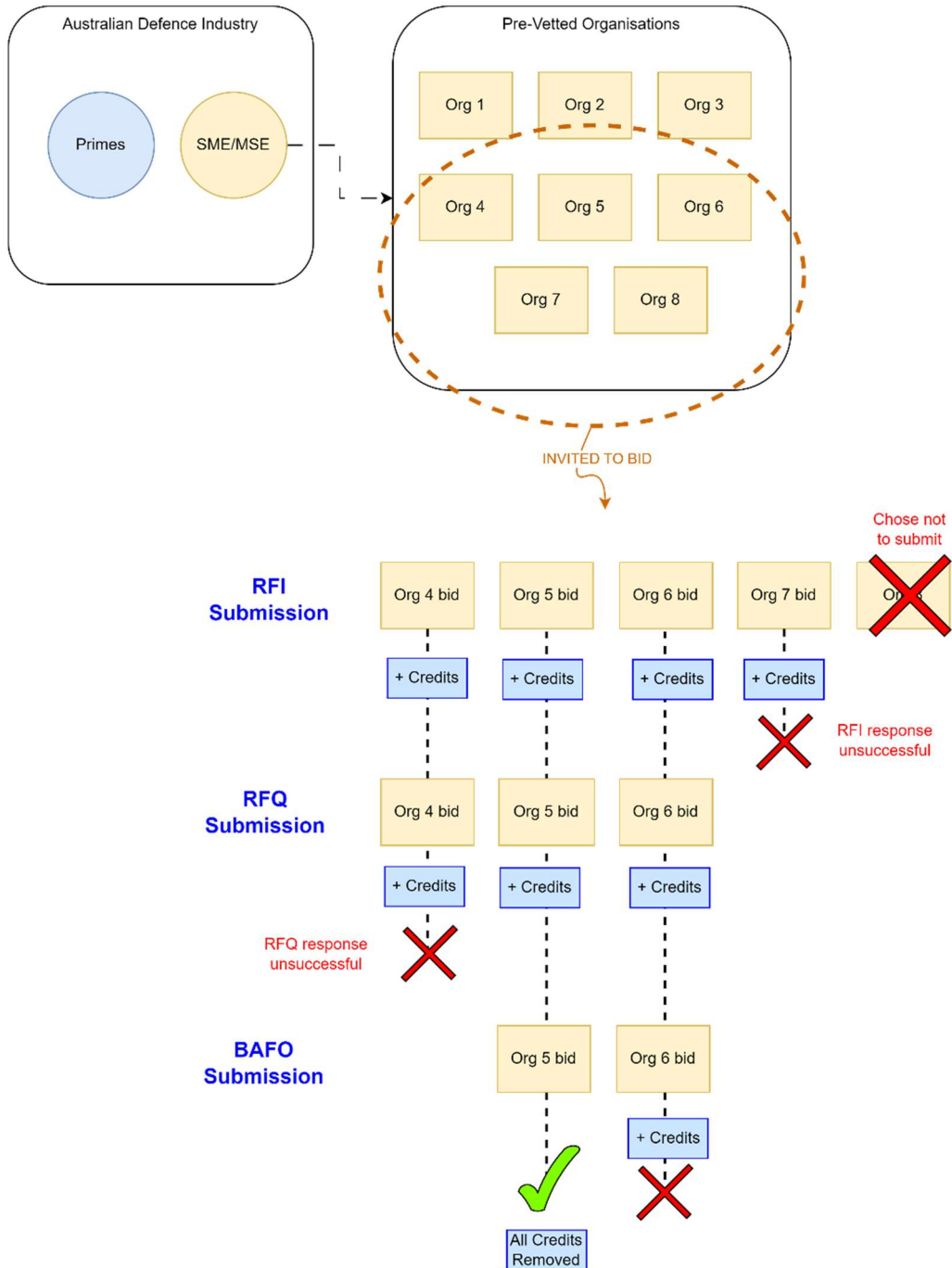


Figure 12 - Diagrammatical representation of a bid-credit system

Table 8: Summary of participation scenario detailed in Figure 12.

Organisation 4	Organisation 5	Organisation 6	Organisation 7
Participates in Request for Information (RFI).	Participates in Request for Information (RFI).	Participates in Request for Information (RFI).	Participates in Request for Information (RFI).
Participates in Request for Quote (RFQ).	Participates in Request for Quote (RFQ).	Participates in Request for Quote (RFQ).	
	Participates in Best and Final Offer (BAFO).	Participates in Best and Final Offer (BAFO).	
	Is the successful bidder.	Is not the successful bidder.	
Receives bid credits for two levels of participation.	Receives no bid credit as organisation benefits from the contract overall.	Receives bid credits for three levels of participation.	Receives bid credits for one level of participation.

Participation in a Defence contract bid is a lengthy and expensive process for an MSE to participate in, by implementing a subsidised bidding system this will incentivise MSE’s to participate in more bids and at the same time alleviate some of the financial risk associated with bid participation. Our research has identified more than 47% of respondents are of the view that subsidised bidding can only increase confidence within the middle tier.

8.4. Prioritisation Of MSES For Smaller Prime Contracts

To address the inequalities that exist between MSEs and Primes, procurement agencies might consider a scheme involving prioritisation. As an example, for tenders less than certain a threshold value, if an MSE or team of MSE’s can deliver the capability, the tender must only be released to those organisation(s), as shown in Figure 13. If no organisations can provide the capability, then the procuring agency could proceed to a standard open tender process. This provides the organisation(s) the opportunity to bid for the work without competing against a large Prime, which is another way to level the playing field for small to medium size enterprises.

This process has precedent in Australia, as it is almost identical to the Indigenous Procurement Policy as outlined in Section 5.2.2 of this report. Some work would need to be undertaken to determine an appropriate tender threshold value for triggering the prioritised approach. No values are provided here as there are complex factors that need to be considered when determining such a valuation which are outside the scope of this report.

Similar rules would likely be implemented as the IPP, in that whilst the MSE(s) are in the mix with other bidders for consideration, the Government is not compelled to accept the bid from the MSE(s), and still has the option to consider all tenders.

Management of risk is one key consideration in implementing such a policy, particularly in assessing delivery capability of MSEs. Organisational capability to manage quality, cost and schedule, alongside supply chains and other project management requirements would need to be rigorously interrogated to ensure no loss of outcome.

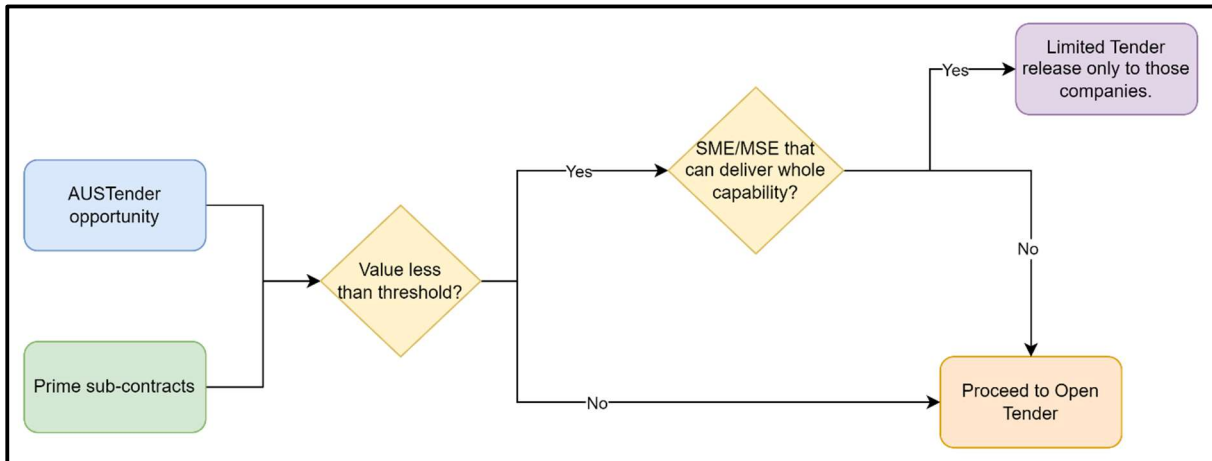


Figure 13 - Decision flowchart for a tender prioritisation policy.

8.5. Tender Splitting

The current procurement framework incentivises the commonwealth to utilise Prime contractors to split up the scope of a full tender opportunity to constituent organisations. Thus, the distribution of work to local industry is entirely at the whim of the Prime; for the benefit of this service, overall management and management of risk, the Prime charge a considerable percentage in addition to the cost of the contract. If the Department of Defence were to internalise some of this tender splitting (or scope splitting), this may allow targeted engagement and opportunity for MSE’s.

By formalising a tender splitting process, the tender can be split between Primes and MSE’s that have the ability to deliver the required capability, and the DoD can ensure that they consider MSE’s first, before relying on larger companies. Tender splitting has the benefit of reducing the overall contract cost to the DoD by passing on the savings the Prime would usually charge for the overall management of the contract delivery and responsibility of associated risks. However, there is no free lunch, and if this was to occur, the Commonwealth would need to absorb the additional work required to manage scope distribution and the additional contract management that comes with that.

A further important consideration is bid risk. A tender-splitting arrangement allows MSE’s to provide their capabilities as part of a tender opportunity without taking on the full burden of risk. The DoD approach is to flow risk to the Prime or MSE. By participating in a contract through a tender splitting arrangement the MSE will not be entirely responsible for the risk. The risk will either be flowed through to the prime - a beneficial outcome for an MSE - or alternatively shared between the prime and participating MSE’s.

8.6. Further Considerations

While the information presented in this section are not, strictly speaking, policies, it would be remiss not to explore two potential strategies that have been uncovered throughout the research effort for this report. The two sections below look at ideas for which the defence industry has shown support.

8.6.1. National Register

The industry survey has shown that visibility into organisational capability in defence has been highlighted as a significant problem. In order to understand the capabilities of the different organisations and what they are able to deliver, a national register could be established, which the Department of Defence (DoD) is able to interrogate to understand what capabilities Primes and MSE's are able to and willing to deliver.

This register would detail the current technologies available from each registrant, as well as their production capability, and also include upcoming technology that is being developed by each organisation which the DoD can consider in upcoming tenders for acquisition in the future.

Some challenges do exist with the implementation of this strategy. Confidentiality is paramount and needs to be continually considered throughout the lifecycle of such a registry. It is important that this register is created, maintained and managed by the DoD for any new technologies under development for protection of individual company intellectual property.

8.6.2. Dedicated Procurement Representative

A key outcome from the survey (Section 6) was the perceived impact that a dedicated defence procurement representative would have on reducing barriers to entry for MSEs. Exploring this idea further, it makes sense that if an organisation had a single point of contact to ask questions relating to released tenders, get advice on certification requirements and generally stay on top of procurement opportunities it would reduce their overhead and minimise bid development outlay.

To achieve this outcome, a team of people could be stood up inside the Department of Defence who act as this dedicated representatives and correspond with industry in line with DoD procurement guidelines. A key challenge to implementation for this strategy is managing probity, unfair advantage and conflicts of interest as the representatives are likely to learn information about organisations that is privileged.

However, this strategy is expected to have significant impact for relatively low implementation cost and stands as an attractive short-term improvement to the status quo.

9. STRATEGIC RECOMMENDATIONS

9.1. Conclusions and Recommendations

This report has identified key financial and risk barriers facing MSEs in Australia, analysed the current policy environment as it pertains to federal procurement, looked at the results of relevant policy implementations in foreign nations and explored policy measures that can be implemented to address key barriers. In synthesising this information, the authors propose that there are three key themes that continually arise: having enough data to identify the current state of industry engagement, increasing awareness within the defence industry community, and the strong effect that federal policy can have on increasing the strength of the local defence industry.

Given this, three key recommendations have been identified to start levelling the playing field across defence industry procurement in Australia. These are outlined below alongside specific actions that could be taken to assist their implementation.

9.1.1. Adopt a Data Driven approach

The lack of comprehensive data on Australia's defence industry limits policymakers' ability to assess the impacts of their decisions. In contrast, countries like Canada leverage robust industry metrics to derive actionable insights. Australia's reliance on anecdotal or insufficient data makes it difficult to measure the success of policy changes or track industry health.

Recommendation: Implement a data-driven approach to defence procurement decisions, particularly concerning industry participation. This involves both tracking industry metrics and using this data to guide informed policy decisions. This is a straightforward yet impactful measure that requires minimal sector-wide changes but will provide significant improvements in decision-making.

Actions:

1. Establish a framework for tracking and publishing defence industry metrics to monitor and improve domestic participation.
2. Propose the conduct of an annual survey of the defence industry and publicly report key metrics with breakdowns by company size.

9.1.2. Increase Engagement and Collaboration

The defence industry feedback highlighted a lack of engagement both within the defence industry and between industry stakeholders and federal agencies. This gap in communication is evident from the survey results, particularly given the highly ranked preference of having a dedicated defence procurement liaison. Supporting this are the responses indicating that industry does not feel that they can effectively team together nor do they know the full capabilities of other industry organisations.

Recommendation: Strengthen communication and transparency between industry players and government agencies to create a more equitable and robust defence procurement environment.

Actions:

1. Create dedicated engagement platforms to facilitate collaboration between MSEs, prime contractors, and government agencies.
2. Implement dedicated procurement outreach officers to work directly with industry on bid assistance.
3. Develop a national capability catalogue listing all defence companies, their areas of expertise, and capabilities.

9.1.3. Refresh Federal Procurement Policy

Drawing from the international case studies, the national procurement policy is a driving force for increasing localisation of defence participation, best demonstrated by the shift seen by India since 2014. As shown by the industry survey, there is significant support within the local defence industry for firmer AIC mandates and reducing the costs of the bidding process, both of which can be achieved through policy change at a national level. The current procurement policies used by federal agencies are not strong enough to significantly drive local investment when compared to those used overseas.

Capitalising on the Australian Government's 'Future Made in Australia' rhetoric now is the perfect time to refresh Australia's federal procurement policy, particularly in the defence industry to better benchmark against other similar countries as explored in this paper. This will help to strengthen the domestic defence industry, enhance domestic capability and create an environment conducive to greater MSE involvement.

Recommendation: Align Australia's procurement framework with international best practices by mandating minimum Australian Industry Content (AIC) levels, reducing bidding costs and risks, and leveraging the government's Future Made in Australia agenda to drive local investment.

Actions:

1. Conduct formal trade studies to assess the impact of procurement policy changes, such as offset-based systems, stronger industrialisation policies, and tender prioritisation mechanisms.
2. Review federal procurement policies to implement AIC mandates and reduce financial risks associated with bidding.

10. ACRONYMS

ABS	Australian Bureau of Statistics
ADMMSE	medium-sized enterprises
AIC	Australian Industry Content
ASDEFCON	Australian Standard for Defence Contracting
BAFO	Best and Final Offer
CDI	Canadian Defence Industry
DIDS	Defence Industry Development Strategy
DoD	Department of Defence
DPIP	Defence Policy for Industry Participation
DSR	Defence Strategic Review
EOP	Economic Offset Program
FDI	Foreign Direct Investment
FTE	Full-time Equivalent
GAMI	General Authority For Military Industries
GDP	Gross Domestic Product
IC	Indigenous Content
ICP	Industry Capability/Participation Plan
ICS	Industry Capability/Participation Schedule
IPP	Industrial Participation Program
IRB	Industrial and Regional Benefits
ITB	Industrial and Technological Benefits
JOSCAR	Joint Supply Chain Accreditation Register.
LCP	Local Content Policy
MSA	Mandatory Set-Asides
MSE	Medium-Sized Enterprises
RFI	Request for Information
RFQ	Request for Quotation
SAMI	Saudi Arabian Military industries
SMB	Small and Medium Businesses (Canadian term)
SME	Small And Medium Enterprises

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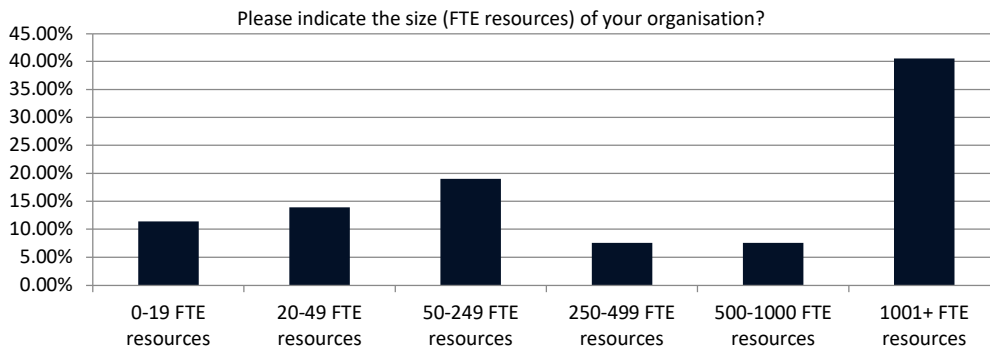
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12. APPENDIX A - RAW SURVEY RESULTS

Getting a Foot-in-the-Door: Enhancing Domestic capability in Defence Industry through our MSEs

Q1. Please indicate the size (FTE resources) of your organisation?

Answer Choices	Responses	
0-19 FTE resources	11.39%	9
20-49 FTE resources	13.92%	11
50-249 FTE resources	18.99%	15
250-499 FTE resources	7.59%	6
500-1000 FTE resources	7.59%	6
1001+ FTE resources	40.51%	32
	Answered	79
	Skipped	0



Q2. Please indicate the proportion of your turnover/revenue that is attributable to the Defence Industry:

Answer Choices	Average Number	Total Number	Responses	
Percentage of your turnover/revenue attributable to the Defence Industry	65.8974359	5140	100.00%	78
			Answered	78
			Skipped	1

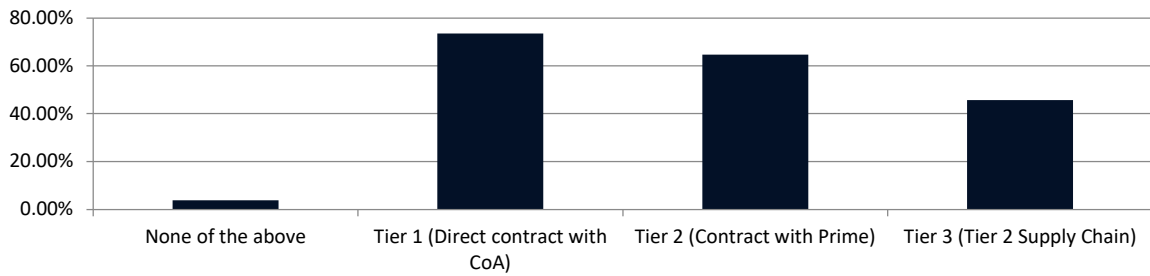
Q3. Please indicate the number of years your company has been in the defence industry:

Answer Choices	Average Number	Total Number	Responses	
Estimated # of years has been in the defence industry	3.858974359	301	100.00%	78
			Answered	78
			Skipped	1

Q4. Please indicate the type of defence work your company has undertaken?

Answer Choices	Responses	
None of the above	3.80%	3
Tier 1 (Direct contract with CoA)	73.42%	58
Tier 2 (Contract with Prime)	64.56%	51
Tier 3 (Tier 2 Supply Chain)	45.57%	36
	Answered	79
	Skipped	0

Please indicate the type of defence work your company has undertaken?



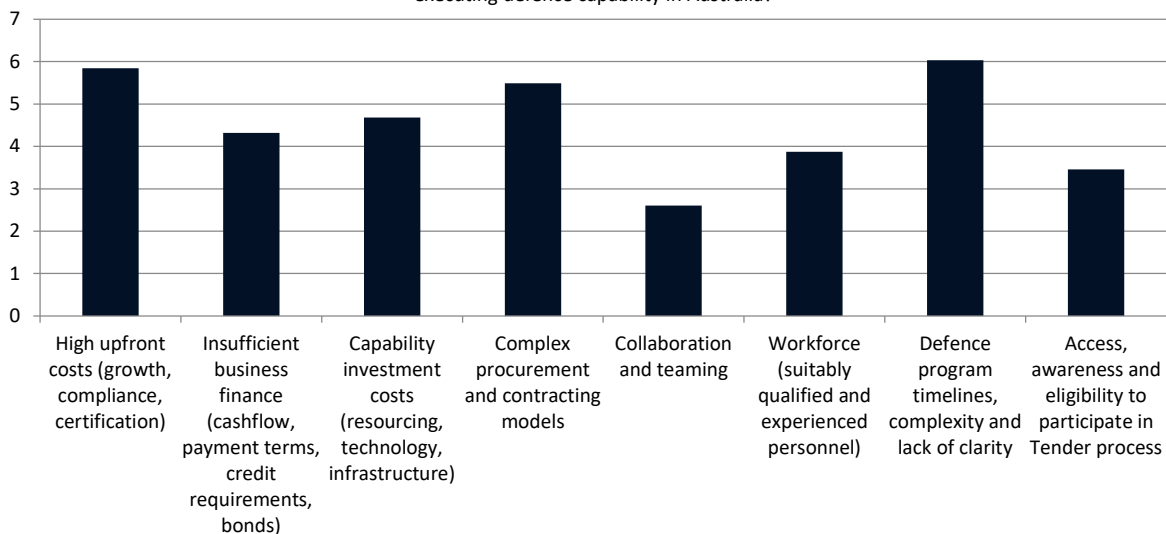
Q5. Estimate, on average, your company's upfront investment to fund the bidding process for defence contracts? (represented as a percentage of bid contract value)

Answer Choices	Average Number	Responses
Percentage of bid contract value	9.405405405	74
		Answered 74
		Skipped 5

Q6. In your opinion, please rank (from 1 to 8) the following challenges faced by MSE's in developing, growing and executing defence capability in Australia?

Challenge	Total	Score
High upfront costs (growth, compliance, certification)	69	5.84
Insufficient business finance (cashflow, payment terms, credit requirements, bonds)	67	4.32
Capability investment costs (resourcing, technology, infrastructure)	68	4.68
Complex procurement and contracting models	70	5.49
Collaboration and teaming	69	2.6
Workforce (suitably qualified and experienced personnel)	70	3.87
Defence program timelines, complexity and lack of clarity	68	6.03
Access, awareness and eligibility to participate in Tender process	69	3.46
	Answered 70	
	Skipped 9	

In your opinion, please rank (from 1 to 8) the following challenges faced by MSE's in developing, growing and executing defence capability in Australia?

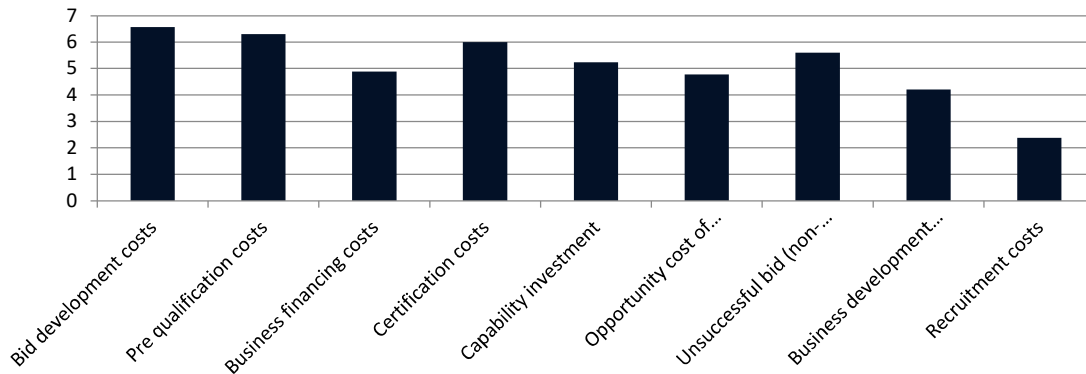


Q7. Please describe any other challenges faced by MSE's in developing, growing and executing defence capability in Australia?
This is more relevant when a SME transitions from being a T2 or T3 supplier to something closer to an 'Approved Sub contractor.' There are very few SMEs that have been exposed to this level of complexity of TDRL and CDRL development and has the potential for a SME to not be able to deliver at the last moment.
Procurement contract terms and conditions are unreasonable. IP ownership and liability clauses are particular issues preventing MSE engagement in defence projects. The DoD and primes flow down essentially all risk to suppliers which is unworkable for MSE's.
Government has stopped spending money on anything but AUKUS Pillar I
Uncertainty around if contracts will proceed before and after they are awarded
Obtaining good & accurate information pertaining to the direction of certain projects. There is a lot hearsay with Defense and its hard to navigate what will and wont go ahead for future capability investment. The entry barrier is also difficult. It can feel as is you will never get an opportunity no matter how flexible and capable you are because certain primes have their favorites.
Cash Flow on Defence projects is the main issue
Exposure from Defence Prime's and/or Tier 1 organisation on how they operate what they 'deliver' what they 'buy' and timings where known. Access to technical leads.
Compliance, in terms of export compliance and security compliance requirements. Cash flow / standing army costs.
Complex, rigid and obscure material grade standards and material testing standards. Quality accreditation requirements, eg Lloyds for maritime, that are cost prohibitive to obtain and maintain for limited benefit, mostly demanded to ensure overseas businesses have advantage.
CoA lack of flexibility on contract terms and conditions.
A lack of focus on capability within CASG
The challenge in growing an MSE is that any company in that space is viewed as being riskier than a prime and so is less likely to win work. If work isn't awarded to MSE's they can't demonstrate capability therefore reducing the perception of being risky.
none other aware of
The high turnover of defence stakeholders makes it challenging to maintain continuity in relationships that are necessary / essential to the success of MSEs. Those relationships open doors, facilitate communication and awareness, establish confidence in the defence organisation. However the frequent turn over - through posting cycles, promotions as two examples - has a direct impact on each of those benefits. MSEs may have to build new relationships, work against the desire of new staff to implement their own organisational or capability priorities, and create new communication channels to ensure they are afforded the opportunity to contribute to defence programs. This all takes time, costs money and increases risk to the organisation.
Being swamped by Primes and MSPs and dictated to by their terms even though they are supposed to act in the interests of the CoA
low risk appetite from Defence to consider emerging technologies.
Lack of a path to acquisition is the single biggest challenge. SMEs & MSEs appear to be viewed as high risk & undesirable by CASG in comparison to US alternative products.
The frustration with long gestation time to convert projects and receiving orders.
Uncertainty around contracts being modified or cancelled
level of security required for blue collar workforce
Defence specifications can be unrealistic.
High investments in compliance required, then long lead business development cycles before experiencing a return on investment presents the biggest challenge to MSEs operating in the sector. Also processing times for things like DISP membership cause significant issues for industry, in some cases being excluded from tendering for work based on not having attained DISP membership.
These aspects can cause in some instances organisations to 'walk away' and focus their time and energy on other sectors where they get a faster return on their investments.
Fluctuation in work to smooth out work and cashflow. Long time from tender to purchase order. Need to keep workforce active and not always that body of work to keep workforce engaged.
CoAs lack of maturity in decision making resulting in long periods of indecision but not necessarily changing critical dates for contract start or finish thereby putting unrealistic demands on the Contractor.
Lack of Look ahead (future roadmap)
Knowing where to start and who to speak with
Resourcing in a competitive market where primes can offer much more attractive salary packages limits an SME to build and strengthen resources across all areas.
Volume of available work from any contract - defence in the main doesn't procure large volumes of either platforms or systems. Ability to use technology or capability developed in the execution of teh contract in other markets to offset the low defence volumes.
Often the size of the projects and what Defence are willing to pay make them not viable or a good business proposition.
MSE's are expected and required to invest, time, funds, and resources in preparation to support Defence only to have the government cancel, reduce the scope, and/or delay the project/program. This is a significant burden on MSE's and impacts their motivation and resolve to support Defence when adjacent sectors require less effort and provide more certainty.

Q7. Please describe any other challenges faced by MSE's in developing, growing and executing defence capability in Australia?
Constant re-bids, CoA unable to secure funding, multiple ROMs submitted that just sit with the customer, constant delays in getting any new PO's
N/A
Historical industrial policy framework insufficient.
N/A
Over engineered pre-selection conditions in the procurement process, already need DISP, NV1, on a panel, already worked in defence etc inflexibility of the requirements
IP related sharing for tenders/programs is difficult for MSE. Primes have team of layers who do this every day.
Speed of tender process. Time is money.
When in my role lead the supply chain for the attack class submarine MSEs spent inordinate time and money attempting to access the supply chain. Due to cancellation this was sunk. Subsequently tens of programs have been cancelled or delayed. This to me is the biggest impact
Ever changing requirements and specifications from the COA
Experienced personnel is also a challenge as the pool of resources in Australia is small compared to the requirements of the bid defence project currently ongoing.
lack of long term view from defence
A major issue at the moment is the current Labour Government's war on consultants/ above the line contractors. Unfortunately, we are all roped in under the same descriptors as KPMG, PwC and Deloitte who cost Government millions of \$ producing strategy rather than delivering. Many growing companies have gone out of business since the new policy was brought in FY23/24.
Low volume - high cost
The High cost of the Tendering process and ability to execute under the ASDEFCON Framework, based on the probability of win would be the biggest challenge
Lack of govt funding and the uncertainty in govt commitment to Defence capability is probably the number 1 cause affecting the SME engagement in Australia. There is obvious lack of bi-partisan support to defence capability development.

Q8. In your opinion, please rank (from 1 to 9) the current financial barriers and risks associated with bidding for defence contracts for MSEs?	Total	Score
Bid development costs	68	6.57
Pre qualification costs	65	6.3
Business financing costs	68	4.88
Certification costs	67	6
Capability investment	66	5.23
Opportunity cost of reallocating resources to bid	69	4.78
Unsuccessful bid (non-recoverable investment)	68	5.6
Business development costs	67	4.21
Recruitment costs	69	2.38
Answered		70
Skipped		9

In your opinion, please rank (from 1 to 9) the current financial barriers and risks associated with bidding for defence contracts for MSEs?



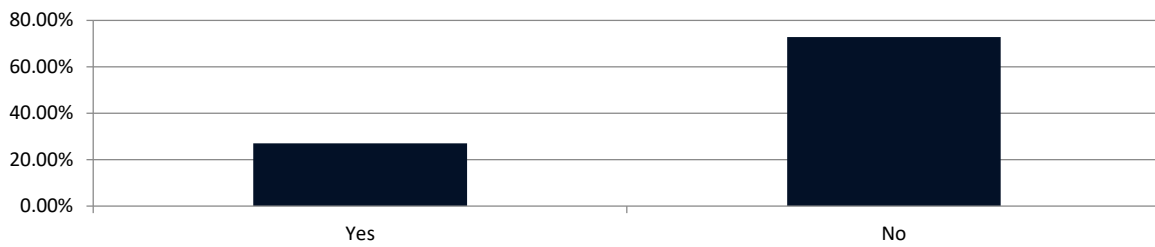
Q9. In your opinion, do you think the Australian Defence Sector as a whole is doing enough to enhance and expand domestic MSE participation?

Answer Choices	Responses	Count
Yes	27.14%	19
No	72.86%	51
Optional comment field.		24
Answered		70
Skipped		9

Optional comment field.
At some point in time there has to be an argument around value for money. The main challenge that Australian SMEs face is that the development costs associated with supplying into Aus Defence preclude them on cost to supply to other countries. Further, volume procurement in many of our programs, compared to our counterparts in other countries mean that we cannot offer VFM.
Specifically, who is identified as the Australian Defence Sector? Is this the DoD, the ADF, both?
There is enough MSE in the sector already. More needs to be done to grow and add resilience to this pool.
There are no policies to grow companies
They have their bubble of supply chain and it feels like smoke and mirrors regardless of capability or capacity. Consistent talks on delivering capacity, yet there are companies with capacity that get overlooked.
I'm neutral as it is co-dependent on the contract Ts and Cs and relationships so is inconsistent at best
Establishment of AUKUS and ASCA has removed the innovation pathway
It is too easy to simply award contracts to primes and then let them manage the supply chain underneath
Primes are looking at working with the supply chain, increasing opportunities for MSE to contribute to larger programs. Much of this is driven by Government policy, the need to demonstrate an AIC strategy, so is susceptible to variance as policy evolves.
I think we could be doing more, but it is challenging with the mixed and inconsistent messaging and action coming from Defence and Government more broadly.
Defence seem to say the right things i.e. the use of more sovereign capabilities however, we see a lack of engagement.
Partnering would help further though.
Processing times are too slow for compliance requirements. Not enough support from Defence or from Prime Contractors to help cover costs of compliance requirements like DISP/Cyber Security. MSEs need to see a clear pathway to return on their investments to provide confidence to invest in the sector.
Can always be more done. AIC focus needs to be reviewed to better serve Australian MSE.
Defence focus on the cheapest option rather than the option that would build up Australian MSEs
There are many reasons why, however a significant reason is due to not being able to compete with Primes for panels that then exclude them from bidding for opportunities and having to rely on the primes to select them over the primes themselves or their subsidiaries.
exacerbated by the IIP and shift in funding from sustainment to acquisition projects
Defence must stop discussion what needs to be done and deliver against public commitments.

Optional comment field.
Whilst there are grants and organisations that support, its not a coordinated approach nationally and very fragments by the states. Redundancy and capacity is not looked at or treated in a silo'ed approach.
Defence needs to support MSE more so due to deliver products cheaper, quicker easier.
Tender process and submission requirements are extremely burdensome and difficult to support for small to medium size enterprises if not partnering with Primes
Over two decades Australia has collapsed it industrial "machine" and struggles to rebuild it. Precision castings, electronics, electro-optical, electroplating, painting etc Nothing can be done without these capabilities.
Focus is on SME and Prime, mid Tier are often left to their own
Need greater range of opportunities and a stable order book at MSE level

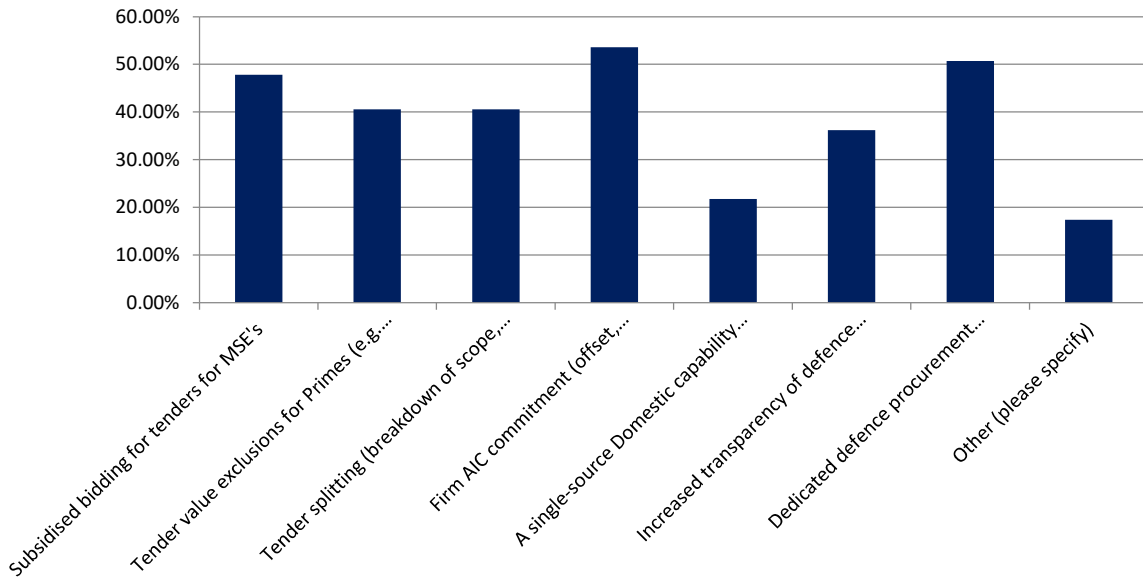
In your opinion, do you think the Australian Defence Sector as a whole is doing enough to enhance and expand domestic MSE participation?



Q10. Which of these potential changes, in your opinion would increase participation in the bidding process for defence contracts in Australia? (can select more than one)

Answer Choices	Responses	
Subsidised bidding for tenders for MSE's	47.83%	33
Tender value exclusions for Primes (e.g. \$20M threshold)	40.58%	28
Tender splitting (breakdown of scope, smaller contracts)	40.58%	28
Firm AIC commitment (offset, Industrialisation etc)	53.62%	37
A single-source Domestic capability catalogue	21.74%	15
Increased transparency of defence procurement statistics	36.23%	25
Dedicated defence procurement representative (engagement, clarifications)	50.72%	35
Other (please specify)	17.39%	12
	Answered	69
	Skipped	10

Which of these potential changes, in your opinion would increase participation in the bidding process for defence contracts in Australia? (can select more than one)

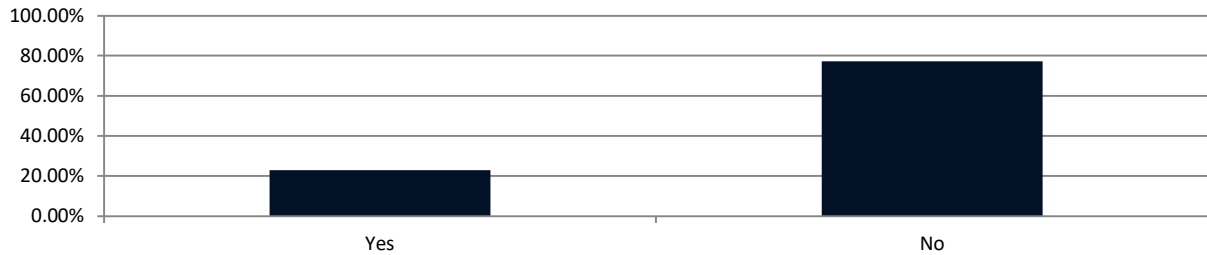


Other (please specify):
Review of ASDEFCON
Overseas suppliers are not held anywhere near accountable for AIC than Australian SMEs are and we are often price checked against international who do not have the bureaucracy red tape that we do. Establishing stronger global export markets and introducing volume to Aus industry would offer better VFM to the AUS customer
Cap the funding for grants for larger companies. Give smaller MSE and SME the investment. \$1m to a small to medium business significantly enhances their capabilities and capacity. Money at this level goes further.
The US have a 10% rebate when contracting to minority-owned businesses (which includes SMEs). This 10% rebate is a great offset for SMEs and/or MSEs when they can't be price competitive. If capabilities and qualifications are there then this government based rebate to the Primes could be the differentiator. It also sets up the environment that 'best and final offers' don't need to be made therefore providing my margin for SMEs and MSEs which could make the contract more sustainable.
Better contract models to ensure MSE viability and standing army costs during dips and delays.
Domestic approach to market before international options are viewed and picked.
I'd caution against implimenting a MSE win, Prime lose model.
Tender value exclusions are a good idea, but assume capability already exists in the ME ecosystem.
Flow down of requirements, but also built in localisation (as required) for sustainment work and transfer of knowledge/know how
Decrease of submission requirements. There is significant effort in creating TDRLs that could be completed post award as CDRLs
A structured plan to rebuild lost capability and protect at risk capability with associated investment, a desire to become an industrial nation once again.
All the unfairly restrict others, Incentives for primes to utilise MSE's is the key

Q11. In your opinion, do you think there is a good understanding of the full capability of MSEs within the Australian Defence Sector?

Answer Choices	Responses	
Yes	22.86%	16
No	77.14%	54
Optional comment field		11
	Answered	70
	Skipped	9

In your opinion, do you think there is a good understanding of the full capability of MSEs within the Australian Defence Sector?



Optional comments:
Quad Charts etc are good but don't demonstrate a companies true capability. Boots on the ground approach does.
JOSCAR is a potential solution but I personally feel 'membership' should have been discounted for the first year to encourage registration
Turnover of Defence personnel in decision making positions is too frequent to get a good understanding; they are reliant on their staff and project offices to do this which creates significant risk. DefenceSA exists in part to fill this gap, to ensure Defence have greater awareness of what is available across industry.
Could always be better and that is the responsibility of the MSEs and the broader ADS.
Can always be better
SAGE is well established across other sectors however, our footprint in defence is still relatively small.
It's known but that does not necessarily result in work being won by that organisation
I selected "no" as it's impossible to quantify what a "good understanding" is when there is so much diversity of suppliers and capability..
when new capability managers or SPO directors are rotated in, products/offersings have to be resold again.
Defences uses what they know. Very difficult to break in. Interaction with the market hides behind the veil of security. Also decisions are too political and not focused on capability.
need to share at Land forces etc the good stories.

Q12. In your opinion, please rate the following statements:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total	Weighted Average
It is common to partner with other organisations if/when we cannot deliver the full capability.	30.43%	53.62%	5.80%	7.25%	2.90%	69	1.99
It is easy to find a suitable partner company to support delivery of the full capability.	4.35%	33.33%	36.23%	24.64%	1.45%	69	2.86
It is widely understood what good partnering looks like and how to achieve it.	2.90%	26.09%	30.43%	34.78%	5.80%	69	3.14
Partnering has commonly lead to a successful tender process.	11.59%	43.48%	31.88%	10.14%	2.90%	69	2.49
						Answered	69
						Skipped	10

In your opinion, please rate the following statements:

