

Design and Implementation of the Defence Export Strategy

Department of Defence

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Canberra ACT
10 September 2020

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Defence. The report is titled the *Design and Implementation of the Defence Export Strategy*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

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Audit snapshot

Auditor-General Report No.6 2020–21

Design and Implementation of the Defence Export Strategy



Why did we do this audit?

- ▶ The Australian Government has stated that ‘a strong, resilient and internationally competitive Australian defence industry is essential to our national security’.
- ▶ The government’s 2018 Defence Export Strategy is intended to implement key recommendations made by the Parliament’s Joint Standing Committee on Foreign Affairs, Defence and Trade, and sets out an ambitious policy agenda to be delivered by 2028, including establishing Australia as one of the top ten global defence exporters.
- ▶ This audit provides the Parliament with independent assurance on Defence’s design process for the strategy and its implementation to date.



Key facts

- ▶ The Defence Export Strategy estimates that the value of Australia’s defence exports is \$1.5 billion to \$2.5 billion a year.



What did we find?

- ▶ The Department of Defence’s design and implementation to date of the Defence Export Strategy has been partially effective.
- ▶ The design process was largely effective.
- ▶ Strategy implementation has been partially effective.
- ▶ Monitoring and reporting on implementation has been partially effective.



What did we recommend?

- ▶ The Auditor-General made one recommendation to the Department of Defence, aimed at extending the Defence Export Strategy’s performance framework and developing an evaluation framework to measure and report on the achievement of the strategy’s overarching goal and specified objectives.
- ▶ The Department of Defence agreed to the recommendation.

\$213 million

has been loaned for defence export finance through the Defence Export Facility as at June 2020.

19

Australia’s rank in global Defence export rankings in 2019, Australia was ranked 20 at the time of the strategy’s release in 2018.

170

companies featured in the 2020 Australian Defence Sales Catalogue. Eight featured in the pre-strategy 2017 catalogue.

Summary and recommendations

Background

1. The Joint Standing Committee on Foreign Affairs, Defence and Trade recommended in November 2015 that the Australian Government develop a 'defence exports strategy' to assist in reducing barriers to defence exports.¹ The Australian Government provided in principle agreement to this recommendation on 1 September 2016. The Australian Government's Defence Export Strategy (the strategy) was launched on 29 January 2018.

2. The strategy sets out a strategic goal and five objectives for the development of defence exports by 2028. The strategy includes 26 initiatives that 'the Government will deliver to help achieve the Strategic Goal and the Objectives of the Strategy'.² Together, the policies and initiatives in the strategy are described as a 'new defence export system'.³ The strategy states that the initiatives will be implemented in two phases, with Phase 1 to be implemented by the end of 2018, and Phase 2 to be implemented by the end of 2019.⁴

Rationale for undertaking the audit

3. The Australian Government has stated that 'a strong, resilient and internationally competitive Australian defence industry is essential to our national security'.⁵ The government's Defence Export Strategy is intended to implement key recommendations made by the Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade in its 2015 report on Australian defence industry and exports, and sets out an ambitious policy agenda to be delivered by 2028, including establishing Australia as one of the top ten global defence exporters. This audit provides the Parliament with independent assurance on Defence's design process for the strategy and its implementation to date, with a particular focus on the initiatives government expected to be delivered by the end of 2018 under Phase 1 of the strategy, and by the end of 2019 under Phase 2.

Audit objective and criteria

4. The objective of the audit was to assess the effectiveness of Defence's design process and implementation to date of the Defence Export Strategy.

5. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

-
- 1 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Principles and practice – Australian defence industry and exports*, November 2015. Barriers to entry that the committee identified were: international market competition and distortions caused by protectionist measures, industry challenges, assistance needed with sponsorships and advocacy and assistance needed selling to the ADF to build business credibility. Available at: https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Defence_Industry_Exports/Report [accessed 18 May 2020].
 - 2 Department of Defence, *Defence Export Strategy*, 2018, p. 15. The initiatives are listed in Appendix 2 of this audit report.
 - 3 *ibid.*, p. 16.
 - 4 *ibid.*, p. 76.
 - 5 *ibid.*, p. 4.

- Did Defence help inform the design of the export strategy with sound and timely policy advice?
- Has Defence established appropriate planning and governance arrangements to support implementation of the strategy?
- Has Defence delivered the phase one and two initiatives set out in the strategy on time and on budget?
- Has Defence established effective arrangements to monitor and report on the implementation of the initiatives under the strategy and achievement of defined objectives?

Conclusion

6. Defence's design and implementation to date of the Defence Export Strategy has been partially effective.

7. The design process was largely effective. In designing the strategy Defence consulted with relevant stakeholders, but not all elements of the strategy had a firm evidentiary basis. Defence did not adequately draw the attention of decision-makers to key risks it had identified. Defence was responsive to government's initial decisions and directions but was unable to meet the timeframes set by the Minister for finalising the strategy.

8. Strategy implementation has been partially effective. While Defence established fit-for-purpose governance arrangements, planning arrangements were not established to appropriately support implementation of the strategy initiatives on time and on budget. Defence did not deliver all Phase 1 and Phase 2 initiatives in accordance with strategy timeframes and has not tracked expenditures relating to the strategy as a whole.

9. Monitoring and reporting on implementation has been partially effective. Defence has established some arrangements for monitoring and reporting on the implementation of initiatives under the strategy, but has not established effective arrangements for measuring the achievement of defined objectives. Defence has not established a performance framework or effective reporting arrangements to measure progress towards achieving the strategy's overarching goal and objectives and, as a result, the extent to which these have been achieved is not clear. Defence has established partially effective arrangements for monitoring and reporting on the implementation of initiatives in the strategy by the Australian Defence Export Office. Formal reporting on implementation progress to the Minister and Defence senior leaders has been limited.

Supporting findings

10. Defence provided government with advice on the approach and rationale for developing a strategy, based on its consultation with government entities and industry. The approach to strategy development agreed by the Minister for Defence Industry was not fully addressed by Defence, with baseline data for defence exports not identified. Options for elements to be included in the strategy were discussed within Defence, the Minister's office was provided drafts for consideration, and the final strategy was presented to the Minister for approval. Available evidence indicates that Defence responded to government's initial decisions and directions in a

timely manner but did not meet the expectation of the Minister in terms of finalising the strategy by September 2017.

11. The strategy objectives and initiatives developed by Defence were largely supported by research and consultation but were not informed by robust defence export data. The inclusion of objective five — growing Australia's defence industry to become a top ten global defence exporter — reflects an announcement by the Minister for Defence Industry, and was not supported by analysis or data. Defence did not clearly map how the strategy initiatives would contribute to the achievement of strategy objectives.

12. Defence considered key risks and mitigation strategies during the strategy's development, such as maintaining a strong export controls system and ensuring a focus on Defence capability outcomes. While Defence provided adequate detail to Defence Ministers, it did not provide all Ministers with adequate detail on risk and implementation challenges to more fully inform their decision-making.

13. Defence has established and implemented fit-for-purpose governance, co-ordination and stakeholder engagement arrangements to support delivery of the strategy. Roles and responsibilities for the strategy's governance and implementation have been clearly identified. Defence has established co-ordination mechanisms within government and arrangements to engage with relevant external stakeholders. Stakeholders interviewed by the ANAO expressed a view that these mechanisms had improved collaboration across government for defence exports.

14. Defence prepared a draft implementation plan which addressed key implementation issues including risks, delivery milestones, roles and responsibilities. However the plan was not finalised or used and implementation was managed through business-as-usual mechanisms. Defence advised that tools such as checklists and 'road maps' were utilised instead to support implementation.

15. Of the eight phase one key milestones, Defence has delivered two initiatives on time, delivered four initiatives between five days and six months late, and not yet completed two initiatives. Defence does not monitor the phase one budget at an initiative level.

16. Of the three phase two initiatives, one initiative was not delivered on time. It is not possible to assess the timeliness for the remaining two initiatives because the strategy does not set out what completion of the initiative would involve. Defence does not monitor the phase two budget at an initiative level.

17. Of the five other key initiatives, Defence has made progress delivering four of these initiatives. The market intelligence capability is yet to be delivered.

18. Defence has not established a performance framework or effective reporting arrangements to measure progress towards achieving the strategy's overarching goal and objectives. As of June 2020, Defence had not established baseline data for defence exports or a methodology for measuring defence exports. At the initiative level, a framework to assess the progress of strategy initiatives has been developed and mechanisms have been implemented for two initiatives to assess achievements and consider lessons learned from their specific activities.

19. There is limited reporting on progress in delivering the strategy to the Minister and Defence senior leaders, to demonstrate that the strategy is contributing to the outcomes that government expects. There is no reporting or publicly available information on Defence's

achievement towards strategy objectives, although there has been public reporting on the progress of some strategy initiatives.

Recommendation

Recommendation no.1 That Defence extend the Defence Export Strategy's performance framework and develop an evaluation framework to measure and report on the achievement of the strategy's overarching goal and specified objectives.
Paragraph 4.6

Department of Defence response: *Agreed.*

Summary of the Department of Defence's response

Defence acknowledges the challenge in measuring achievement of the Defence Export Strategy (the Strategy)'s overarching goal and key objectives without an established defence exports baseline. Establishing a baseline is a complex undertaking and Defence has actively engaged across government, defence industry and the private sector to identify a way forward. The full implementation of the evaluation framework will take several years, allowing for the establishment of a baseline and measurement of changes over time.

As the focal point for coordinating whole-of-government defence export support for Australian defence industry, Defence welcomes the acknowledgement that fit-for-purpose governance, co-ordination and stakeholder engagement arrangements have been established and implemented to support delivery of the Strategy. Since the release of the Strategy in 2018, the Australian Defence Export Office has worked across government to deliver enhanced support to exporters. This has included leading delegations to 19 international tradeshow, recruitment of dedicated international resources, the inclusion of defence industry in Exercise Indo-Pacific Endeavour 2019 and increased industry involvement in the sale of surplus Australian Defence Force assets.

A strong exporting industrial base generates economic growth, creates jobs, and provides the capabilities required by the Australian Defence Force. Defence is committed to the goal of achieving greater export success to build a stronger, more sustainable and more globally competitive Australian defence industry to support Australia's Defence capability needs.

Key messages from this audit for all Australian Government entities

20. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Governance and risk management

- When an entity presents advice to government, it is important to ensure that government is made aware of all relevant facts, and of any risks that may impact on successful policy delivery.

Policy/program design

- When developing objectives for a strategy or program, entities should develop objectives which are measurable and achievable. Where a baseline measurement is required to support the assessment of performance, entities should identify data requirements early, and ensure that adequate data exists.

Policy/program implementation

- When implementing a strategy, an implementation plan can assist with defining what success looks like, and assist in tracking whether initiatives are on time and within budget.
- Where an entity tasks other entities in strategy or program delivery, an entity should develop clear governance and accountability mechanisms to ensure regular communication, promote coordination and reduce duplication.

Performance and impact measurement

- When implementing strategies or new programs, entities should ensure regular reporting to senior leaders, including providing information on progress against timeframes and budget. Reports should include updates on emerging risks and implementation challenges, such as anticipated delays in milestone delivery.

Audit findings

1. Background

Introduction

1.1 The Joint Standing Committee on Foreign Affairs, Defence and Trade recommended in November 2015 that the Australian Government develop a 'defence exports strategy' to assist in reducing barriers to defence exports.⁶ The committee also recommended that defence export assistance be focussed on 'elements of industry output recognised as a fundamental input to capability (FIC)⁷, where defence exports can help sustain or spread production costs.'⁸ The Australian Government provided in principle agreement to these recommendations on 1 September 2016.

The Defence Export Strategy

1.2 The Australian Government's Defence Export Strategy (the strategy) was launched on 29 January 2018. The ministerial statement indicated that the strategy:

... sets out the policy and strategy to make Australia one of the top ten global defence exporters within the next decade.⁹

1.3 In the foreword to the strategy, the Minister for Defence and the Minister for Defence Industry stated that:

A strong, resilient and internationally competitive Australian defence industry is essential to our national security.¹⁰

6 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Principles and practice – Australian defence industry and exports*, November 2015. Barriers to entry that the committee identified were: international market competition and distortions caused by protectionist measures, industry challenges, assistance needed with sponsorships and advocacy and assistance needed selling to the ADF to build business credibility. Available at:

https://www.apf.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Defence_Industry_Exports/Report [accessed 18 May 2020].

7 ANAO comment: The 2016 Defence Industry Policy Statement formally recognised Australian industry as a 'Fundamental Input to Capability'. The policy statement defines Fundamental Inputs to Capability as 'those essential inputs that are combined to achieve capability.' Prior to this, the Fundamental Inputs to Capability were personnel, organisation, collective training, major systems, supplies, facilities and training areas, support, and command and management. Department of Defence, *2016 Defence Industry Policy Statement*, 25 February 2016, p. 19. Available at: <https://www.defence.gov.au/WhitePaper/Docs/2016-Defence-Industry-Policy-Statement.pdf> [accessed 18 May 2020].

8 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Principles and practice – Australian defence industry and exports*, November 2015, p. 124.

9 The Hon Christopher Pyne MP, Minister for Defence, 'Launch of job-creating Defence Export Strategy', 29 January 2018. Available at: <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/launch-job-creating-defence-export-strategy> [accessed 18 May 2020].

10 Department of Defence, *Defence Export Strategy*, 2018, p. 4. Available at: <https://www.defence.gov.au/Export/Strategy/> [accessed 18 May 2020].

Purpose

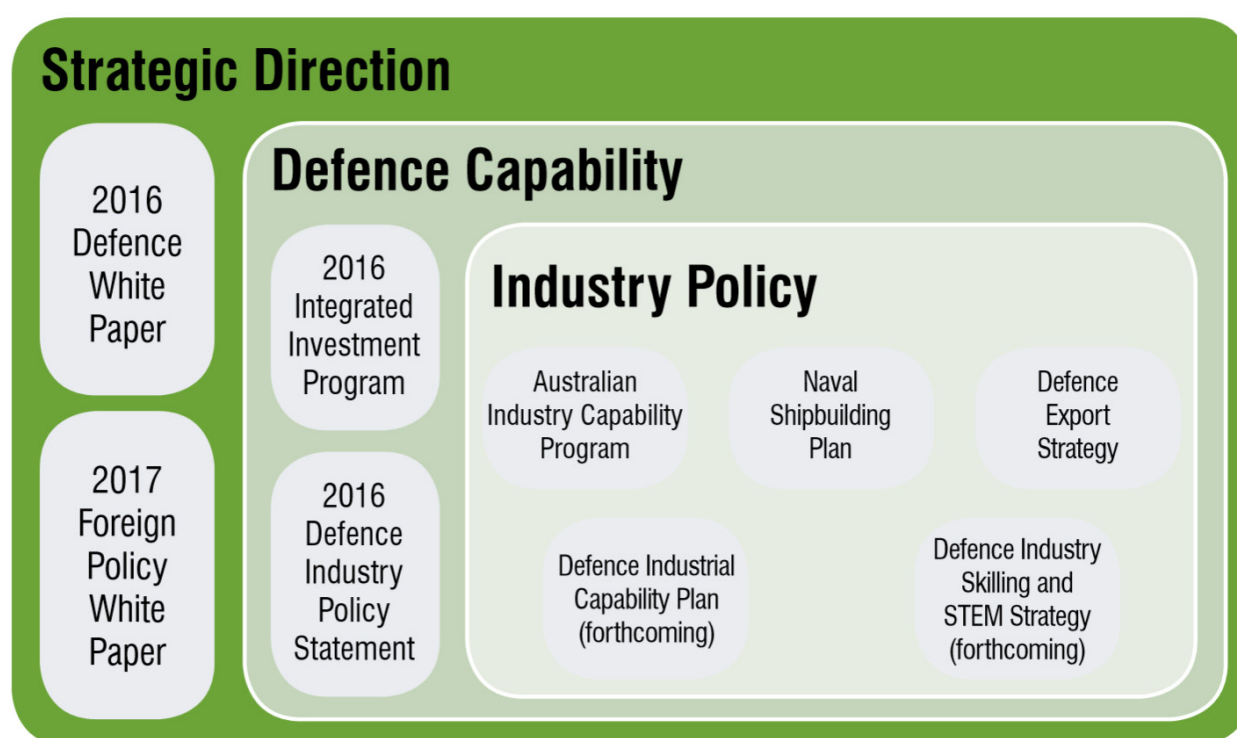
1.4 The strategy's statement of purpose indicates that:

The Defence Export Strategy (the Strategy) is part of Government's defence industry policy to deliver the Defence capability necessary to achieve the strategy set out in the *2016 Defence White Paper*. The *2016 Defence Industry Policy Statement* laid out Government's plan to reset the Defence-industry relationship and establish Australian defence industry as a Fundamental Input to Capability.¹¹

The *2016 Defence Industry Policy Statement* recognised that enabling better access to global markets for Australian defence industry not only makes economic sense — it makes strategic sense in building the capability, skills, and resilience of industry to fulfil its role of supporting Defence capability. The Strategy builds on the *2016 Defence Industry Policy Statement* by setting out a comprehensive system to plan, guide, and measure defence export outcomes.¹²

1.5 The strategy was part of a suite of defence policies illustrated in Figure 1.1.¹³

Figure 1.1: Related Defence policies



Source: Department of Defence, *Defence Export Strategy*, 2018, p. 13.

11 *ibid.*, p. 11.

12 *ibid.*, p. 11.

13 The relationship between the strategy and other Defence policies is summarised in Appendix 3 of this audit report.

Strategic Goal and the five Objectives

1.6 The strategy states that:

As part of the Government's vision for Australian defence industry to 2028, the Strategic Goal for defence exports is to: *Achieve greater export success to build a stronger, more sustainable and more globally competitive Australian defence industry to support Australia's Defence capability needs.*¹⁴

1.7 In support of the Strategic Goal, the strategy indicates that the Australian Government has: ... set five Objectives for the development of defence exports by 2028:

- strengthen the partnership between the Australian Government and industry to pursue defence export opportunities;
- sustain Australia's defence industrial capabilities across peaks and troughs in domestic demand;
- enable greater innovation and productivity in Australia's defence industry to deliver world-leading Defence capabilities;
- maintain the capability edge of the ADF [Australian Defence Force] and leverage Defence capability development for export opportunities; and
- grow Australia's defence industry to become a top ten global defence exporter.¹⁵

Initiatives to deliver the Strategic Goal and Objectives

1.8 The strategy sets out 26 initiatives that 'the Government will deliver to help achieve the Strategic Goal and the Objectives of the Strategy'.¹⁶ Together, the policies and initiatives in the strategy are described as a 'new defence export system'.¹⁷

1.9 The strategy further states that:

At the centre of this integrated system, the Government will establish a new Australian Defence Export Office within the Department of Defence in the first quarter of 2018. The Office will provide an enduring advocacy, market intelligence, and Government-to-Government sales capability. The Office will also provide a focal point for Australian defence exports and coordinate international engagement. The Office will be supported by the Australian Defence Export Advocate who will undertake senior-level advocacy and stakeholder engagement to support defence exports.¹⁸

Implementation milestones

1.10 The strategy states that the initiatives will be implemented in two phases:

- Phase 1, to be implemented by the end of 2018 — 'will focus on setting up the institutional arrangements to support defence exports, including the Australian Defence Export Office, and providing advocacy for time critical export opportunities. There will be further work

14 *ibid.*, p. 13.

15 *ibid.*, p. 14. The five objectives are examined in further detail in chapter 2 of this audit report.

16 *ibid.*, p. 15. The initiatives are listed in Appendix 2 of this audit report.

17 *ibid.*, p. 16.

18 *ibid.*, p. 16.

with stakeholders to put in place plans for strategic multi-year campaigns and detailed planning for the roll out of initiatives in Phase 2.’

- Phase 2, to be implemented by the end of 2019 — ‘will focus on implementing initiatives that will raise the export potential of Australian defence industry over the medium to long-term and embed whole-of-government support for defence exports.’¹⁹

1.11 The strategy documents the following key milestones to establish the new defence export system (Table 1.1).²⁰

Table 1.1: Key milestones to establish the new defence export system

Phase 1		
2018	First quarter (January to March)	Stand-up the Australian Defence Export Office
		Appoint the Australian Defence Export Advocate
		Publish expanded Australian Military Sales Catalogue
	April	Establish Memorandum of Understanding between the Australian Defence Export Office and Austrade
	June	Convene the first Defence Export Forum meeting
	July	Establish guidelines for grants to build the capability of SMEs (small to medium enterprises) to compete internationally ^a
	September	Roll out defence export training for Australian Defence Attachés
	December	Establish additional positions overseas to support defence exports
Phase 2		
2019	January	Begin roll out of strategic multi-year export campaigns
	June	Strengthen consideration of export opportunities as part of Foreign Military Sales and Cooperative Programs
	December	Integrate earlier identification of export opportunities into Defence capability development processes

Note a: While the strategy does not define small to medium enterprises, the *Defence Industrial Capability Plan*, developed by Defence in parallel to the strategy, considers small to medium enterprises to be businesses employing less than 200 employees, consistent with the definition used by the Australian Bureau of Statistics.

Source: ANAO representation of Department of Defence, *Defence Export Strategy*, 2018, p. 76.

Entities involved in delivering the strategy

1.12 The strategy notes that in addition to the new Australian Defence Export Office (the export office) within the Department of Defence, implementation of the strategy involves: the Australian Trade and Investment Commission (Austrade); the Centre for Defence Industry Capability (CDIC)

¹⁹ *ibid.*, p. 76.

²⁰ Chapter 3 of this audit report examines whether the initiatives were implemented on time and on budget.

within the Department of Industry, Science, Energy and Resources; the Department of Home Affairs; the Department of Foreign Affairs and Trade; and Export Finance Australia.²¹

Defence industry and exports

Defence industry

1.13 The strategy defines Australian defence industry as consisting of Australian businesses with an ABN and certain New Zealand entities which are providing or have the capacity to provide defence-specific or dual-use goods or services in a supply chain that leads to Defence or an international Defence force.²² The *Defence Industrial Capability Plan* expands the definition to include Australian-based industrial capability (such as Australian company and board presence, skills base, value-add work in Australia, and infrastructure).²³

1.14 The *Defence Industrial Capability Plan* states that in Australia the defence industry consists of 'large global Defence companies (primes), their major subcontractors (sub-primes), relatively few medium-sized businesses and a large and wide base of SMEs with fewer than 25 employees.'²⁴ Australian defence industry is also characterised as including the manufacture and sale of weapons and military technology, supply or manufacture of component materials used in military equipment, logistical support, information and communications technology, military and defence training, facilities and infrastructure construction, engineering and other specialist consulting services.²⁵

1.15 Defence industry companies export a range of platforms, components, products and services. Table 1.2 below includes examples of publicly reported Australian defence industry exports.

Table 1.2: Examples of products that Australian defence industry companies export

Date reported	Company name	Product exported	Country of export	Reported value
June 2018	DroneShield	70 DroneGuns, reported to disable drones electronically	Unspecified Middle Eastern country	\$3.2 million
June 2018	Ferra Engineering	Submarine optronics mast components	Scotland	Unknown
September 2018	Austal	Two Independence Class Littoral Combat Ships	United States	Unknown

21 Export Finance Australia was known until 1 July 2019 as the Export Finance and Insurance Corporation (Efic). The Defence Export Facility, which is discussed in paragraphs 3.28–3.31 of this audit report, was examined in Auditor-General Report No.44 2018–19 *Effectiveness of the Export Finance and Insurance Corporation*. The audit found that Efic had established the facility, and was providing the defence export sector with support in line with Australian Government objectives.

22 Department of Defence, *Defence Export Strategy*, 2018, p. 11. Dual-use goods comprise equipment and technologies developed to meet commercial needs but which may be used either as military components, or for the development or production of military systems or weapons of mass destruction. See Division 2, Defence and Strategic Goods List 2019, 21 March 2019. Available at: <https://www.legislation.gov.au/Details/F2019L00424> [accessed 18 May 2020].

23 Department of Defence, *Defence Industrial Capability Plan*, 2018, p. 11.

24 *ibid.*, p. 123.

25 *ibid.*, pp. 125–6.

Date reported	Company name	Product exported	Country of export	Reported value
November 2018	Pivot Maritime	Naval simulator system	Unknown	\$1 million
February 2020	GaardTech	Range of 2D and 3D, fixed and mobile targets	United Kingdom	Unknown
2006–2020	Thales Australia	172 Bushmaster Protected Mobility Vehicles	Fiji, Indonesia, Japan, Netherlands and United Kingdom	Unknown

Source: ANAO analysis of publicly available information and Defence advice.

Defence exports

1.16 The strategy defines Australian defence exports as any defence-specific or dual-use goods or services exported by Australian defence industry, including as part of a supply chain, that are intended for a defence or national security end-user.²⁶ The strategy estimates that the value of Australia's defence exports is \$1.5 billion to \$2.5 billion a year, 'acknowledging that large export contracts can significantly affect the total from year-to-year.'²⁷

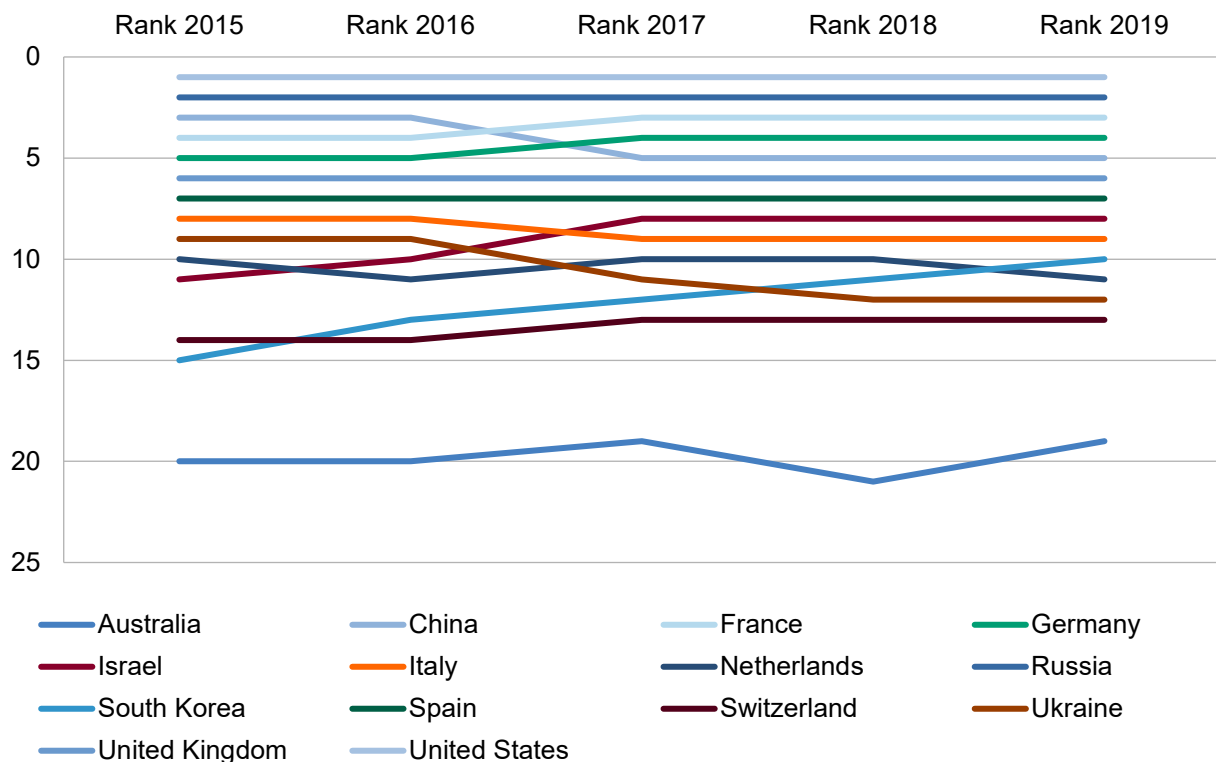
1.17 Global rankings for Australia and the top ten defence exporting countries for the period January 2015 to December 2019 are shown in Figure 1.2 below (see Appendix 4 for additional detail). The strategy indicates that Australia was ranked 20th in global defence export rankings at the time of its launch in January 2018, on the basis of the international SIPRI index.²⁸ As illustrated in Figure 1.2, the SIPRI index indicates that Australia was ranked 19th in 2019.

26 Department of Defence, *Defence Export Strategy*, 2018, p. 11.

27 *ibid.*, p. 34. To produce this estimate, the strategy draws on the 'indicators' of export permits for military goods issued (valued at \$1.5 billion in 2016) and research undertaken by the Australian Bureau of Statistics commissioned by the Department of Defence (a survey of approximately 2,700 businesses within Australia's defence industrial base from 2013–14).

28 Defence cites the Stockholm International Peace Research Institute (SIPRI) ranking in the strategy. Defence's ranking at the time of strategy launch (20th) was based on SIPRI's 2016 rankings, released in 2017. This ranking is based on arms transfers which relate to major conventional weapons. SIPRI identifies limitations in the data, which it states depends on publicly available data sources which do not always agree. This ranking uses five year average data, intended to provide a stable measure that accounts for annual fluctuations in arms delivery. Rankings are included in SIPRI's annual publication: 'trends in international arms transfers'. SIPRI also publishes year-on-year data that provides a snapshot of what arms transfers took place in each year. SIPRI's year on year data is publicly available at: <http://armstrade.sipri.org/armstrade/page/toplist.php> [accessed 2 July 2020].

Figure 1.2: Countries ranked top ten for transfers of major weapons in the SIPRI index in 2015–19 compared to Australia



Source: ANAO analysis of SIPRI five year average data.

Administrative arrangements

1.18 The Defence Industry Policy Division within Defence's Strategic Policy and Intelligence Group is responsible for the strategy's implementation. As mentioned in paragraph 1.9, an initiative of the strategy was the establishment of the export office to coordinate whole-of-government defence export efforts. The export office's responsibilities also include support of the Australian Defence Export Advocate, whose role is to undertake domestic stakeholder engagement with industry and government and provide high-level international advocacy for Australian defence exports.

1.19 The export office has three directorates²⁹ overseen by an Executive Director, with a 2019–20 budget of approximately \$16 million (see Table 1.3). The export office's 2018–19 budget was approximately \$20 million, with approximately \$5 million spent. Defence advised the ANAO that this underspend was a result of the time required to recruit staff to positions and commence implementation of strategy initiatives.

²⁹ Two of these directorates, Team Defence Australia and Australian Military Sales, were transferred into the Defence Export Office from the Centre for Defence Industry Capability and other areas of Defence.

Table 1.3: Australian Defence Export Office staff and budget^a

Directorate/Office	Staff numbers	2018–19 Budget	2018–19 Actuals	2019–20 Budget
Office of the Executive Director	1	18,013,000	\$698,000	0 ^b
Team Defence Australia	6	0 ^c	\$2,787,000	\$7,200,000
Policy and Engagement	8	482,000	\$173,000	\$8,200,000
Australian Military Sales ^d	5	2,000,000	\$1,676,000	\$650,000
Total	20	20,495,000	5,334,000	\$16,050,000

Note a: The staff numbers are correct as of October 2019, and are full time equivalent Australian Public Service (APS) staff. The budget figures are for 2019–20.

Note b: The Office of the Executive Director did not include a separate budget from 2019–20.

Note c: Team Defence Australia was initially in the Centre for Defence Industry and Capability (CDIC) in the Department of Industry, Innovation and Science (now the Department of Industry, Science, Energy and Resources).

Note d: In addition to the APS staff included in the table, Australian Military Sales engages four Military Reservists on a part-time basis to provide support in government-to-government transactions.

Source: ANAO analysis of Department of Defence data.

1.20 Defence further advised the ANAO that from March 2020 the operations of the export office were impacted by overseas and domestic travel restrictions introduced by the Australian and international governments in response to the COVID-19 pandemic. Impacts included the cancellation of planned activities, including those of the Australian Defence Export Advocate, and the impairment of government-to-government sales activities.³⁰ On 28 April 2020 the Minister for Defence Industry directed Defence to discuss with the Minister's office a strategy for the Australian Defence Export Advocate to 'boost support' for Australian Defence companies after the pandemic.

Rationale for undertaking the audit

1.21 The Australian Government has stated that 'a strong, resilient and internationally competitive Australian defence industry is essential to our national security.'³¹ The government's Defence Export Strategy is intended to implement key recommendations made by the Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade in its 2015 report on Australian defence industry and exports, and sets out an ambitious policy agenda to be delivered by 2028, including establishing Australia as one of the top ten global defence exporters. This audit provides the Parliament with independent assurance on Defence's design process for the strategy and its implementation to date, with a particular focus on the initiatives government expected to be delivered by the end of 2018 under Phase 1 of the strategy, and by the end of 2019 under Phase 2.

30 Other impacted activities relate to Team Defence Australia. As discussed in chapter 3 of this audit report, the strategy involves the expansion of the Team Defence Australia initiative which coordinates Australian defence industry attendance at international trade shows and trade delegations.

31 Department of Defence, *Defence Export Strategy*, 2018, p. 4.

Audit approach

Audit objective, criteria and scope

1.22 The objective of the audit was to assess the effectiveness of Defence's design process and implementation to date of the Defence Export Strategy.

1.23 To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Did Defence help inform the design of the export strategy with sound and timely policy advice?
- Has Defence established appropriate planning and governance arrangements to support implementation of the strategy?
- Has Defence delivered the phase one and two initiatives set out in the strategy on time and on budget?
- Has Defence established effective arrangements to monitor and report on the implementation of the initiatives under the strategy and achievement of defined objectives?

1.24 The audit focused on Defence's administration and did not examine the Department of Industry, Science, Energy and Resources' administration of the Centre for Defence Industry Capability.

Audit methodology

1.25 Audit procedures included:

- the review of key documents related to the development, implementation, co-ordination and monitoring of the strategy, including advice to government;
- the analysis of defence export data;
- discussions with relevant Defence personnel, the Australian Defence Export Advocate, and Australian Government entities involved in the strategy's development and implementation; and
- interviews with external stakeholders, including the Australian Strategic Policy Institute, state and territory government representatives and defence industry bodies.

1.26 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$422,212.

1.27 The team members for this audit were Kelly Williamson, James Woodward, Tara Rutter and Sally Ramsey.

2. Design of the Defence Export Strategy

Areas examined

This chapter examines whether the Department of Defence (Defence) helped inform the design of the export strategy with sound and timely policy advice.

Conclusion

The design process was largely effective. In designing the strategy Defence consulted with relevant stakeholders, but not all elements of the strategy had a firm evidentiary basis. Defence did not adequately draw the attention of decision-makers to key risks it had identified. Defence was responsive to government's initial decisions and directions but was unable to meet the timeframes set by the Minister for finalising the strategy.

2.1 To assess whether Defence helped inform the design of the export strategy with sound and timely policy advice, the following matters were examined by the ANAO:

- Did Defence provide timely, evidence-based advice and options to government regarding the Defence Export Strategy?
- Were the strategy objectives and initiatives developed by Defence supported by appropriate evidence and analysis?
- Was adequate detail on risk and implementation challenges communicated to government to support an informed decision, including: consideration of compliance obligations such as export controls; and export targets?

Did Defence provide timely, evidence-based advice and options to government regarding the Defence Export Strategy?

Defence provided government with advice on the approach and rationale for developing a strategy, based on its consultation with government entities and industry. The approach to strategy development agreed by the Minister for Defence Industry was not fully addressed by Defence, with baseline data for defence exports not identified. Options for elements to be included in the strategy were discussed within Defence, the Minister's office was provided drafts for consideration, and the final strategy was presented to the Minister for approval. Available evidence indicates that Defence responded to government's initial decisions and directions in a timely manner but did not meet the expectation of the Minister in terms of finalising the strategy by September 2017.

2.2 Defence commenced work on the defence export strategy in July 2016. Development of a 'defence exports strategy' had been recommended by the Joint Standing Committee on Foreign Affairs, Defence and Trade in November 2015³², and existing government policy had noted defence export barriers and potential solutions, such as enhanced government support for exports.³³ For

32 The committee's two recommendations related to the strategy are discussed in paragraph 1.1 of this audit report.

33 Defence industry policy is summarised in Appendix 3 of this audit report.

example, the *2016 Defence Industry Policy Statement* released on 24 February 2016³⁴ included ‘driving competitiveness and export potential’ as one of its four key policy elements³⁵, and identified a need to improve access to defence export markets for strategic purposes through government intervention. A peak body³⁶ provided Defence with a proposed export strategy in July 2016, which suggested that a new organisation be created to support defence exports, similar to the United Kingdom’s defence export organisation.

2.3 In designing the defence export strategy, Defence:

- undertook scoping work and sought stakeholder views to inform the strategy’s design; and
- engaged with ministers on the development of the draft strategy.

Scoping work and consultation to inform the strategy

2.4 Defence developed a scoping paper that was circulated to key stakeholders in November 2016.³⁷ It identified Defence as the lead entity in a proposed whole-of-government approach to the identification and support of defence exports and set out five key challenges that were to be addressed in the strategy planning stage. These challenges, and the ANAO’s assessment of how they were addressed, are set out in Table 2.1 below.

Table 2.1: Scoping paper key challenges

No.	Scoping paper challenges	ANAO analysis of how the challenge has been addressed
1	The lack of an internationally agreed definition or measurement for defence exports.	Challenges 1 and 3 relate to the measurement of defence exports. Although the strategy did not resolve the challenge of a lack of an internationally agreed definition for defence exports, it did provide its own definition.
2	The scope of the strategy, which may depend on the definition of a defence export.	This challenge relates to what the strategy should include, and is linked to the above challenge of defining a defence export. Scope was determined through internal and external consultation.

34 <https://www.minister.defence.gov.au/minister/marise-payne/media-releases/prime-minister-and-minister-defence-2016-defence-white-paper> [accessed 11 June 2020]

35 Department of Defence, *2016 Defence Industry Policy Statement*, 2016, pp. 10–11. The other elements are: ‘delivering Defence capability’, ‘a new approach to Defence innovation’ and ‘cutting red tape’.

36 The Australian Industry Group Defence Council.

37 Internal stakeholders included relevant Defence Division and Branch Heads. External stakeholders included: the Centre for Defence Industry Capability, the Department of the Prime Minister and Cabinet, the Department of Foreign Affairs and Trade, AusTrade, the Department of Immigration and Border Protection, the Department of Finance, state and territory governments, and peak bodies including the Australian Industry Group and Australian Business Defence Industry.

No.	Scoping paper challenges	ANAO analysis of how the challenge has been addressed
3	The need for baseline information and a greater understanding of what defence industry's export development needs are.	Challenges 1 and 3 relate to the measurement of defence exports. This challenge was not resolved during the planning stage despite being specifically referred to in the strategy development approach agreed by the Minister (see paragraph 2.13 of this audit report). The challenge was addressed through strategy initiatives to: <ul style="list-style-type: none"> • develop a market intelligence capability; and • establish strengthened measures of Australian defence exports as part of an annual survey.
4	How to maximise defence exports through Defence's innovation and capability development process, and capitalise on emerging technologies with export potential.	Challenges 4 and 5 relate to how best to target effort. This challenge was not resolved during the planning stage but was addressed through a strategy initiative: integrate earlier identification of export opportunities within Defence business practices, including for sensitive technologies.
5	How to prioritise support and determine criteria for assistance, such as in support of sovereign industrial capabilities and the management of sensitive technologies.	Challenges 4 and 5 relate to how best to target effort. This was not resolved during the planning stage, or directly addressed in the strategy, but is addressed through the processes of some strategy initiatives. For example, the expanded Team Defence Australia program and Australian Military Sales Catalogue have prioritisation processes that consider sovereign industrial capabilities and sensitive technologies.

Source: ANAO analysis of Defence documents.

2.5 The scoping paper discussed the lack of baseline data for defence exports, with no category for defence industry captured within the Australian Bureau of Statistics data, and no single source of information to enable an understanding of what comprises defence industry and what it exports. The paper proposed engagement with other Australian government entities to develop a method for measuring defence exports and establishing a base of defence export information as an early priority, to underpin the strategy and inform its performance measures. The paper also discussed that a strategy would mean a change of approach for the Australian Government and Defence, as they had not routinely advocated for defence exports, or been in a position of having to make decisions on who to support when Australian companies compete in the same export market(s).

2.6 Defence used the scoping paper to structure discussion with defence industry (through peak bodies), other Australian Government entities and state and territory governments.³⁸ Defence records indicate that the Minister for Defence Industry (the Minister) also sought the views of a defence industry company (Austal Limited) in December 2016, and received suggestions for the strategy.³⁹ Defence documentation does not record direct consultation by the Minister with other firms.

38 Defence engaged with state and territory representatives through a working group established in September 2016 to focus on development of the export strategy. The working group met in November 2016 and May 2017.

39 The suggestions included that a 'Defence Exports Agency' be established to provide a single point of coordination across government for defence exports, and an 'Export Ambassador' be appointed to assist with driving international level export activity.

2.7 Defence Export Controls within the Department of Defence⁴⁰ was consulted throughout the strategy development process and provided input to the draft strategy. The Minister's office was also consulted, and provided with drafts of the strategy.

2.8 Table 2.2 below outlines Defence's consultation with Australian government entities.

Table 2.2: Consultation with Australian government entities

Entity	Scoping paper shared	Initial draft strategy shared	Final draft strategy shared
AusTrade	✓	✓	✓
Department of Finance	✓	✓	✓
Department of Foreign Affairs and Trade	✓	✓	✓
Department of Immigration and Border Protection ^a	✓	✓	✓
Department of Industry, Innovation and Science ^b (through the Centre for Defence Industry Capability)	✓	✓	✓
Department of the Prime Minister and Cabinet	✓	✓	✓
Export Finance and Insurance Corporation ^c	—	✓	✓
Department of the Treasury	—	✓	✓

Note a: In December 2017 the Department of Immigration and Border Protection became the Department of Home Affairs.

Note b: In February 2020 the Department of Industry, Innovation and Science became the Department of Industry, Science, Energy and Resources.

Note c: On 1 July 2019 the Export Finance and Insurance Corporation become Export Finance Australia.

Source: ANAO analysis of Defence records.

2.9 Of the six Australian government entities which received the scoping paper, four provided written feedback. Feedback covered areas such as: the need to obtain defence export data, as well as an understanding of defence trading partners; the need for alignment with other areas of Australian government and Defence policy; the importance of clarity around roles and responsibilities under the strategy; and how the strategy would interact with existing defence export initiatives across government.

Ministerial engagement on the strategy's development

2.10 Defence provided ministerial advice on strategy development and the rationale for a strategy. The recipients and the content of briefings is set out in Table 2.3 below.

40 Defence Export Controls is responsible for regulating the export of defence and strategic goods and technologies. This involves the assessment of potential exports against the following criteria: international obligations, human rights, regional security, national security and foreign policy considerations, and the issuing of export permits. Australia's export controls system is further discussed in Box 1 below.

Table 2.3: Briefs to ministers regarding strategy development

Date advice provided	Recipient	Purpose of advice and rationale presented	Approval
17/1/2017	Minister for Defence Industry	Defence advised that it was formulating a whole-of-government strategy for defence exports.	N/A — advice only
29/5/2017	Minister for Defence Industry	Defence proposed an approach to strategy development. The advice placed the strategy in the context of the 2016 Defence White Paper and 2016 Defence Industry Policy Statement, which Defence advised 'highlighted the importance of a strong, sustainable and internationally competitive Australian industry to deliver future Defence capability.' A need for better access to global markets was identified as the rationale for a strategy. This was to achieve a primary purpose of advancing Australia's strategic interests by better enabling Australian industry to deliver Defence capability, with a secondary economic benefit.	Yes — 15/6/2017, with Ministerial direction provided, as discussed in paragraphs 2.14–2.15 of this audit report
14/11/2017	Minister for Defence Industry and Minister for Defence	Defence provided the proposed strategy for approval. The rationale for a strategy aligned with the May 2017 advice, regarding a need for better access to global markets to build the capability, skills and resilience of industry to support Defence capability.	Yes — 23/11/2017 and 16/11/2017

Source: ANAO analysis of ministerial briefs.

2.11 Following Defence's initial advice to the Minister in January 2017, the Minister announced an intention to develop the strategy, in a speech to the Menzies Research Centre on 14 February 2017.

2.12 On 3 May 2017, Defence's Strategic Policy Committee was presented with a proposal to develop the strategy in three phases.⁴¹ Advice to the committee emphasised that the strategy should be driven by Defence's capability needs.⁴² The proposal also reflected Defence's assessment of the need to collect data and establish a baseline, consistent with challenges 1 and 3 identified in the scoping paper (see Table 2.1 above). The committee approved this approach.

2.13 On 29 May 2017, Defence provided the Minister with a proposed strategy development approach, consistent with the three phase approach presented to the Defence Strategic Policy Committee:

- Phase 1: gather data to guide an effective strategy, recognising a need for a stronger understanding of the baseline for defence exports, to be completed by July 2017;

41 The Defence Strategic Policy Committee is Defence's forum for senior-level consideration of key issues related to Defence policy. Its membership includes the Secretary of Defence (Chair), Chief of the Defence Force, Associate Secretary, Vice Chief of the Defence Force, Deputy Secretary Strategic Policy and Intelligence, First Assistant Secretary Strategic Policy, First Assistant Secretary International Policy, Head Military Strategic Commitments and Head Military Strategic Plans.

42 The advice did not refer to the Joint Standing Committee on Foreign Affairs, Defence and Trade's 2015 report discussed in paragraph 2.2 of this audit report. The focus on Defence's capability needs in the advice was broadly consistent with the Parliamentary committee's recommendation that export support be prioritised in accordance with Defence's capability needs.

- Phase 2: analyse Australia's current approach to defence exports and develop options for the strategy, to be completed by August 2017; and
- Phase 3: finalise the proposed strategy and whole-of-government consultation prior to government consideration and public release, to be completed in the final quarter of 2017.

2.14 The Minister approved the proposed approach, with an adjusted strategy finalisation date of September 2017. The Minister's response to Defence's 29 May 2017 advice included a direction that Defence implement:

... a new exports division or agency within Defence, led by a senior person, chosen in consultation with the Minister.

2.15 While subsection 58(8) of the *Public Service Act 1999* (the Act) makes provision for a Minister to be consulted on the appointment of a departmental secretary, the Act does not otherwise recognise a role for ministers in the selection or appointment of Australian Public Service (APS) staff. Defence advised the ANAO that it did not formally advise the Minister on the operation of the Act in regards to APS staff selections following receipt of the Minister's direction. Defence also advised that:

While the Minister gave direction at an early stage of development of the Defence Export Strategy it was before particular organisational models had been considered. The Minister for Defence Industry did not play a role in the selection process for the Executive Director of the Australian Defence Export Office.

2.16 In the event, Defence did not establish a new exports division or agency. Instead, it established an office within an existing branch in April 2018.⁴³ To inform its decision-making, Defence developed models for how an organisation that supports the strategy could be structured, based on its review of international models and the existing Defence export support system. Defence advised the ANAO that the proposed models were presented to the relevant Deputy Secretary, who then discussed them with the Secretary. The Secretary was then provided with a draft strategy and details of proposed elements, including costings, for the strategy. Defence further advised that the Secretary agreed in principle to the proposed option of creating an export office within Defence.

2.17 Resourcing for the export office was approved in principle by the Defence Committee⁴⁴ on 6 November 2017 (further discussed in paragraph 2.18 below).

Strategy finalisation and approval

2.18 Defence was not able to meet the September 2017 strategy finalisation date set by the Minister (discussed in paragraph 2.14 above). On 30 October 2017, the Defence Committee was presented with a draft strategy, the proposed export office organisational structure and a funding breakdown for proposed strategy initiatives.⁴⁵ The papers presented to the committee did not

43 The establishment of the Defence Export Office is set out in Table 3.1 on p. 44 of this audit report.

44 The Defence Committee is Defence's primary executive committee, responsible for setting top-level organisational goals and driving delivery of Defence's commitments to government and the community. Its membership includes the Secretary of Defence (chair), Chef of the Defence Force, Associate Secretary, Vice Chief of the Defence Force, Deputy Secretary Strategic Policy and Intelligence, and Chief Finance Officer.

45 The funding breakdown included information on the value of existing initiatives related to the strategy (approximately \$11 million) and additional funding sought under the strategy (\$20 million).

discuss any risks or the previously identified challenges, such as the challenges in finding appropriate data. The committee approved in principle the release of the strategy for final consideration by the Ministers for Defence and Defence Industry, pending changes requested by the committee.⁴⁶ The committee also:

- approved in principle the establishment of the export office, with consolidation of existing staff, an additional 10 FTE, and establishment of a senior level Defence Export Advocate;
- approved in principle resourcing of \$20 million additional per annum⁴⁷;
- noted that the Minister for Defence Industry would write to relevant Ministers to obtain approval for public strategy release; and
- noted the likely launch date for the strategy of 13 December 2017.

2.19 On 14 November 2017, Defence presented the Minister for Defence Industry and the Minister for Defence with a draft strategy that the Ministers approved on 16 November and 23 November 2017 respectively. Defence's covering brief noted that obtaining government approval by the end of 2017 would be 'very difficult'.⁴⁸ The brief indicates that Defence was not able to fully meet the approach to strategy development agreed by the Minister (see paragraph 2.13 above), as the department was unable to develop a 'robust baseline' for defence export measurement.

2.20 Defence prepared a draft submission for the Minister to support the government's decision, which was approved by the Secretary and Chief of the Defence Force (CDF) on 17 November 2017. In the event, the submission was not finalised as the government decided on 17 November 2017 that the strategy be considered through an exchange of letters with the Prime Minister and Treasurer. As part of this process, the strategy was also provided to the following ministers for agreement:

- the Minister for Foreign Affairs;
- the Minister for Industry, Innovation and Science;
- the Minister for Finance;
- the Minister for Trade, Tourism and Investment; and
- the Minister for Immigration and Border Protection.

2.21 The ministers listed above received advice that the strategy built on Defence's strategic policy framework and aligned with the strategic interest of developing 'Defence capability'. The advice did not highlight the challenges Defence had identified in finding appropriate data to support

46 The committee asked for industry examples within the strategy to be checked for accuracy, to include recent photos and to be clear on any cost offsets request, and any implications for Defence to cover costs.

47 The \$20 million funding was to be in addition to baseline funding for existing initiatives within or funded by Defence that supported defence exports, including the Centre for Defence and Industry Capability, Team Defence Australia, and the Global Supply Chain program. The committee was advised that the existing initiative funding was approximately \$11 million.

48 Defence advised the Minister for Defence Industry and Minister for Defence that if the strategy went to government, it was unlikely to be released before the end of 2017. The Minister for Defence Industry had provided earlier direction that the strategy be implemented by the third quarter of 2017.

the strategy.⁴⁹ The strategy was agreed to by these ministers by 7 December 2017. Defence advised the ANAO that a record of the Treasurer's response could not be located.

2.22 The Prime Minister provided support for the strategy on 8 December 2017, and requested that its release be delayed until January 2018 to allow more time for finalisation of the Defence Export Facility⁵⁰ and further alignment between the concept of sovereignty set out in the strategy and that set out in the Defence Industrial Capability Plan.⁵¹ In response to the Prime Minister's request, the Minister for Defence Industry and the Minister for Trade, Tourism and Investment provided:

- a commitment to work with the Prime Minister on a launch date;
- assurance that potential Defence Export Facility loans would be brought to government for consideration; and
- assurance of strategy alignment with the Defence Industrial Capability Plan, which was to be the vehicle for explaining Defence's approach to sovereignty.

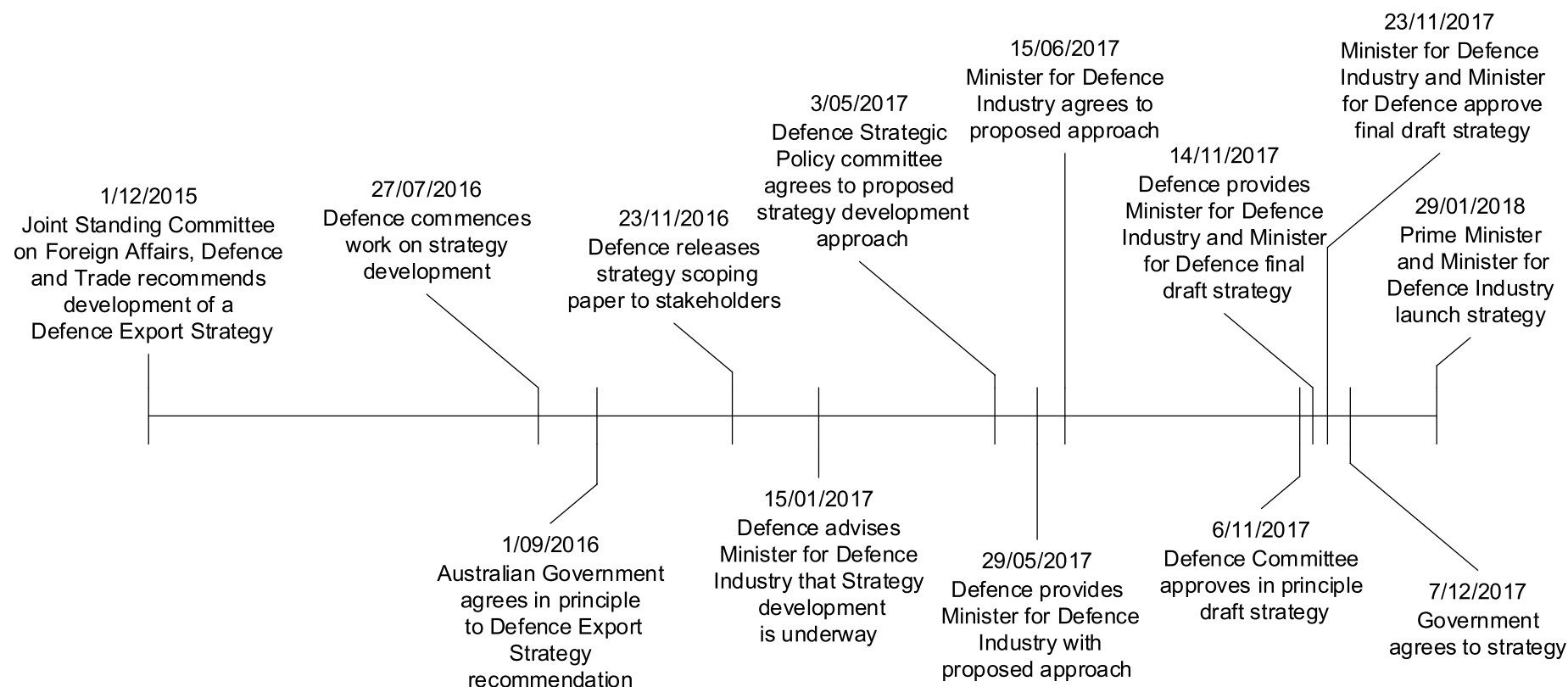
2.23 The timeline for strategy development and approval discussed in this chapter is set out in Figure 2.1 on the following page.

49 Limitations in data are discussed in paragraphs 2.29–2.31 of this audit report.

50 The Defence Export Facility was approved by the government on 15 November 2017, with final details to be settled by the Minister for Defence Industry and the Minister for Trade, Tourism and Investment. It is discussed further in paragraphs 3.28–3.31 of this audit report.

51 The Defence Industrial Capability Plan was released on 23 April 2018.

Figure 2.1: Timeline for strategy development and approval



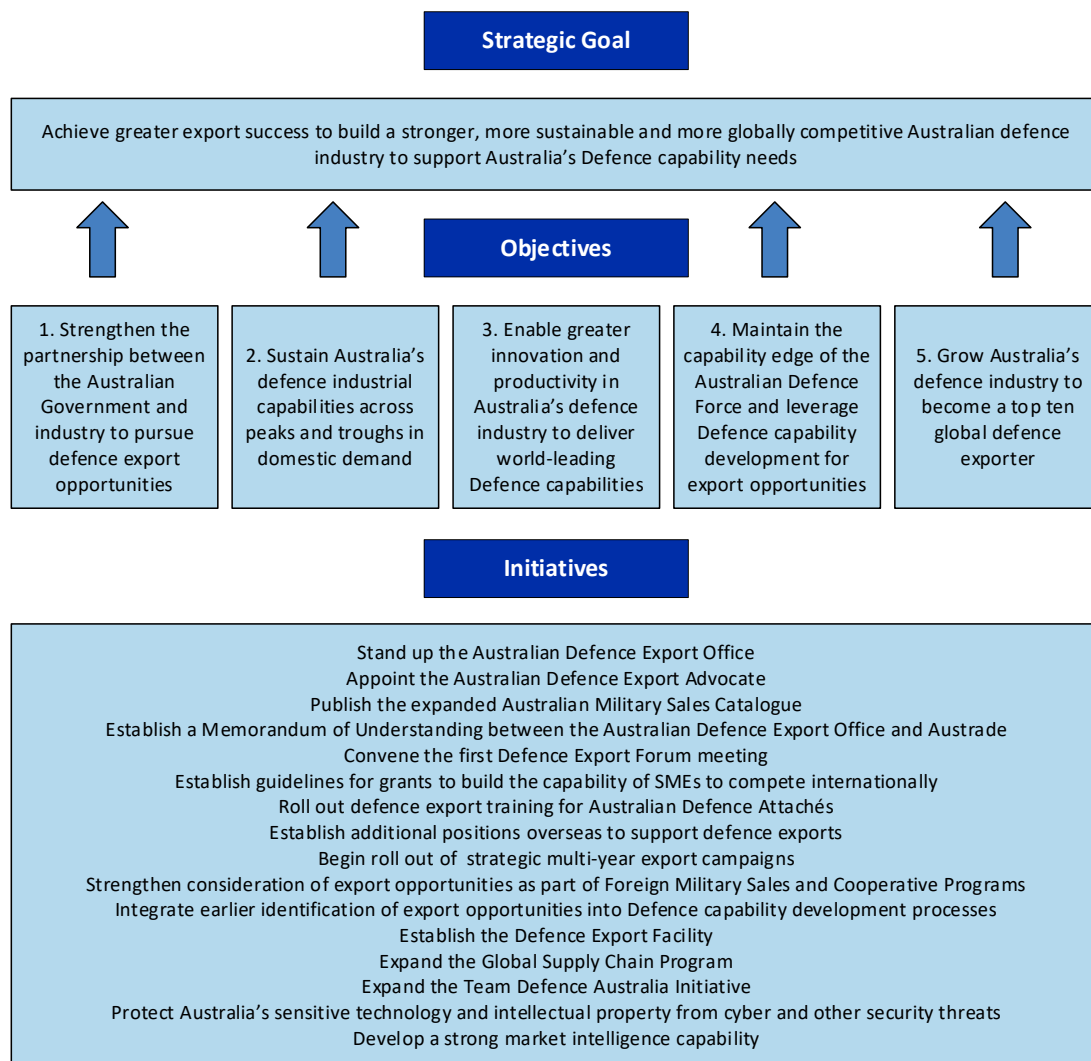
Source: ANAO analysis of Defence records.

Were the strategy objectives and initiatives developed by Defence supported by appropriate evidence and analysis?

The strategy objectives and initiatives developed by Defence were largely supported by research and consultation but were not informed by robust defence export data. The inclusion of objective five — growing Australia’s defence industry to become a top ten global defence exporter — reflects an announcement by the Minister for Defence Industry, and was not supported by analysis or data. Defence did not clearly map how the strategy initiatives would contribute to the achievement of strategy objectives.

2.24 The strategy’s goal and objectives are set out in Figure 2.2 below, along with key strategy initiatives.

Figure 2.2: The Defence Export Strategy’s goal, objectives and key initiatives^a



Note a: This is not a complete list of initiatives. The listed initiatives are required for the implementation milestones set out in the strategy and are those identified as key initiatives in the strategy. A complete list is at Appendix 2 of this audit report.

Source: ANAO analysis of Department of Defence, *Defence Export Strategy*, 2018, pp. 4–5, pp. 17–18 and p. 76.

2.25 The ANAO examined the evidence and advice underpinning the strategy objectives and initiatives, and how Defence connected the objectives and initiatives to the strategic goal.

Evidence and advice underpinning the strategy's objectives

2.26 The strategy states that in support of the strategic goal, the Australian Government has set five objectives for the development of defence exports by 2028.⁵²

2.27 Objectives one to four are broad statements that focus on building the partnership between government and industry for the purpose of using export opportunities to enhance Defence capability. Advice provided in May 2017 to Defence's Strategic Policy Committee outlined that Defence capability should be the key driver of the strategy and that the strategy would contribute to Defence capability outcomes by:

- guiding ministerial and government advocacy in balance with Defence capability and international policy objectives, such as Australia's national interests and international obligations;
- better protecting Defence's capability edge through a comprehensive approach to managing the export of sensitive technology;
- promoting better value for money for Defence through more competitive prices from industry, achieved by economies of scale from exports;
- enhancing Defence's international engagement outcomes by achieving greater interoperability with key partners, aligning exports with broader interests;
- increasing the capacity of Australian industry to sustain Defence capabilities locally, with greater integration into global supply chains; and
- establishing clear and endorsed government policy with regard to complex defence export issues.

2.28 Defence advised the ANAO that objective five was identified after the Minister for Defence Industry (the Minister) made reference to the global defence export ranking during a speech in July 2017 and Defence determined that the aim to be in the global top ten would be a useful aspirational target for the strategy, in line with the Minister's expectations. Paragraph 1.15 of the strategy states that:

The Government recognises that becoming a top ten global defence exporter will be challenging and ultimately depends upon the actions of industry. This target is a clear signal of the Government's ambition and its willingness to work with Australia's defence industry to strive for new levels of success.

2.29 At the time the strategy was finalised, Defence was yet to establish baselines or determine how it would measure the achievement of objectives. Defence's November 2017 brief to the Minister and the Minister for Defence, presenting the proposed strategy, advised that a 'clear systematic means to measure defence export outcomes will be an early priority as Defence does not currently have a robust baseline to work from'.⁵³ This situation was reflected in the strategy,

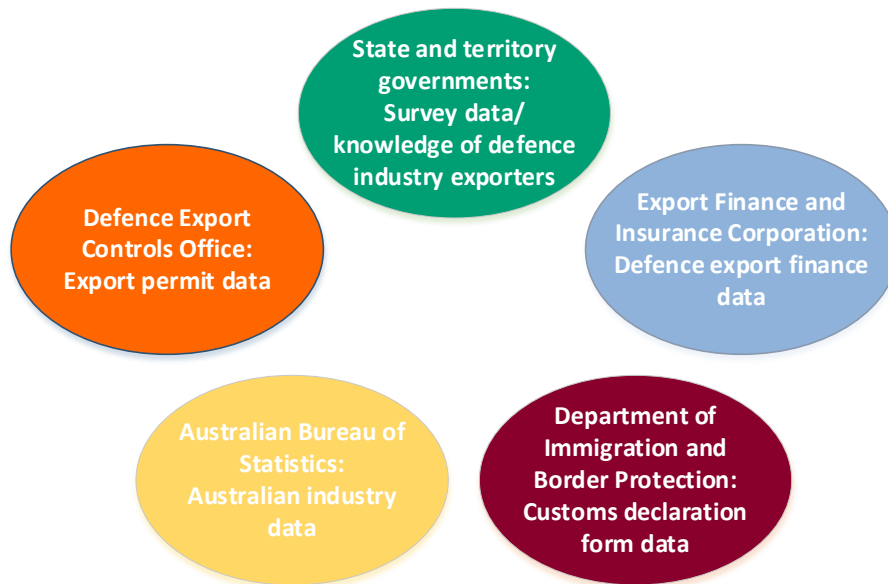
⁵² Department of Defence, *Defence Export Strategy*, 29 January 2018, p. 14.

⁵³ Department of Defence, *Ministerial Submission: Finalisation of the Defence Export Strategy*, 14 November 2017.

which included an initiative to ‘establish strengthened measures of Australian defence exports’.⁵⁴ Defence’s efforts to develop a baseline and its work to develop a performance framework since the strategy’s release is examined further at paragraphs 4.3 and 4.11–4.16 of this audit report.

2.30 There is no current mechanism that comprehensively measures the quantity or value of Australian Defence exports, as a basis for assessing outcomes under the strategy. Defence made efforts to collect relevant data while developing the strategy. The potential data sources considered by Defence during the strategy design period are set out in Figure 2.3 below.

Figure 2.3: Potential defence export data sources considered by Defence



Source: ANAO analysis

2.31 However, limited data was discovered by Defence to help establish a defence exports baseline, or help determine appropriate strategy targets. For example:

- Defence Export Controls⁵⁵ collects defence export permit data, including on the value of the export subject to a permit. However, not all permits result in an export, some defence related exports do not require permits, and some permit types may allow multiple export events per permit;
- the Department of Immigration and Border Protection (DIBP) provided custom declaration form data, but that data does not include a category for defence exports. Further, recording a permit number is optional for exporters, and Defence was therefore unable to match DIBP data with permit data from Defence Export Controls; and
- the Australian Bureau of Statistics (ABS) does not have a category for defence in its Australian industry data, and defence companies may fit into other Australian industry ABS categories, such as manufacturing or support services.

⁵⁴ Defence of Defence, *Defence Export Strategy*, 29 January 2018, p. 69.

⁵⁵ Discussed in footnote 40 above.

Evidence and advice underpinning the development of initiatives under the strategy

2.32 Defence considered the elements of a new defence export system in the scoping paper discussed at paragraphs 2.4–2.6 above. This included new initiatives such as an organisational structure to give effect to the strategy. Consideration was also given to the role of existing export-related initiatives and options for drawing some of these together. For example:

- the Global Supply Chain program administered by Defence — which could move into the Centre for Defence Industry Capability (CDIC) located in the (then) Department of Industry, Innovation and Science;
- Team Defence Australia located in Defence — which could also move into the CDIC⁵⁶;
- Defence’s Australian Military Sales Office⁵⁷;
- Defence’s Joint Strike Fighter program;
- Defence’s Australian Industry Capability program;
- Austrade’s Export Market Development Grants program; and
- export finance provided through the Export Finance and Insurance Corporation (Efic, subsequently renamed Export Finance Australia).

2.33 A number of additional initiatives were developed as part of the strategy, through Defence’s consultation process. For example, Defence engaged closely with Efic to develop the Defence Export Facility initiative, the CDIC on the Global Competitiveness Grants Program, and Austrade on how overseas positions could support defence exports.

2.34 The published strategy does not clearly map the relationship between the initiatives and overarching strategy goals, or outline a framework for evaluating the achievement of outcomes.⁵⁸ Available evidence does not demonstrate that these matters were considered during the strategy’s development.

56 The Global Supply Chain program and Team Defence Australia moved into CDIC when CDIC was launched in December 2016. Team Defence Australia then moved back to Defence and became a part of the Australian Defence Export Office (see Figure 3.1 on p. 32 below). The strategy states that this was to assist in the delineation of responsibilities: the CDIC was to build industry capability and the Australian Defence Export Office was to help realise international success. Defence of Defence, *Defence Export Strategy*, 29 January 2018, p. 58.

57 The Australian Military Sales Office transferred into the Australian Defence Export Office as a part of the strategy, and became Australian Military Sales.

58 Performance measurement and evaluation is discussed further in Chapter 4 of this audit report.

Was adequate detail on risk and implementation challenges communicated to government to support an informed decision, including: consideration of compliance obligations such as export controls; and export targets?

Defence considered key risks and mitigation strategies during the strategy's development, such as maintaining a strong export controls system and ensuring a focus on Defence capability outcomes. While Defence provided adequate detail to Defence Ministers, it did not provide all Ministers with adequate detail on risk and implementation challenges to more fully inform their decision-making.

2.35 Advice to Defence's Strategic Policy Committee in May 2017 detailed key challenges for strategy development and implementation, and included advice on key risks and their proposed management. The specific risks presented to the Committee, and proposed risk mitigation strategies, are set out in Table 2.4 below.

Table 2.4: Risks presented to the Strategic Policy Committee

Risk	Proposed mitigation
Defence resources are diverted to pursuing economic rather than strategic objectives, as the strategy is intended to primarily support development of Defence capability.	Developing the Strategy with Defence capability outcomes as the primary driver.
Potential for competing interests, such as where two or more Australian businesses are competing in the same export market, or where support for Defence exports competes with international obligations or strategic interests.	Ensuring exports are pursued within the broader policy framework, including consideration of: international obligations through export controls; Australia's strategic interests; and Defence's capability needs.
Current dispersion of Defence export resources, and a lack of dedicated focus on Defence exports.	Developing a more integrated Defence export policy and delivery model.
Conflicting or duplicative Defence export activities across levels of government.	Working closely with other entities to highlight the benefits of cooperation and effective information sharing.
Inappropriate Defence involvement in commercial decision-making, particularly in assisting small to medium enterprises to compete in export markets.	Recognising that it is the responsibility of industry to compete for export opportunities, and encouraging industry to take ownership of the strategy.
Unrealistic industry and government expectations around export outcomes.	Managing expectations around: the time taken to develop systems, expertise and relationships; the long lead time in Defence procurement; and the relatively low export base.
A lack of authoritative data or baseline information on Defence Exports.	Developing an evidence base around Defence exports.
Pressure to measure success in accordance with commercial measures rather than enhanced Defence capability.	Considering broader performance measures that capture Defence's interests in capability development.

Source: ANAO analysis of Defence records.

2.36 As discussed in paragraph 2.20, Defence drafted a submission to government about the strategy which was signed off by the Secretary and Chief of the Defence Force in November 2017, and provided to the Minister. While the draft submission was not finalised, it provides a further insight into Defence's thinking on key risks and its advice to the Minister. It mentioned:

- public and media concerns regarding approval of defence exports to the Middle East, to be mitigated by Australia's export controls system (the framework of export controls is discussed further in paragraphs 2.40–2.43 below);
- expectations of industry of unrealistic levels of support and outcomes, to be mitigated by expectation management efforts; and
- exports being seen as an end in themselves, to be mitigated by a focus on broader policy aims of building defence capability, and not supporting exports that could compromise Australia's capability advantage.

2.37 Defence's November 2017 advice to the Minister and Minister for Defence regarding finalisation of the strategy raised two implementation risks and challenges for the strategy, relating to: possible community and media concerns regarding the approval of defence exports to the Middle East; and the achievement of the headline export target:

Becoming a top ten global defence exporter is a stretch target, but it is an indication of what we aspire to achieve. Establishing a clear, systematic means to measure defence export outcomes will be an early priority as Defence does not currently have a robust baseline to work from.⁵⁹

2.38 When asked to agree to the strategy, the Ministers (listed in paragraph 2.20 above) were not informed of the risks and challenges that Defence had identified to the successful delivery of the strategy. The Prime Minister and Treasurer were made aware of one financial risk related to the Defence Export Facility and the risk of public criticism related to Middle East sales.⁶⁰

2.39 Before the strategy was circulated, Defence identified a range of risks and mitigation strategies relating to the proposed export strategy. It would have been appropriate to make all ministers involved in the final decision making process aware of the risks and mitigation strategies that had been identified.

Working with the existing framework of export controls

2.40 As noted in the export strategy, the Australian Government takes a case-by-case approach to assessing the export and transfer of military and dual-use goods and technology.⁶¹ Box 1 below summarises Australia's defence export controls framework.

59 Department of Defence, *Ministerial Submission: Finalisation of the Defence Export Strategy*, 14 November 2017.

60 This financial risk was the potential for Defence Export Facility loans to 'crowd out' private finance. The risk was to be mitigated by the use of commercial benchmarks when interest rates are set.

61 Department of Defence, *Defence Export Strategy*, 29 January 2018, p. 21. Dual use goods are discussed in footnote 22 of this audit report.

Box 1: Arms Trade Treaty and Australian Export Controls

Australia ratified the Arms Trade Treaty on 3 June 2014. As at June 2020, there were 130 signatories and 103 States for which the treaty was in force. The treaty provides requirements related to the exportation of conventional weapons, ammunition, parts and components, including that signatories:

- establish and maintain a national control system to implement the provisions of the treaty; and
- authorise or prohibit the export of conventional arms, ammunition/munitions, parts and components pursuant to the export assessment conducted by their national control system.

The treaty requires parties to establish and maintain a national control list that provides national definitions of weapon categories and lists items subject to export control. The treaty recommends that parties publish their control list so that it can be accessed by those involved in the manufacture, export or import of arms or ammunition. Australia's control list, known as the Defence and Strategic Goods List, was first established in 1996 and was most recently updated in March 2019 (as at June 2020). The list is publicly available, including through a searchable online tool.

Australia's Defence export controls system is managed by Defence Export Controls, a branch within Defence's Industry Policy Division. Defence Export Control's export permit data from 2015 is published online, including:

- the number of applications received;
- the number of applications finalised;
- the proportion of non-sensitive or sensitive applications;
- processing timeframes, application outcomes (permits issued, in-principle approval, assessments issued, advice to government agencies issued, denials, in-principle applications not supported, prohibition notices, withdrawn, made inactive or lapsed, and no further action required); and
- declared value of permits, where there is a declared value (declared value became a requirement from 1 January 2018).

Defence export permit application data from 2015–19 is set out in Figure 4.1 on page 60 of this audit report.

2.41 The Minister for Defence was provided with advice in May 2017 on how the existing framework of export controls would be considered as a part of the export strategy's development.⁶² This was consistent with the risk mitigation strategy presented to the Strategic Policy Committee, identified in Table 2.4 above.

2.42 Defence Export Controls was consulted throughout the strategy development process and provided input to the draft strategy and advice. Consultation with Defence Export Controls was

62 The Minister for Defence Industry was copied in to the advice.

intended to help align the strategy with the Government's foreign affairs, defence and trade policies.

2.43 The published strategy states that:

As a responsible global actor, Australia is committed to fulfilling its international obligations and maintaining a robust defence export controls system to ensure Australia continues to export responsibly.⁶³

63 Department of Defence, *Defence Export Strategy*, 29 January 2018, p. 10.

3. Strategy implementation

Areas examined

This chapter examines whether the Department of Defence (Defence) has: established appropriate planning and governance arrangements to support implementation of the strategy; and delivered the phase one and two initiatives set out in the strategy on time and on budget.

Conclusion

Strategy implementation has been partially effective. While Defence established fit-for-purpose governance arrangements, planning arrangements were not established to appropriately support implementation of the strategy initiatives on time and on budget. Defence did not deliver all Phase 1 and Phase 2 initiatives in accordance with strategy timeframes and has not tracked expenditures relating to the strategy as a whole.

Area for improvement

The ANAO identified one area for improvement aimed at Defence improving its processes to ensure compliance with government procurement reporting requirements.

3.1 To assess Defence's governance and coordination arrangements and the effectiveness of Defence's delivery of strategy initiatives, the following matters were examined by the ANAO:

- Did Defence establish fit-for-purpose governance, co-ordination and stakeholder engagement arrangements for the strategy's delivery?
- Was a plan developed to support the effective implementation of the initiatives outlined in the strategy?
- Were phase one initiatives delivered on time and on budget?
- Were phase two initiatives delivered on time and on budget?
- Has progress been made to deliver other key strategy initiatives?

Did Defence establish fit-for-purpose governance, co-ordination and stakeholder engagement arrangements for the strategy's delivery?

Defence has established and implemented fit-for-purpose governance, co-ordination and stakeholder engagement arrangements to support delivery of the strategy. Roles and responsibilities for the strategy's governance and implementation have been clearly identified. Defence has established co-ordination mechanisms within government and arrangements to engage with relevant external stakeholders. Stakeholders interviewed by the ANAO expressed a view that these mechanisms had improved collaboration across government for defence exports.

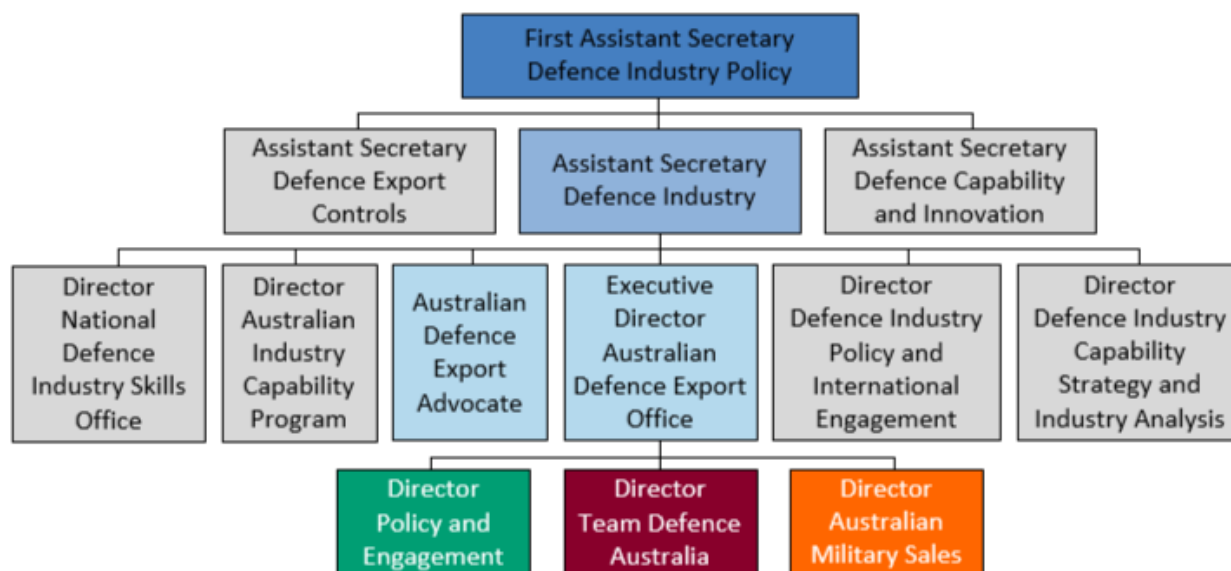
Roles and responsibilities

3.2 The strategy clearly identifies the Australian Defence Export Office (the export office) within Defence as being accountable for the delivery of strategy initiatives and the coordination of

initiatives tasked to other entities under the strategy. The export office also supports the Australian Defence Export Advocate (the advocate), providing secretariat and administrative assistance.⁶⁴

3.3 The export office is situated in the Defence Industry Branch, Defence Industry Policy Division, within the Strategic Policy and Intelligence Group. The location and structure of the export office are illustrated in Figure 3.1 below.

Figure 3.1: Australian Defence Export Office location and organisational structure



Source: ANAO representation of Defence records, as at 30 October 2019.

3.4 Further, the strategy clearly identifies other entities with responsibilities under the strategy. They include:

- the Department of Industry, Innovation and Science⁶⁵ — responsible for managing the Centre for Defence Industry Capability (CDIC). Among its functions, the CDIC is a conduit for industry to access Defence and provides business advisory services and grants to help Australian business better position themselves for export opportunities, as well as managing the Global Supply Chain program.⁶⁶ The CDIC was in place prior to the strategy's announcement;
- Austrade — responsible for enabling Australian defence industry to access global markets by identifying export opportunities and supporting businesses overseas. Arrangements for defence exports are to be formalised under a Memorandum of Understanding (MoU) between AusTrade and Defence under the strategy; and
- Export Finance Australia (EFA) — assists Australian defence industry to access financing solutions for exports through the Defence Export Facility.

64 The export office also administers the advocate's contract. The role of the advocate is discussed further in paragraphs 3.16–3.19 of this audit report.

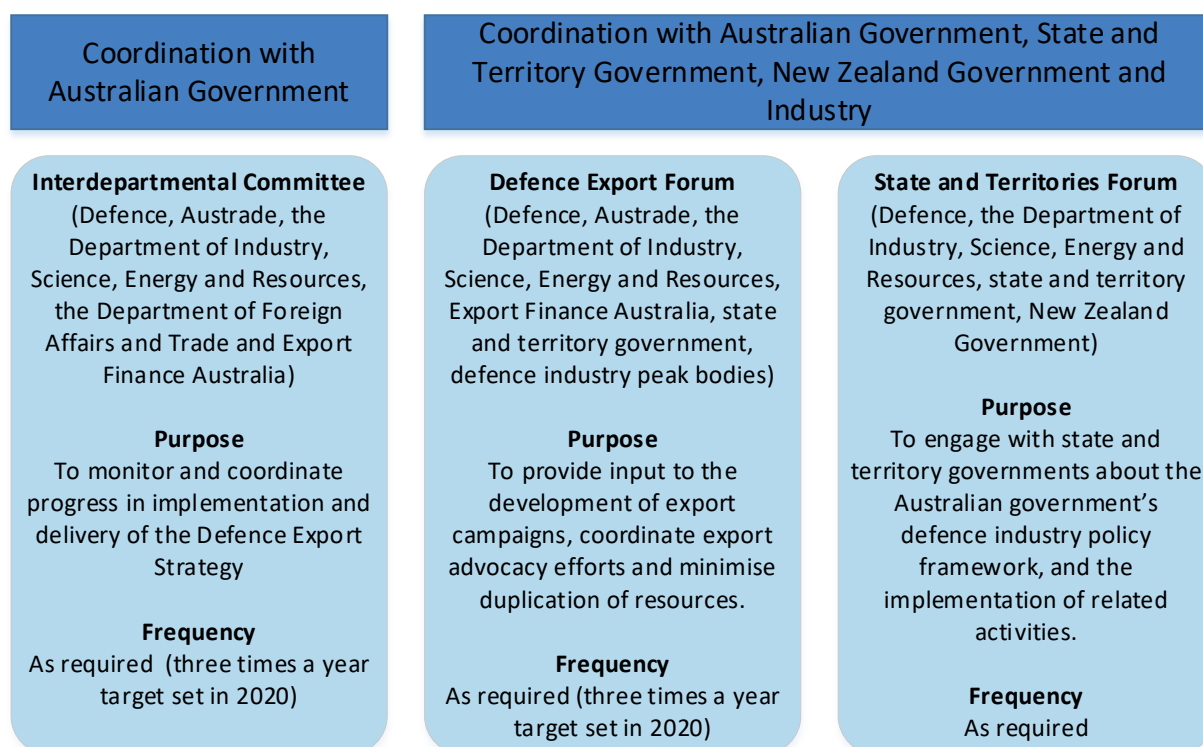
65 Now the Department of Industry, Science, Energy and Resources.

66 Expansion of the Global Supply Chain Program is a strategy initiative (see Table 3.3 below).

Coordination and stakeholder engagement

3.5 Defence has established coordination arrangements to support strategy implementation, as illustrated in Figure 3.2 below. Defence Export Forums have been held on three occasions (17 May 2018, 3 September 2018 and 14 February 2019). Defence advised the ANAO that a fourth meeting planned for the first quarter of 2020 did not occur due to the COVID-19 pandemic. During the pandemic the state and territories forum, which also addresses export related issues, has been held more frequently to discuss defence industry concerns related to the pandemic, such as issues with freight, limitations on the conduct of regular business and interruptions to government services for defence industry.

Figure 3.2: Coordination arrangements to support strategy implementation



Source: ANAO analysis

3.6 Coordination between Defence and the CDIC also takes place through the CDIC Advisory Board (the advisory board), of which the Australian Defence Export Advocate is a member. The advisory board provides defence export policy input. Defence advised the ANAO that the export office attends advisory board meetings by invitation to provide updates on strategy initiatives.

3.7 Defence drafted a stakeholder engagement and communication strategy in July 2018. Although this strategy was not finalised, the stakeholders interviewed by the ANAO indicated that Defence has effectively coordinated and engaged with stakeholders to support strategy delivery through the forums discussed above, as well as through regular and useful interactions to support daily business activity. These stakeholders reported a positive difference in levels of coordination and collaboration between the states and territories and the Commonwealth. Stakeholders further

advised the ANAO that in their opinion industry awareness of the strategy and its initiatives has been increased by the advocate's activities and by peak body attendance at the export forum.⁶⁷

Did Defence develop a plan to support the effective implementation of the initiatives outlined in the strategy?

Defence prepared a draft implementation plan which addressed key implementation issues including risks, delivery milestones, roles and responsibilities. However the plan was not finalised or used and implementation was managed through business-as-usual mechanisms. Defence advised that tools such as checklists and 'road maps' were utilised instead to support implementation.

3.8 Defence prepared a draft implementation plan dated 24 November 2017⁶⁸, which outlined key aspects of implementation planning including: implementation risks⁶⁹, a timeline and delivery milestones, roles and responsibilities, and a business operating model and concept of operations. The timeline for delivery of the phase one and two initiatives included initial operating capability milestones and 'quality gates'.

3.9 The draft plan and a 'road map' to support the tracking of key milestones against timeframes, were included in the agenda papers for a meeting of the Defence Industry and Innovation Steering Group (the steering group) on 6 December 2017. The draft implementation plan identified the steering group as the primary governance body for implementation activities. There is no evidence that the steering group continued as the governance body for the strategy beyond December 2017.

3.10 The draft implementation plan also identified the following key roles and responsibilities:

- First Assistant Secretary Defence Industry Policy, responsible for implementation (senior responsible officer);
- Assistant Secretary Industry Policy and the General Manager of the CDIC, responsible for day-to-day direction, including to coordinate initiatives tasked to other entities, decision-making and support to implementation activities.

67 ANAO interviews with stakeholders were held from November 2019 to February 2020.

68 The draft implementation plan stated that 'A robust and accepted implementation plan is important to ensuring a consistent and transparent approach to meeting critical time and quality objectives'. Department of Defence, *Defence Industry and Innovation Program Defence Export Strategy implementation plan*, November 2017 (draft), p. 2.

69 The identified risks included: a lack of defined strategic objectives and competing policy/strategic direction; complexity of the policy and program agenda; resource constraints; inconsistent and reactive communications and engagement; inadequate digital channels; competing activities driven by Defence, industry and government; inability to remain aligned to changing external environment; industry perception of the export office vs CDIC; turnover of staff; inadequate planning with AusIndustry Shared Services; inadequate identification and demonstration of strategic value and outcomes; lack of single governance authority; availability of resources; and possible issues relating to the appointment of the Defence Export Advocate (such as possible conflicts of interest, acceptance by Defence and industry, appointment to CDIC Advisory Board).

3.11 Defence advised the ANAO that due to time constraints⁷⁰ the draft implementation plan was not finalised or used to guide implementation⁷¹ and initiatives were implemented using checklists and ‘road maps’ instead. The checklists consisted of lists of strategy initiatives⁷² with delivery dates, progress ratings and priority level indicators. The ‘road maps’ were timelines of phase one and two initiative delivery dates, using traffic light indicators to track the status of delivery. Defence’s reporting against the road maps between February and April 2018, through an implementation status report, is discussed further in Table 4.1 below.

Did Defence deliver phase one initiatives on time and on budget?

Of the eight phase one key milestones, Defence has delivered two initiatives on time, delivered four initiatives between five days and six months late, and not yet completed two initiatives. Defence does not monitor the phase one budget at an initiative level.

3.12 As summarised in Table 1.1 above, the published strategy sets out key milestones for the delivery of initiatives, in two phases — Phase 1: January to December 2018; and Phase 2: January to December 2019.

3.13 Defence’s delivery of phase one initiatives, against key milestone dates, is set out in Table 3.1 below.⁷³

Table 3.1: Defence’s delivery of phase one initiatives against key milestone dates

Strategy Initiative	Delivery date	Delivered by due date?	Progress Summary
Stand-up Australian Defence Export Office	March 2018	No	Defence has publicly reported that the export office was established as a key initiative in April 2018. ^a The export office was officially launched on 23 April 2018 by the Minister for Defence Industry.
Appoint Australian Defence Export Advocate	March 2018	No	The Australian Defence Export Advocate was appointed on 5 April 2018. ^b Activities undertaken by the advocate have included: meetings with foreign government representatives, military personnel, industry, Australian Government entities, and state and territory government representatives; and participation in speaking events and trade shows.

70 Defence advised that time constraints were due to resourcing issues, as key export office personnel were not in place until March 2018.

71 Defence has not been able to provide minutes for any meetings of the steering group at which the implementation of the Defence Export Strategy was discussed and the draft implementation plan presented.

72 This was not a complete set of initiatives, but included the recruitment of the Australian Defence Export Advocate, setting up the Australian Defence Export Office, delivering the Australian Military Sales Catalogue and establishing the memorandum of understanding with Austrade.

73 The full set of initiatives under the strategy is set out in Appendix 2 of this audit report.

Strategy Initiative	Delivery date	Delivered by due date?	Progress Summary
Publish expanded Australian Military Sales Catalogue	March 2018	Yes	<p>The first edition of the catalogue was published in 2017.^c Since the strategy's release, Defence has published an:</p> <ul style="list-style-type: none"> • Australian Military Sales Catalogue on 20 March 2018, which featured 69 Australian defence industry companies (compared to eight companies in the 2017 edition); • Australian Military Sales Catalogue on 12 February 2019, which featured 114 companies (an increase of 65 per cent compared to the March 2018 catalogue); and • Australian Defence Sales Catalogue on 19 March 2020, which featured 170 companies (an increase of 49 per cent compared to the February 2019 catalogue).
Establish Memorandum of Understanding with Austrade	April 2018	No	A Memorandum of Understanding was signed with Austrade on 17 May 2018.
Convene first Defence Export Forum	June 2018	Yes	As of 23 April 2020, three Defence Export Forums have been held (17 May 2018, 3 September 2018, and 14 February 2019).
Establish guidelines for grants to build the capacity of small to medium enterprises to compete internationally	July 2018	No	<p>Guidelines for the Defence Global Competitiveness Grants program were released on 2 January 2019 and published on GrantConnect on 16 May 2019. There have been nine rounds of grant funding as at 30 June 2020, with approximately \$3.7 million awarded across the two financial years out of \$8.2 million in funding available.</p> <p>Appendix 5 provides further information on the Defence Global Competitiveness Program, and a summary of grants dispersed as at 1 July 2020. The ANAO's review of Defence's administration indicates that GrantConnect reporting was not timely. There would be merit in Defence reviewing its GrantConnect reporting process.</p>

Strategy Initiative	Delivery date	Delivered by due date?	Progress Summary
Roll out defence export training for Australian Defence Attaches	September 2018	Not yet completed	<p>While the strategy does not specify what would need to be achieved for this milestone to be considered complete, paragraph 4.30 of the strategy states that the export office will work with other agencies to develop a 'comprehensive defence export training package to assist Defence Attaches and other Australian Government representatives overseas, including understanding Australian defence industry, supporting industry overseas, and balancing Australia's strategic interests.'^d</p> <p>To date, Defence has conducted two training sessions for Australian Defence Attaches, in October 2018 and October 2019.</p> <p>Defence is developing a further suite of training. Of a planned series of seven on-shore training modules, only one, which was pre-existing, has been delivered as at 20 May 2020 (on 15–16 October 2019 by Austrade).</p> <p>The procurement process is ongoing for a series of four e-learning modules intended to supplement the on-shore training. Defence advised that it has planned for the development of the models to be completed in the third quarter of 2020.</p>
Establish additional positions overseas (Business Development Managers) to support defence exports	December 2018	Not yet completed	<p>The first two of eight Business Development Manager roles commenced on 1 April 2019.</p> <p>As at 17 August 2020, recruitment for the final role was in progress.</p>

Note a: Australian Government, *2018–19 Defence Industry and Innovation Programs Annual Report*, 8 July 2020, p. 5.

Note b: On 16 July 2020, the Australian government renewed the engagement with the advocate for 12 months, with an option to extend by a further 12 months.

Note c: Australian Military Sales produces the Australian Military Sales Catalogue and manages government-to-government-sales. Defence records indicate that government-to-government sales totalled \$256,299,973 for the period 2015–2020, as at 1 July 2020.

Note d: In April 2020, Defence reported to the Minister that this initiative was 'in progress', rather than 'complete'.

Source: Department of Defence, *Defence Export Strategy*, 2018, p. 76; ANAO analysis of Defence data.

3.14 In summary, of the eight phase one key milestones, Defence has delivered two initiatives on time, delivered three initiatives between five days and six months late, and not yet completed two initiatives.

3.15 Defence advised the ANAO that phase one implementation delays can be attributed to delays in meeting staffing requirements, with key export office personnel not in place until

March 2018, and subsequent challenges filling export office positions, with only five of ten new export office positions filled by May 2018.⁷⁴

Appointment of the Australian Defence Export Advocate

3.16 Defence provided advice and worked closely with the Defence Industry Minister's office to shortlist candidates for the role of Australian Defence Export Advocate. On 5 April 2018, Defence sought the Minister's agreement to the appointment of the advocate.⁷⁵ There is no documented ministerial approval. The brief was returned with an annotation, dated 5 April 2018, that this and two related Defence recommendations were: 'Agreed to in MO [Minister's Office]'.⁷⁶

3.17 The advocate's appointment was conducted as a limited tender procurement under exemption 14 of the *Commonwealth Procurement Rules* (CPRs) — contract for labour hire.⁷⁷ Defence approval documents state that the advocate is expected to achieve value for money by providing high level advocacy in line with international best practice and the Government's defence industry policy.

3.18 On 7 June 2018, Defence reported the contract on Austender, 21 days after the *Commonwealth Procurement Rules* reporting requirement.⁷⁸

3.19 Defence signed a contract with the advocate for a two-year term. This is a contract based on a daily rate of \$3,000, with an expectation that up to 180 days would be worked each year.⁷⁹ On this basis, the commitment approval for the total contract value was \$1,188,000 or \$594,000 per year. As at 29 February 2020, total contract payments (including reimbursement for expenses) received by the advocate over two years was \$317,928.22.⁸⁰ Defence's Austender reporting on the contract shows that Defence reported on 7 June 2018 that the contract value was \$150,000 (including GST) over two years. This amount was varied to \$240,000 on 7 March 2019, to \$320,000 on 23 December 2019, to \$580,000 on 12 May 2020 and to \$1,130,000 on 3 June 2020. Defence advised the ANAO that its reporting was based on an estimation of what would be spent. Department of Finance advice to the ANAO is that contract values reported on AusTender should be the maximum contract value, excluding extension amounts.

74 The export office structure, approved by the Defence Committee in November 2017, involved establishing an additional 10 positions and consolidating existing positions within Defence that supported defence exports.

75 Defence also asked the Minister to note that another candidate had been approached as a second advocate, based on the suggestion from the Minister that two advocates could be engaged.

76 The Hon David Johnston was appointed to the role.

77 Procurements of these services are exempt from the rules of Division 2 of the CPRs, which provide that a relevant entity must only conduct a procurement at or above the relevant procurement threshold through limited tender in defined circumstances, such as: reasons of extreme urgency brought about by unforeseen events; exceptionally advantageous conditions that arise only in the very short term; or when the services can only be supplied by a particular business and there is no reasonable alternative or substitute. Nonetheless, achieving value for money remains the core rule of the CPRs and officials responsible for a procurement must be satisfied, after reasonable enquires, that the procurement achieves a value for money outcome.

78 Department of Finance, *Commonwealth Procurement Rules*, 1 March 2017. Paragraph 7.16 states that: 'Relevant entities **must** report contracts and amendments on AusTender within 42 days of entering into (or amending) a contract if they are valued at or above the reporting threshold.'

79 This was considered by Defence to be appropriate for the advocate's skills, experience and knowledge and within its standard rates for expert engagements.

80 As discussed in paragraph 1.20, Defence advised the ANAO that the advocate has had a reduced schedule in the role since March 2020 due to travel restrictions introduced in response to the COVID-19 pandemic.

3.20 There is opportunity for Defence to review the Australian Defence Export Office's processes for reporting on labour hire contract values on AusTender, to ensure reporting is accurate and completed within the required reporting period.

Achievement against budget for phase one initiatives

3.21 A proposed budget breaking down the costs for most key phase one and phase two initiatives was presented to the Defence Committee and approved in November 2017 (see paragraph 2.18 above). However, Defence does not track initiatives against this budget, and the export office budget is tracked at a directorate level without tracking of specific initiatives. Defence advised the ANAO that from 2020–21, a business plan that includes a more detailed budget breakdown for strategy initiatives will be used. Defence further advised that as at 1 July 2020 development of the business plan was not yet complete.

Did Defence deliver phase two initiatives on time and on budget?

Of the three phase two initiatives, one initiative was not delivered on time. It is not possible to assess the timeliness for the remaining two initiatives because the strategy does not set out what completion of the initiative would involve. Defence does not monitor the phase two budget at an initiative level.

3.22 As summarised in Table 1.1 above, the published strategy sets out key milestones for the delivery of initiatives, in two phases — Phase 1: January to December 2018; and Phase 2: January to December 2019. Defence's delivery of phase two initiatives against key milestone dates is set out in Table 3.2 below.⁸¹

Table 3.2: Defence's delivery of phase two initiatives against key milestone dates

Strategy Initiative	Delivery date	Progress Summary
Begin roll out of strategic multi-year export campaigns	January 2019	Delivery date not met but initiative has commenced. In May 2019 the Secretary of Defence and the Chief of the Defence Force approved a multi-year campaign for a specific export opportunity. Defence advised that this can be considered a multi-year campaign under this initiative, with a series of multi-year export market campaigns also under development (see paragraph 3.39 below).
Strengthen consideration of export opportunities as part of Foreign Military Sales and Cooperative Programs	June 2019	The strategy does not specify what would need to be achieved for this milestone to be assessed as complete. Defence advised the ANAO that delivery commenced in 2018 with work ongoing.
Integrate earlier identification of export opportunities into Defence capability development processes	December 2019	The strategy does not specify what would need to be achieved for this milestone to be assessed as complete. Defence advised the ANAO that delivery commenced in 2018 with work ongoing. For example, Defence advised of instances where the export office has engaged with other areas of Defence to support consideration of export opportunities in capability projects.

Source: Department of Defence, *Defence Export Strategy*, 2018, p. 76; ANAO analysis of Defence data.

⁸¹ The full set of initiatives under the strategy is set out in Appendix 2 of this audit report.

3.23 In summary, for one phase two initiative — begin roll out of strategic multi-year export campaigns — the delivery date was not met but the initiative has commenced. For two initiatives — strengthen consideration of export opportunities as part of Foreign Military Sales and Cooperative Programs and integrate earlier identification of export opportunities into Defence capability development processes — the strategy did not set out what would need to be achieved for the milestones to be met. However, Defence considers that these two initiatives have been delivered on time. As discussed in paragraph 3.11, Defence drafted but did not use an implementation plan, which could have been used to further define milestones and the basis for their achievement, and could have assisted Defence in monitoring and reporting on progress.

3.24 As with phase one initiatives (see paragraph 3.21), Defence does not track budgets at the initiative level.

Has Defence made progress in the delivery of other key initiatives?

Of the five other key initiatives, Defence has made progress delivering four of these initiatives. The market intelligence capability is yet to be delivered.

3.25 The strategy includes a list of key initiatives, including five initiatives that were not grouped into either Phase 1 milestones or Phase 2 milestones.⁸² Four of the five initiatives built on existing activities. These four initiatives related to:

- a dedicated mechanism for Export Finance Australia (EFA) to refer applications to the Minister for Trade, Tourism and Investment for defence export finance worth up to \$3.8 billion to be written on the National Interest Account (the Defence Export Facility);
- sustaining and expanding the Global Supply Chain program⁸³;
- expanding the Team Defence Australia (TDA) initiative⁸⁴; and
- protecting Australia's sensitive technology and intellectual property from cyber and other security threats.

3.26 The fifth initiative was the establishment of a strong market intelligence capability which was identified in the strategy as important for achievement of phase two initiatives.

3.27 Defence's progress in delivering these five key initiatives is summarised in Table 3.3 below.

Table 3.3: Defence's delivery of other key strategy initiatives

Strategy Initiative	Summary of progress made
Establish Defence Export Facility	The Defence Export Facility was established on 15 January 2018 (before the Strategy was officially launched). Three loans were made via the facility as at 26 May 2020 (totalling \$213 million), with a fourth loan in progress. The loans are discussed in paragraphs 3.28–3.31 below.

⁸² Department of Defence, *Defence Export Strategy*, 2018, pp. 17–18.

⁸³ The Global Supply Chain program funds multinational defence companies (primes) to assist Australian companies to identify opportunities within their business units, and to assist Australian companies to be a part of their global supply chain.

⁸⁴ TDA coordinates Australian participation in international trade shows.

Strategy Initiative	Summary of progress made
Expand Global Supply Chain program	Participation in the program has increased from seven to eight Defence prime contractors, with the eighth prime contractor signed in October 2018.
Expand Team Defence Australia (TDA) Initiative	<p>There has been an expansion in TDA activities in 2018 and 2019 compared to 2017.</p> <p>The number of Australian defence industry companies attending trade shows was 79 in 2017, 132 in 2018, 117 in 2019, and 42 in 2020 (as at 9 June 2020).</p> <p>The number of trade shows attended was seven in 2017, eight in 2018 and nine in 2019. For 2020, Defence had planned attendance at 16 trade shows, and as at 4 June 2020 had attended two trade shows.^a</p> <p>The Export Office also undertook trade missions to Japan and Oman in 2019, and Defence advised the ANAO that 19 and 22 companies attended respectively.</p>
Cyber and other security threat protection	Defence launched the updated Defence Industry Security Program on 9 April 2019. Defence advised the ANAO that in September 2018, the state and territories forum (discussed at paragraph 3.5 above) was updated on the Defence Industry Security Program.
Develop a strong market intelligence capability	Defence commenced work on establishing a market intelligence capability in April 2019. It has undertaken benchmarking activities, initial development and circulation of sample market intelligence products, and has developed a preferred model and methodology for the capability. Defence advised the ANAO that the model was approved on 18 June 2020 and implementation has commenced.

Note a: Trade shows have been impacted by COVID-19 pandemic related travel restrictions. The selection of companies to attend a trade show is discussed in paragraphs 3.33–3.35 below.

Source: Department of Defence, *Defence Export Strategy*, 2018, p. 76; ANAO analysis of Defence data.

Loans made through the Defence Export Facility

3.28 The Defence Export Facility (the facility) is a US\$3 billion mechanism for which applications for defence export finance on the National Interest Account are considered by the Minister for Trade, Tourism and Investment.⁸⁵ The facility was established by written direction of the Minister for Trade, Tourism and Investment on 15 January 2018 under section 26 of the *Export Finance and Insurance Corporation Act 1991* (Cth). Under section 27 of the *Export Finance and Insurance Corporation Act 1991* (Cth) the Minister for Trade, Tourism and Investment may approve EFA to facilitate a loan on the National Interest Account under section 23 for an eligible export transaction if satisfied that the loan is in the national interest.

3.29 Two loans under the facility were examined in Auditor-General Report No.44 2018–19 *Effectiveness of the Export Finance and Insurance Corporation*, and a third loan is currently in progress. The first loan, which commenced on 7 June 2018 and was announced on 31 July 2018,

85 EFA manages loans through a Commercial Account and National Interest Account. Under the Commercial Account, EFA carries all risks from the transaction as a corporate Commonwealth entity, and retains all fees. Under the National Interest Account, the Minister can direct EFA to support transactions that are in the national interest, and EFA can refer transactions to the Minister for consideration. Referral to the National Interest Account can be due to the transaction's size, or significant exposures to the country of export. The Commonwealth receives all income on National Interest Account transactions, and carries all risks and losses.

was for US\$75 million⁸⁶ in buyer finance for the purchase of two Austal Cape Class Patrol Boats by the Government of the Republic of Trinidad and Tobago. The second loan, which commenced on 8 June 2018, was for \$90 million to CEA Technologies, to finance construction of a new manufacturing facility in Canberra.

3.30 On 8 April 2020, a third loan of \$10 million to Ferra for capital equipment related to work in support of the Joint Strike Fighter global supply chain, was reported to the Minister for Defence Industry as a facility transaction. Although financial support for Ferra on the National Interest Account for the project had already been approved in 2011, prior to the strategy, Ferra had not yet drawn down on the loan. In February 2019, the Minister for Trade, Tourism and Investment requested that the transaction be considered a part of the facility due to the alignment of the project with the facility's objective. This was agreed by the Prime Minister.

3.31 Defence advised the ANAO that a government-to-government agreement is in progress for a fourth loan, which had not been signed-off as at 17 August 2020.⁸⁷ The Australian Government approved the transaction on 26 November 2019.

Expanded Team Defence Australia initiative

3.32 The strategy commits to an expanded program of trade shows, complemented by a program of targeted trade missions. Table 3.4 below summarises Team Defence Australia (TDA) trade show costs and attendance for the last five years. Information for the three years following the release of the strategy is highlighted in grey and shows an expansion in TDA activities against the 2017 baseline.

Table 3.4: Team Defence Australia trade show costs and attendance 2016–20

Year	No. of trade shows attended	Cost	No. of unique companies attending ^a	No. of trade show places ^b
2016	8	\$1,352,873.00	66	105
2017	7	\$1,552,962.95	79	134
2018	8	\$2,444,066.12	132	215
2019	9	\$3,363,816.67	117	191
2020 ^c	2	\$1,177,755.96	42	44
Total	34	\$9,891,474.70	233	689

Note a: This column identifies how many unique companies attended one or more tradeshow in the year. The total indicates the number of unique companies attending trade shows in the five year period shown.

Note b: This column identifies the cumulative size of TDA trade show delegations across all tradeshow in the year (some companies attended more than one show).

Note c: Defence advised the ANAO that it had committed to attendance at 16 trade shows for 2020, and that trade shows and trade delegations were put on hold from March 2020 due to travel restrictions introduced in response to the COVID-19 pandemic.

Source: ANAO analysis of Defence data.

86 Reported in Australian currency as \$113 million in the Australian Government, *2018–19 Defence Industry and Innovation Programs Annual Report*, 8 July 2020, p. 82.

87 Defence advised the ANAO that 'effects of the COVID19 Pandemic have continued to delay finalisation of the loan'.

Selection of attendees to trade shows and trade missions

3.33 TDA uses an expression of interest (EOI) process to select participants for trade shows. Participants are to be selected using mandatory criteria.⁸⁸ These are whether the potential attendee:

- is an Australian company as per the definition in the Defence Industrial Capability Plan;
- owns the intellectual property in their product or service being promoted at the trade event;
- has the capacity to provide defence specific or dual use goods or services to the Australian Department of Defence or an international defence partner; and
- has engaged with Defence Export Controls and provides evidence of an Export Control Assessment or Export Permit.

3.34 The ANAO examined TDA's trade show participant selection process for two trade shows in 2019. For the first trade show, 54 out of 60 participants met TDA's requirement to provide evidence of engagement with Defence Export Controls. For the second trade show, nine out of 10 participants met the requirements. In respect to the first show, Defence advised the ANAO that it only required participants to provide evidence of engagement with Defence Export Controls. In respect to the second show, Defence advised that it required participants to provide an up-to-date Defence Strategic Goods List (DSGL) assessment or export permit.⁸⁹

3.35 Defence also advised the ANAO that for future trade shows, it will expect to see evidence of an up-to-date assessment or permit. Defence further advised that the purpose of this requirement is to provide assurance that companies have engaged with Defence Export Controls and are aware of their export control obligations should a successful export deal eventuate. There is merit in Defence maintaining a focus on a potential participant's engagement with export control requirements, as it may not be a proper use of public resources to facilitate a company's involvement in a trade show if its goods/services cannot be exported due to export controls.

Development of a market intelligence capability

3.36 The strategy stated that:

The success of Australia's defence exports will be underpinned by the ability to match Australian industry capabilities with global export demand. The Australian Defence Export Office will develop a strong market intelligence capability, drawing upon insights from industry, defence market databases and Australia's overseas networks. An intelligence led approach will help government and industry to better plan their future activities and prioritise resources.⁹⁰

3.37 Defence advised the ANAO that a model for market intelligence was approved by the responsible Assistant Secretary on 18 June 2020 and that implementation has commenced. Defence

88 Further criteria can be applied if there are more applicants than can be supported, such as: available floor space; the extent to which the entity, product or service enhances sovereign capability; entity capability match to theme of the trade show; the level of critical value add TDA participation provides; and the number of previous TDA supported attendances at trade shows.

89 The DSGL is further discussed in Box 1 on page 38 of this audit report.

90 Defence of Defence, *Defence Export Strategy*, 29 January 2018, p. 67. See <https://www.defence.gov.au/Export/Office/> [accessed 9 June 2020].

also advised that it did not allocate dedicated resources and commence work on establishing a market intelligence capability until April 2019. Defence further advised that this work has faced challenges as robust defence export data is not readily available.⁹¹

3.38 In developing the market intelligence function Defence adopted a process to identify internal knowledge gaps. Defence also conducted an external consultation process to identify market intelligence products and potential models for the function, including with: relevant state and territory government representatives; the CDIC and Austrade; the United Kingdom Defence and Security Organisation; and Innovation Science and Economic Development Canada.⁹²

3.39 Work on the market intelligence function has included the development of:

- summaries of available market intelligence on particular markets. These have developed into Country Export Plans, intended to provide a three to five year plan to advance Australian defence export engagement by government and industry within priority markets, supported by evidence-based research and analysis. Defence advised the ANAO in April 2020 that plans are in development for 10 countries;
- an export market prioritisation tool intended to provide a framework for assessing defence export market priorities, identify where government assistance will be most effective, and inform focus areas for the export office. Defence advised the ANAO that it intends to circulate the tool for formal stakeholder and whole-of-government consultation in the third quarter of 2020; and
- Export Market Factsheets to provide a high-level overview of priority export markets. This is intended to support Australian Government officials by helping them to quickly understand the export landscape and engage with those markets.

91 Export data is discussed further in paragraphs 4.11–4.16 of this audit report.

92 The Defence and Security Organisation is a UK government organisation which provides export advice and assistance to industry.

4. Monitoring and reporting

Areas examined

This chapter examines whether the Department of Defence (Defence) has established effective arrangements to monitor and report on implementation of initiatives under the strategy and the achievement of defined objectives.

Conclusion

Monitoring and reporting on implementation has been partially effective. Defence has established some arrangements for monitoring and reporting on the implementation of initiatives under the strategy, but has not established effective arrangements for measuring the achievement of defined objectives. Defence has not established a performance framework or effective reporting arrangements to measure progress towards achieving the strategy's overarching goal and objectives and, as a result, the extent to which these have been achieved is not clear. Defence has established partially effective arrangements for monitoring and reporting on the implementation of initiatives in the strategy by the Australian Defence Export Office. Formal reporting on implementation progress to the Minister and Defence senior leaders has been limited.

Area for improvement

The ANAO made one recommendation aimed at Defence extending the Defence Export Strategy's performance framework and developing an evaluation framework to measure and report on the achievement of the strategy's overarching goal and specified objectives.

4.1 To assess Defence's implementation monitoring and reporting arrangements, the following matters were examined by the ANAO:

- Has an effective performance framework been established to measure and report on progress towards the strategic goal and objectives and evaluate outcomes?
- Has Defence established reporting arrangements to provide assurance that initiatives delivered under the strategy contribute to the outcomes government expects?

Has an effective performance framework been established to measure and report on progress towards the strategic goal and objectives and evaluate outcomes?

Defence has not established a performance framework or effective reporting arrangements to measure progress towards achieving the strategy's overarching goal and objectives. As of June 2020, Defence had not established baseline data for defence exports or a methodology for measuring defence exports. At the initiative level, a framework to assess the progress of strategy initiatives has been developed and mechanisms have been implemented for two initiatives to assess achievements and consider lessons learned from their specific activities.

Performance and evaluation frameworks

4.2 A performance framework can assist entities in monitoring and measuring program performance, and support an understanding of whether a program is achieving its intended outcomes.

4.3 The Australian Defence Export Office (the export office) has developed a performance framework to monitor the level of defence export support accessed by defence industry. The framework, which was provided to the Minister for Defence Industry on 8 April 2020, includes measures that assess the progress of strategy initiatives, but not delivery of the strategy's overarching goal and objectives.⁹³ As at June 2020, the framework was yet to be approved.

4.4 Defence has not developed an overarching evaluation framework for the strategy and is yet to assess outcomes at the strategy objective level.

4.5 As set out in paragraphs 1.6–1.7, when the Defence Export Strategy was launched in January 2018, the Australian Government articulated a set of ambitious overarching objectives to be achieved by 2028. The focus of Defence's performance framework remains at the initiative level, and it would be appropriate to extend its focus to the achievement of the strategy's overarching goal and specified objectives.

Recommendation no. 1

4.6 That Defence extend the Defence Export Strategy's performance framework and develop an evaluation framework to measure and report on the achievement of the strategy's overarching goal and specified objectives.

Department of Defence response: *Agreed.*

4.7 *Defence agrees to the recommendation.*

4.8 *Defence will further develop the Defence Export Strategy's performance framework to address the objectives of the Strategy and develop an evaluation framework to measure and report on the achievement of the Strategy's overarching goal and objectives.*

4.9 *Defence notes that identification and measurement of defence industry exports is a complex undertaking. The establishment of an exports baseline and tracking changes over time will take several years.*

4.10 At the initiative level, Team Defence Australia and Australian Military Sales — which are responsible for (respectively) the expanded Team Defence Australia trade show program and Australian Military Sales Catalogue initiatives — have both implemented assessment mechanisms. These focus on assessing the outcomes and considering the lessons learned from specific activities undertaken as part of strategy initiatives. Assessment mechanisms include participant surveys and reports about trade shows.

⁹³ The framework sets out delivery objectives, program activities, project deliverables and performance indicators.

Measuring defence exports

4.11 As discussed in paragraph 2.29, Defence's November 2017 brief to the Minister for Defence Industry (the Minister) and the Minister for Defence, presenting the proposed strategy, advised that a 'clear systematic means to measure defence export outcomes will be an early priority as Defence does not currently have a robust baseline to work from'.⁹⁴ This situation was reflected in the strategy, which included an initiative to 'establish strengthened measures of Australian defence exports'.⁹⁵ Defence has not made substantive progress since the strategy was released.

4.12 In the strategy, the Australian Government committed to establishing strengthened measures of Australian defence exports through an annual survey as a part of the Defence Industrial Capability Plan.⁹⁶ However, the defence industry capability survey, conducted in January 2017 by Defence to support the Defence Industrial Capability Plan, did not include questions related to exports. The Centre for Defence Industry Capability (CDIC) conducted a further defence industry survey in October 2018, intended as an annual survey to support the development of a defence industry baseline. Defence advised the ANAO that the survey was not able to be used due to a low response rate and questions not being mandatory. Defence further advised that following discussions with the CDIC, it was agreed that the defence industry survey conducted in 2018 would not be conducted again. In July 2020 the Australian Government agreed that Defence work with the Australian Bureau of Statistics on options for the measurement of Australia's defence industry inputs and outputs. Defence advised the ANAO that this work may include a survey approach similar to the survey model used by the Canadian Government.

4.13 The strategy also notes that the development of a defence export baseline will be supplemented by data and advice from other Australian Government sources, including:

- Austrade — to provide information on supporting defence exports as outlined in the Memorandum of Understanding (MoU);
- the Defence Export Controls Branch — to provide data on export permit applications; and
- the CDIC — to provide insights into the broader Australian defence industrial environment.⁹⁷

4.14 These sources have not substantially assisted Defence to establish a methodology for measuring defence exports. For example, Defence's MoU with AusTrade includes the requirement for Business Development Managers to share information on export opportunities with Defence, but Austrade does not collect data that would be relevant for establishing a defence export baseline. The Defence Export Controls branch publishes data on export permit applications, including declared value on approved permits, but as discussed in paragraph 2.31, it does not collect data on permit utilisation.

94 Department of Defence, *Ministerial Submission: Finalisation of the Defence Export Strategy*, 14 November 2017.

95 Defence of Defence, *Defence Export Strategy*, 29 January 2018, p. 69.

96 The Defence Industrial Capability Plan, and its interaction with the strategy, is set out in Appendix 3 of this audit report. Defence's commitment to strengthened measures is set out in Department of Defence, *Defence Export Strategy*, 2018, p. 69 and p. 79.

97 *ibid*, p. 79.

4.15 Defence advised the ANAO that it has encountered challenges in finding appropriate data to measure defence exports. These have included:

- the absence of an Australian Government category or data collection mechanism. For example, the Australian Bureau of Statistics tracks exports through the Australian Harmonised Export Commodity Classification — the system used by exporters when providing export declarations to the Department of Home Affairs — but the system does not differentiate between defence or civilian exports for a given industry; and
- industry reluctance to share export outcomes, for commercial-in-confidence reasons.

4.16 In April 2020 Defence requested that the Minister agree that a planned submission to government on the economic impact of defence industry also address defence industry exports. Defence advised the ANAO that it intended to provide further information to government on its plans for baseline measurement in that context, and that the request was with the Minister's office as at 17 August 2020.

Has Defence established reporting arrangements to provide assurance that initiatives delivered under the strategy contribute to the outcomes government expects?

There is limited reporting on progress in delivering the strategy to the Minister and Defence senior leaders, to demonstrate that the strategy is contributing to the outcomes that government expects. There is no reporting or publicly available information on Defence's achievement towards strategy objectives, although there has been public reporting on the progress of some strategy initiatives.

Reporting on the strategy's implementation

4.17 As noted in paragraph 1.3, the strategy states that a 'strong, resilient and internationally competitive Australian defence industry is essential to our national security'.⁹⁸

4.18 The ANAO examined internal and external reporting arrangements established by Defence to provide assurance that initiatives delivered under the strategy contribute to the outcomes government expects.

Internal reporting on the strategy's implementation

4.19 Defence's internal reporting on the delivery of strategy initiatives against timeframes and budget is set out in Table 4.1 below. The Australian Defence Export Advocate (the advocate) is also required to 'regularly' report to the Minister on activities, through the export office. The advocate provides the export office with monthly invoices which include descriptions of activities. Defence advised the ANAO that the advocate also has conversations directly with the Minister.

⁹⁸ Department of Defence, *Defence Export Strategy*, 2018, p. 4.

Table 4.1: Reporting on the delivery of strategy initiatives

Report Name	Recipient	Reporting against Timeframes	Reporting against Budget	Frequency
Implementation status report	Assistant Secretary, First Assistant Secretary or Minister's office ^a	Yes	No	February, March and April 2018
Strategic Policy and Intelligence Group branch head reports ^b	Enterprise Business Committee	No	No	Quarterly
Update to the Minister	Minister for Defence Industry	No	No	Once: 8 April 2020

Note a: Implementation status reports were provided to the Assistant Secretary in February and March 2018, to the First Assistant Secretary Defence Industry Policy in April 2018, and to the Minister's office in February 2018.

Note b: Strategic Policy and Intelligence Group branch head reports are further discussed in paragraphs 4.20–4.21 of this audit report.

Source: ANAO analysis

4.20 Industry Policy Division in the Strategic Policy and Intelligence Group is required to complete a quarterly report⁹⁹ to support enterprise-level reporting through the Enterprise Business Committee.¹⁰⁰ The report tracks progress against the Group's business plan and the relevant Defence business plan activities. In 2018–19, the Defence business plan included a performance measure to implement the export strategy initiatives in line with the timeframes stated in the strategy. After this business plan, Defence ceased producing a Defence business plan, and determined that group business plans would instead feed into the Defence annual report. The 2019–20 Strategic Policy and Intelligence Group business plan did not include a specific measure for the strategy.

4.21 Defence provided the ANAO with the monthly/quarterly reports for 2018–19 and 2019–20. The July to October 2018 reports included the 2018–19 Defence business plan measure related to the strategy, and provided a high level overview of progress that the strategy was 'on track' towards implementation in line with strategy timeframes. The basis of this assessment was not clear, as Defence has been unable to provide evidence that strategy timeframes have been tracked since the early implementation status reports set out in Table 4.1 above, which ceased in April 2018.

4.22 While there was one specific update on strategy delivery to the Minister (as set out in Table 4.1) the implementation status reports completed from February to April 2018 were the only reports to senior leaders that tracked against strategy timeframes, and no reports tracked against budget.¹⁰¹ Based on the reporting available, ministers and senior leaders had limited visibility of the

99 This was a monthly report until November 2018.

100 The Enterprise Business Committee is responsible for exercising strategic control over the corporate and military enabling functions of Defence, ensuring the effective operation of Defence business. Performance monitoring and reporting is included in the committee's remit. The Committee is chaired by the Associate Secretary and its members comprise the Vice Chief of the Defence Force, Chief of Joint Capabilities, Deputy Secretary Strategic Policy and Intelligence, Chief Finance Officer, Chief of Navy, Chief of Army, Chief of Air Force, Deputy Secretary Capability Acquisition and Sustainment, Deputy Secretary Defence People, Chief Information Officer, Deputy Secretary Estate and Infrastructure and the Chief Defence Scientist.

101 All examples of this report available to the ANAO are the same document, as the report was updated from a single template in Defence's records management system, overriding each previous report.

extent to which the strategy has achieved its milestone dates.¹⁰² There is no evidence that implementation of the strategy is considered at the Defence Committee.

External reporting on strategy delivery

4.23 The strategy states that Defence will report on strategy implementation and export office activities as part of its annual performance reporting requirements.¹⁰³ There was no explicit reference to the strategy and limited reference to initiatives in Defence's 2018–19 *Annual Report*. Defence's 2017–18 *Annual Report* listed the release of the strategy as a key policy deliverable to contribute to the achievement of the Defence Industry Policy Statement. The report noted implementation of the following strategy initiatives:

- release of the 2018 Australian Military Sales Catalogue in March 2018;
- opening of the export office and appointment of the advocate in April 2018; and
- the inaugural meeting of the Defence Export Forum in May 2018.

4.24 The public has been provided with information on strategy initiatives through ministerial media releases. The general content of these is summarised in Table 4.2 below. Ministerial releases have also included announcements of Australian defence industry export or contracting successes, with reference to the strategy.¹⁰⁴

Table 4.2: Content of Defence Export Strategy ministerial media releases, January 2018 to June 2020

Type of release	Number of releases
General reference to the strategy	12
Update on initiatives	17
Grant announcements	4
Tradeshow announcements	6
Announcement of Australian defence industry export or contracting success, with reference to the strategy	13
Total	52

Source: ANAO analysis of Ministerial media releases.

Reporting on strategy objectives

4.25 As noted in paragraph 4.3, there is no framework to assess progress against strategy objectives. As a result, there is no reporting on progress towards strategy objectives to Defence senior leaders, government or the Parliament. The Minister has been periodically provided with

102 See Chapter 3 of this audit report for the ANAO's analysis of whether the delivery of initiatives has been on time and on budget.

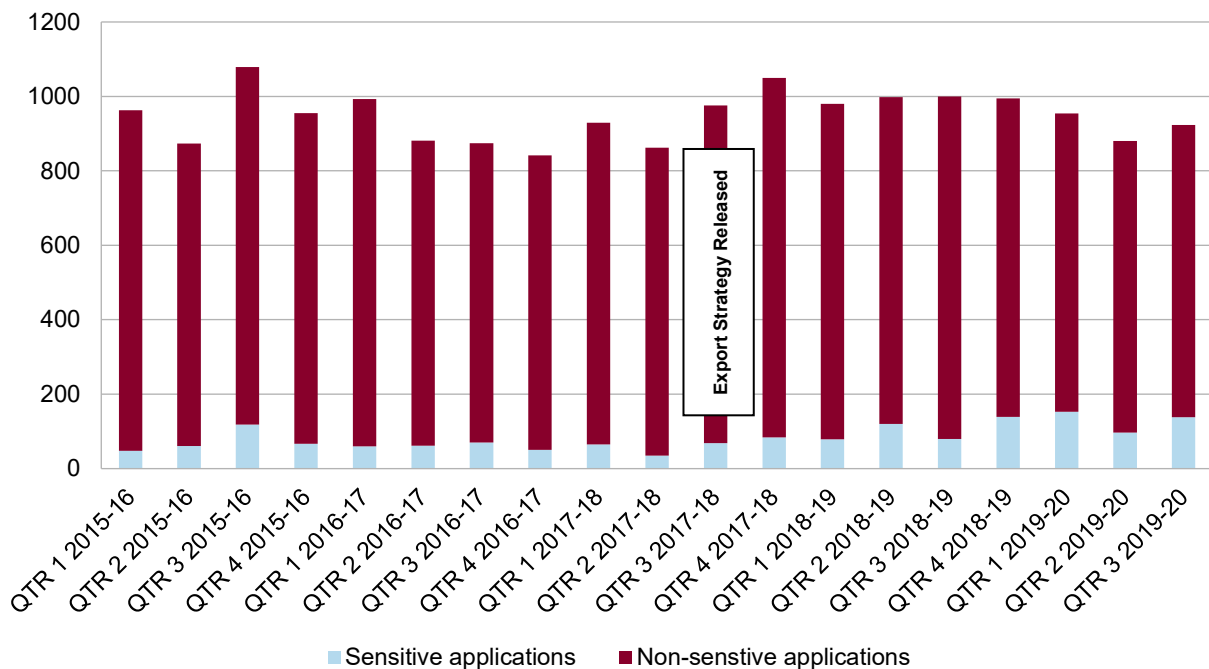
103 Department of Defence, *Defence Export Strategy*, 2018, p. 80. There are no performance measures related to implementation of the strategy or the achievement of strategy objectives in the Defence Corporate Plan or Portfolio Budget Statements. There has not been a performance measure related to the strategy in Defence's Annual Performance Statements.

104 Outcomes are not always attributed to the strategy, but are used to demonstrate the type of support available under the strategy.

information on export outcomes and opportunities that Defence has become aware of, most recently in November 2018, although these outcomes are not directly attributed to the strategy.¹⁰⁵ This includes information on the date that an export success was made public, details of the exporting company, a description of the export, the electorate of the company, the country being exported to, and the estimated value where known.

4.26 An August 2018 ministerial release pointed to increased Defence export permit applications as evidence that Australian defence industry is increasingly seeking export opportunities, linking this to the strategy. Figure 4.1 below illustrates export permit application data from quarter one of 2015–16 to quarter three of 2019–20.

Figure 4.1: Export permit application data^a



Note a: This data relates to export permit applications, not permit approvals. Defence Export Controls publishes data related to applications and application outcomes on the Defence website. Not all applicants who are granted an export permit will go on to export their product.

Source: ANAO analysis of Defence Export Controls data.

Grant Hehir

Grant Hehir
Auditor-General

Canberra ACT
10 September 2020

105 Defence advised the ANAO that export outcomes can take years to eventuate, and that strategy initiatives are touch points that may assist in the export process, but cannot be directly attributed to an export result. For example, attendance at a Team Defence Australia event may assist a business in making connections, and appearance in a Military Sales Catalogue may assist a business with the perception of legitimacy, but the business is responsible for driving the negotiations that result in an export.

Appendices

Appendix 1 Response from the Department of Defence



Australian Government
Department of Defence

PO Box 7900 CANBERRA BC ACT 2610

Mr Grant Hehir
Auditor-General
PO BOX 707
CANBERRA ACT 2601

Dear Mr Hehir

Australian National Audit Office Section 19 Proposed Report: Design and Implementation of the Defence Export Strategy

Thank you for your correspondence of 20 July 2020, containing the Proposed Report extract for the ANAO performance audit – *Design and Implementation of the Defence Export Strategy*.

Defence accepts the ANAO's conclusion that Defence's design and implementation to date of the Defence Export Strategy (the Strategy) has been partially effective. Defence agrees to the one recommendation made to extend the Strategy's performance framework and develop an evaluation framework to measure and report on the achievement of the Strategy's overarching goal and specified objectives.

Defence acknowledges the challenge of measuring the achievement of the Strategy's overarching goal and key objectives without an established defence exports baseline. Establishing a baseline is a complex undertaking and Defence has actively engaged across government, defence industry and the private sector to identify an appropriate solution. The full implementation of the evaluation framework will take several years, allowing for the establishment of a baseline and measurement of changes over time.

Defence welcomes the acknowledgement that fit-for-purpose governance, co-ordination and stakeholder engagement arrangements have been established and implemented to support delivery of the Strategy. Following the release of the Strategy in 2018, the Australian Defence Export Office was established to implement it. Most of the Strategy initiatives have been progressed and a number of key outcomes delivered.

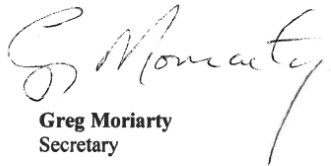
Attached to this letter are Defence's Proposed Amendments, Editorials and Comments (**Annex A**), Defence's Response to Requests for Information (**Annex B**), Defence's Response to the Proposed Recommendation (**Annex C**) and the Defence Summary Response (**Annex D**). These constitute Defence's formal response to the Proposed Report.

Our point of contact is ANAO Liaison Officer, Nicole Fry who can be contacted by telephone on 02 6266 3103 or email: nicole.fry@defence.gov.au.

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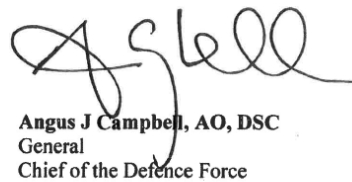
Defence remains committed to assisting you with the successful completion of this audit. We look forward to the upcoming tabling of the Final Report.

Yours sincerely



Greg Moriarty
Secretary

17 August 2020



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

11 August 2020

Annexes:

- A) Defence's Proposed Amendments, Editorials and Comments
- B) Defence's Response to Requests for Information
- C) Defence's Response to the Proposed Recommendation
- D) Defence Summary Response

Appendix 2 Strategy Initiatives

Table A.1: Defence Export Strategy Initiatives

Strategy paragraph	Initiative	Implementation milestone ^a	Key initiative ^b
4	Establish new Australian Defence Export Office	✓	
4.5	Appoint the Australian Defence Export Advocate	✓	✓
4.7	Team Defence Australia initiative transferred from Centre for Defence Industry and Capability to Australian Defence Export Office		
4.8	Australian Military Sales Office integrated into Australian Defence Export Office ^c		
4.9	Establish a Memorandum of Understanding between the Australian Defence Export Office and Austrade	✓	✓
4.11	Establish a Defence Export Forum	✓	✓
4.15	Seek greater opportunities as part of Foreign Military Sales and Cooperative Programs	✓	
4.16	Integrate earlier identification of export opportunities within its business practices, including for sensitive technologies	✓	✓
4.17	Consider strategies including strengthening government-to-government agreements to ensure indigenously developed sensitive technologies and intellectual property remain under Australian control.		
4.18	Seek to develop Memorandum of Understanding specifically addressing defence industry cooperation		
4.19	Seek to identify industry opportunities early in Defence Cooperation Program initiatives		
4.20	Expand the Centre for Defence Industry and Capability's export-related advisory services to help Australian businesses better position themselves for export opportunities		
4.21	\$4.1 million to expand the Centre for Defence Industry and Capability's grant offerings to help build the capability of small to medium enterprises to compete internationally	✓	✓
4.22	The Defence Security and Vetting Service will continue to develop security arrangements which best balance Defence and Australian industry export objectives		✓
4.23	Develop a strong market intelligence capability.		✓
4.28	Establish strengthened measures of Australian defence exports as part of an annual survey		

Strategy paragraph	Initiative	Implementation milestone ^a	Key initiative ^b
4.24	Develop strategic multi-year campaigns for priority markets and capabilities supported by an additional \$6.3m pa	✓	✓
4.25	Team Defence Australia initiative will deliver an expanded program of tradeshows complemented by a program of targeted trade missions		✓
4.26	Expand the Australian Military Sales Catalogue	✓	
4.27	Provide the Global Supply program an additional \$3.2m per annum to sustain and expand the program		✓
4.29	Supplement the existing Defence and Austrade networks to support defence exports.	✓	✓
4.30	Develop a defence export training package to assist Defence Attachés and other Australian Government representatives overseas	✓	
4.31	Work with the Minister for Defence Industry, Minister for Defence, Trade Minister and Defence officials to identify and prioritise high-level advocacy opportunities as part of the campaign approach for key markets and capabilities		
4.32	Consider releasing Australian Defence Force personnel to provide their perspective and practical operational experience in support of Australian defence industry		
4.33	Access additional assistance from Austrade		
4.34	Establish a dedicated mechanism for the Export Finance and Insurance Corporation to refer applications for defence export finance to be written on the National Interest Account		✓

Note a: The *Defence Export Strategy* sets out implementation milestones with due dates on p. 76.¹

Note b: The *Defence Export Strategy* sets out key initiatives on pp. 17–18.

Note c: The Australian Military Sales Office became Australian Military Sales after transferring into the Australian Defence Export Office.

Source: ANAO analysis of *Defence Export Strategy* and Defence Records

Appendix 3 Defence industry policy

1. The relationship between the strategy and other Defence policies is set out in Table A.2.

Table A.2: The relationship between the strategy and other Defence industry policies

Date of release	Name	Relationship to the strategy
25 February 2016	<i>2016 Defence Industry Policy Statement</i>	The objective of the policy statement is to 'deliver the Defence capability necessary to achieve the strategy set out in the Defence White Paper, supported by an internationally competitive and innovative Australian defence industrial base.'
25 February 2016	<i>2016 Integrated Investment Program</i>	The program is intended to guide the implementation of Defence capability investment. The strategy states the program will 'play a key role in further developing Australian defence industry strength for export potential.'
16 May 2017	<i>2017 Naval Shipbuilding Plan</i>	The strategy states the plan will 'provide Australian defence industry with the certainty and enhanced capability to target a range of direct export opportunities...' through the development of innovative technologies and continuous shipbuilding capability.
February 2008, aligned with the Defence Industry Policy Statement in June 2017	<i>Australian Industry Capability Program</i>	The program aims to 'create opportunities for Australian companies to compete on their merits for Defence work on a value for money basis.' The strategy states that this will involve strengthened consideration of export opportunities.
23 April 2018	<i>2018 Defence Industrial Capability Plan</i>	The plan was developed in parallel with the strategy. The plan states that it sets out a 'long-term vision and roadmap for Australian defence industry' to achieve a sovereign defence industry and deliver a 'strong, internationally competitive and sustainable sector.' The strategy states that it provides export-specific policies and initiatives to implement the plan and support the Sovereign Industrial Capability priorities set out in the plan.
March 2019	<i>Defence Industry Skilling and STEM Strategy</i>	The strategy states that the Defence Industry Skilling and STEM strategy aims to ensure that Australian defence industry has a workforce with the right skills to meet future capability requirements and help build the export potential of Australian defence industry.

Source: ANAO analysis of Defence industry policy documents.

Appendix 4 Stockholm International Peace Research Institute Defence Export Rankings

1. Stockholm International Peace Research Institute (SIPRI) data on arms transfers (defence exports) relates to actual deliveries of major conventional weapons. To permit comparison and to identify general trends, SIPRI has developed a system to measure the volume of international transfers of major conventional weapons using a common unit, the trend-indicator value (TIV). The TIV is based on the known unit production costs of a core set of weapons and is intended to represent the volume of transfer of military resources rather than the financial value of the transfer. On 6 April 2020 Defence provided the Minister for Defence Industry with a brief outlining the limitations in SIPRI data, including that as it is based on the export of major arms, 'it does not necessarily capture all defence exports, most notably the provision of services, maintenance, and technical upgrades, where Australian Defence Industry is strongest'.

2. SIPRI produces annual rankings based on year-on-year and five year average data. The year-on-year data captures what actual transfers took place in a given year, while the five year average data provides a more stable indicator, to account for variations in transfers in a given year. Table A.3 sets out the five year average rankings and TIV values for 2015–2019, and table A.4 sets out the year-on-year rankings.

Table A.3: Australia's Stockholm International Peace Research Institute five year average rankings for transfers of major weapons and Trend Indicator Values compared to countries with at least one top-10 defence export ranking between 2015 and 2019

Supplier	Rank 2015	TIV 2011–15	Rank 2016	TIV 2012–16	Rank 2017	TIV 2013–17	Rank 2018	TIV 2014–18	Rank 2019	TIV 2015–19
Australia	20	446	20	400	19	470	21	454	19	505
China	3	8447	3	8767	5	8823	5	7883	5	8080
France	4	8035	4	8561	3	9498	3	9803	3	11544
Germany	5	6721	5	7914	4	8829	4	9122	4	8518
Israel	11	2593	10	3234	8	4119	8	4355	8	4331
Italy	8	3844	8	3824	9	3621	9	3314	9	3134
Netherlands	10	2791	11	2747	10	2986	10	3050	11	2703
Russia	2	36233	2	33185	2	32358	2	30878	2	30069
South Korea	15	1052	13	1427	12	1841	11	2560	10	3085
Spain	7	5048	7	3958	7	4232	7	4529	7	4539
Switzerland	14	1440	14	1380	13	1361	13	1422	13	1346
Ukraine	9	3686	9	3678	11	2432	12	1953	12	1422
United Kingdom	6	6477	6	6586	6	7038	6	6129	6	5451
United States	1	46908	1	47169	1	48983	1	51890	1	53033

Source: ANAO analysis of SIPRI five year average data.

Table A.4: Australia's Stockholm International Peace Research Institute year-on-year rankings for transfers of major weapons and Trend Indicator Values compared to countries with at least one top-10 defence export ranking between 2015 and 2019

Supplier	Rank 2015	TIV 2015	Rank 2016	TIV 2016	Rank 2017	TIV 2017	Rank 2018	TIV 2018	Rank 2019	TIV 2019
Australia	21	87	19	134	18	98	25	38	16	148
China	4	1845	4	2360	7	1227	7	1040	4	1423
France	3	2017	5	2218	3	2302	3	1768	3	3368
Germany	5	1759	3	2518	4	1980	4	1277	5	1185
Israel	8	721	6	1441	5	1254	9	707	10	369
Italy	9	664	8	619	10	802	10	611	9	491
Netherlands	11	461	10	471	8	1132	11	369	11	285
Russia	2	5842	2	6685	2	5741	2	6409	2	4718
South Korea ^a	20	101	9	479	11	751	6	1083	8	688
Spain	7	1163	11	471	9	820	5	1188	6	1061
Switzerland	10	466	15	215	14	184	13	243	12	254
Ukraine	13	342	12	471	12	293	14	224	21	91
United Kingdom	6	1179	7	1367	6	1235	8	741	7	972
United States	1	9931	1	9955	1	12485	1	10508	1	10752

Note a: Significant upwards movement by countries such as South Korea suggest that there is mobility within defence export rankings. Provided that other countries' TIVs relative to each other remain stable, Australia would need to increase its TIV by 2.5 times to move into the top ten in the year-on-year rankings.

Source: ANAO analysis of SIPRI year-on-year data

Appendix 5 The Defence Global Competitiveness Grants Program

1. The strategy allocated \$4.1 million annually for grants, to be delivered through the Defence Global Competitiveness Grant program for small to medium enterprises (SMEs). The purpose of the program is to ‘build a stronger, more sustainable, globally competitive Australian defence industry by supporting eligible Australian SMEs to build export capability.’¹⁰⁶ Grants of up to \$150,000 are available to cover up to 50 per cent of eligible project costs, with no limit on the number of grants a business can receive over the life of the program.

2. On 2 January 2019, the grant opportunity guidelines for the Defence Global Competitiveness Grants program were published on the CDIC¹⁰⁷ website. The guidelines were not published on GrantConnect until 16 May 2019.¹⁰⁸ The first 14 grants were announced on 9 September 2019. Nine rounds of grants have been awarded (as at 1 July 2020), as set out in Table A.5 below. Of the 51 applications assessed, 29 (57 per cent) were approved. Of the \$4.1 million per year allocated to the program, approximately \$1.4 million was awarded in 2018–19, and approximately \$2.3 million was awarded in 2019–20.

Table A.5: Defence Global Competitiveness Grants program — approved grants by round^a

Round	Grant round dates	No. of grants awarded	Merit assessment finalised	Delegate approved	Funding amount (GST inclusive)
Round 1	2 Jan–25 Feb 2019	4	19 Mar 2019	19 Mar 2019	\$660,000.00
Round 2	26 Feb–23 Apr 2019	5	29 Apr 2019	29 Apr 2019	\$745,742.80
Round 3	24 Apr–30 Jun 2019	5	5 Jul 2019	5 Jul 2019	\$636,266.40
Round 4	1 Jul–31 Aug 2019	3	4 Sept 2019	5 Sept 2019	\$283,281.90
Round 5	1 Sep–28 Oct 2019	2	6 Nov 2019	6 Nov 2019	\$218,950.60
Round 6	28 Oct 2019–10 Jan 2020	4	13 Jan 2019	14 Jan 2019	\$430,092.30
Round 7	11 Jan–6 Mar 2020	2	10 Mar 2020	25 Mar 2020	\$106,480.00
Round 8	7 Mar–22 Apr 2020	2	30 Apr 2020	30 Apr 2020	\$330,000.00
Round 9	23 Apr–10 May 2020	2	21 May 2020	21 May 2020	\$330,000.00
Total		29			\$3,740,814.00

Note a: Grant recipients can be located through a search for Defence Global Competitiveness Grants at www.grants.gov.au

Source: Defence data.

106 Department of Industry, Innovation and Science and Department of Defence, *Grant Opportunity Guidelines: Centre for Defence Industry Capability - Defence Global Competitiveness Grants*, p. 5.

107 The Centre for Defence Industry Capability (CDIC) is part of the Department of Industry, Science, Energy and Resources.

108 Department of Finance, *Commonwealth Grant Rules and Guidelines*, 2017. Paragraph 5.2 states that: ‘Grant opportunity guidelines must be made publicly available on GrantConnect, except where there is a specific policy reason to not publicise the grant opportunity guidelines or grants are provided on a one-off or ad hoc basis.’

3. Defence is responsible for reporting on grants awarded under the program, with the Business Grants Hub¹⁰⁹ providing Defence with reporting templates and completed agreements.¹¹⁰ As at 1 July 2020, all signed Defence Global Competitiveness Grants agreements had been reported on GrantConnect. Of the published grant outcomes, 21 (75 per cent) were not published within the timeframe required by the Commonwealth Grants Rules and Guidelines¹¹¹, ranging from 16 to 352 (appropriately 11.5 months) days overdue.

109 The Business Grants Hub is the Department of Industry, Science, Energy and Resources' grants administration system.

110 While Defence is responsible for funding the Defence Global Competitiveness Grants program, the Department of Industry, Science, Energy and Resources administers the grants through the Centre for Defence Industry Capability. Grant agreements are between the recipient and the Commonwealth, represented by the Department of Industry, Science, Energy and Resources.

111 Department of Finance, *Commonwealth Grants Rules and Guidelines*, 2017. Paragraph 5.3 states that: 'From 31 December 2017 an entity must report, on GrantConnect, information on individual grants (as defined in paragraph 2.3) no later than twenty-one calendar days after the grant agreement for the grant takes effect.'