

# ADVANCE DEFENCE INDUSTRIAL BASE INTEGRATION

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## Context and background

**Australia should pursue more innovative ways to advance defence industry integration with the United States, including by coordinating with Canada and the United Kingdom.** A collective approach to defence industrial base integration between the United States and its close allies is essential to maintaining a conventional military edge in the Indo-Pacific. China is on a path to match – if not surpass – the combined R&D spending of the United States, Canada, the United Kingdom, Australia and New Zealand by the mid-2020s.<sup>12.1</sup> Harnessing new technologies, integrating them into allied defence forces and ensuring their affordability for middle powers like Australia are critical steps to achieving a favourable balance of power in the region.<sup>12.2</sup>

The US Congress recognised these challenges in 2017 when it expanded America’s National Technology and Industrial Base (NTIB) to include Australia, the United Kingdom and Canada. Its aim was to deepen connections between allied defence and national security industries, eventually creating a defence free trade zone.<sup>12.3</sup> However, meaningful progress on implementing this framework has stalled. This is because Washington has failed to address core hurdles to further integration, such as its treatment of US allies under extraterritorial export controls like the International Traffic in Arms Regulations (ITAR).

## The Biden administration

The prospects for substantial defence industrial integration under the Biden administration are dim. Biden’s campaign platform was clear: the Trump administration had let too many foreign companies bid on US Government contracts, including those issued by the Pentagon, undercutting American manufacturing and industrial jobs. Biden has already moved to fulfil his campaign promise, issuing an executive order strengthening “Buy American” regulations during the first week of his administration.<sup>12.4</sup> The new order centralises much of the decision-making power over waivers for the regulations within the White House, expands the list of products covered and closes some well-known loopholes.<sup>12.5</sup>

These domestic priorities are clearly at odds with the spirit of further industrial integration with close allies. Nevertheless, some senior Biden administration officials have voiced support for the strategic logic of deeper integration. In her written response to questions from Senators during her nomination process for Deputy Secretary of Defense, Kathleen Hicks stated that the NTIB should be “leveraged wherever possible” to strengthen defence relationships with allies. The NTIB would be part of the answer in encouraging competition within the US industrial base, she added, as well as fostering “collaboration, competition and innovation to ensure a healthy supply chain.”<sup>12.6</sup>

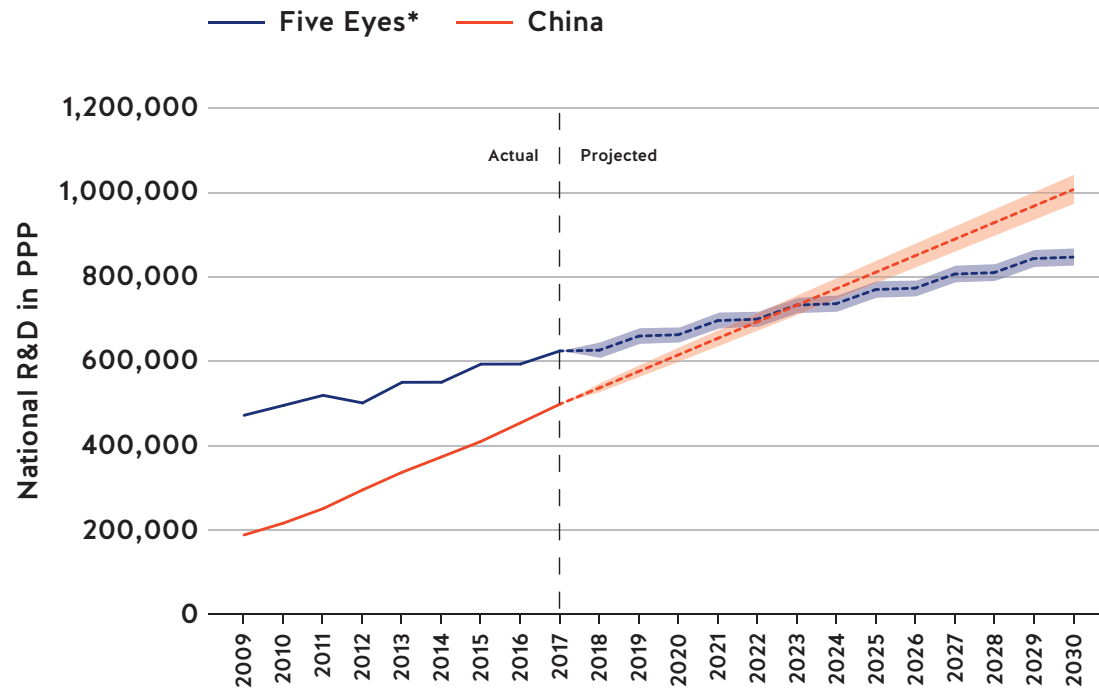
How this conflict between Biden’s domestic agenda and the requirements of allied strategic policy coordination will be resolved is uncertain. The president may be the decisive factor. Importantly, it was during Biden’s chairmanship of the Senate Committee on Foreign Affairs that the Australia-US Defence Trade Cooperation Treaty passed in 2008. Biden – and his staff director at the time, now Secretary of State Antony Blinken – raised concerns about the integrity of the treaty, questioning the reliability of Australia’s export control regime and the risks of establishing a precedent that weakens America’s ITAR rules.<sup>12.7</sup> Today, further defence industrial integration may hinge on whether the president’s views and those of his closest advisors have changed over the past decade or can be influenced in office.

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## Slow progress on the National Technology and Industrial Base

Australia has had recent success in pushing for further recognition of the importance of defence industrial integration at the highest levels of US political and national security leadership. The joint statement from AUSMIN 2020 noted the ongoing work of the AUS-US Defense Trade Working Group and promised to “help resolve defense trade issues of mutual concern, including on export controls.”<sup>12.8</sup> But progress in this area is increasingly measured by the success of individual specialised or pilot projects, rather than the wholesale change originally envisioned by the NTIB framework. For instance, a recent Australia-US bilateral agreement to work towards a prototype of a hypersonic weapon based on 15 years of joint research was concluded through a specialised allied capability program in the Pentagon.<sup>12.9</sup> While positive, the growing number of these specific, tailored, projects are a sign that overall progress has stalled.

Figure 11. Trends in national research and development



\* The Five Eyes countries are the United States, Australia, Canada, the United Kingdom and New Zealand

Source: R&D figures up to and including 2017 reflect total gross domestic expenditure on R&D. Figures are shown in purchasing power parity (PPP) dollars at current prices (as of 16 October 2019). Data retrieved from Organisation for Economic Co-operation and Development, “Gross domestic expenditure on R&D by sector of performance and source of funds,” 16 October 2019, available at: [https://stats.oecd.org/Index.aspx?DataSetCode=GERD\\_SOF#](https://stats.oecd.org/Index.aspx?DataSetCode=GERD_SOF#). R&D figures from 2018 to 2030 reflect a forecast using a version of the Exponential Smoothing (ETS) algorithm. The forecast is adjusted for seasonal variation. Included in this forecast are confidence intervals at a level of 95 per cent confidence.

## Australian interests

Australia has several overlapping interests in greater defence industrial integration with the United States. Canberra's 2020 Defence Strategic Update prioritises the development of a robust domestic defence industry as a key pillar in ensuring the delivery and sustainment of Australia's military modernisation efforts. Breaking down export barriers, facilitating better access to the US defence market and ensuring more equitable rules for intellectual property and collaboration are critical to this agenda.<sup>12.10</sup> If progress is not made, Australian companies will be increasingly deterred from collaborating with the United States owing to fears that their products and intellectual property will be captured by its far-reaching export controls. Allies will instead network with each other to avoid the US system, as evident in the recent agreement between Boeing Australia, the Australian Department of Defence and the United Kingdom on sharing design materials for the unmanned Air Power Teaming System.<sup>12.11</sup> Such activity deprives the United States of valuable innovation and niche technological capability.

Australia also has an interest in managing the affordability of modern military systems. As new generations of military equipment tend to rise in cost above inflation, it is burdensome for middle power allies to maintain

a credible level of interoperability with US forces.<sup>12.12</sup> This has become an even greater issue as systems like the F-35 fighter have failed to deliver on projected cost savings.<sup>12.13</sup> A competitive defence market will assist cost-control and maximise defence investment. Finally,

a collective approach to defence innovation will help Australia maintain a regional military technological edge – a pillar of Australia's defence strategy – by leveraging US and other trusted allied investments in R&D, talent and intellectual property.

## Policy recommendations

Australia has driven some bilateral wins in forging the NTIB framework into a workable mechanism for individual projects. Moving forward, additional specialised projects and a reformulated collective approach may be the most effective path towards further progress. Australia should:

- › **Caucus with NTIB members Canada and the United Kingdom in lobbying Congress and State Department officials.** A joint strategy and diplomatic effort will leverage the combined weight of all three allies in Washington. Although Canberra, London and Ottawa do not share perfectly aligned defence industrial interests – and in some cases are direct competitors – their common interest in a more equitable defence industrial relationship with the United States could be used to drive political-level changes.
- › **Establish a combined Australia-US munitions manufacturing project in Australia.** Munitions present a significant opportunity, in terms of strategic need and industrial capacity, to quickly stand up a demonstrable capability. Such an initiative would help bolster critical supply chains, build strategic resilience and fill gaps in America's defence industrial base.<sup>12.14</sup>
- › **Utilise the NTIB to expand the range and depth of defence innovation challenges among its members.** In 2017, Australia co-hosted an urban environment defence technology challenge alongside Canada, the United States, the United Kingdom and New Zealand.<sup>12.15</sup> Expanding such challenges to maritime, air and cyber environments, and linking them more directly to industry, would be a useful step towards building the case for further defence industrial integration.