DeltaPearl Partners

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

Executive Summary – Full Details in Final Report

Prepared for Sovereign Australian Prime Alliance

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SAPA
SOVEREIGN AUSTRALIAN PRIME ALLIANCE

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Context and background

In 2025 the Australian Government introduced significant reforms to the Commonwealth Procurement Rules (CPRs), lowering procurement thresholds for economic benefit assessments, strengthening preferences for local businesses, and formally defining "Australian business" in procurement policy.

The Sovereign Australian Prime Alliance (SAPA) tasked DeltaPearl Partners to set out arguments for and against stronger preferences for Australian defence suppliers (services and materiel) in Australian Government procurement using robust, quantitative evidence. Both government and industry have expressed an interest in understanding the actual economic returns that might be gained from a relative increase of procurement spending with Australian defence suppliers, hence the completion of this analysis.

Sovereign procurement yields higher returns

Our central finding is clear: a strategic reallocation of Defence procurement funding is one of the most powerful policy levers available to the Australian Government to maximise domestic economic benefit, create high-value jobs, and build genuine sovereign capability. This relates to procurement of both services and materiel. The economic analysis and modelling in this report demonstrate that prioritising genuinely Australian-owned and operated prime contractors delivers substantial fiscal and strategic benefits, termed the "defence dividend." This approach minimises profit leakage offshore, strengthens domestic supply chains, and fosters high-value job creation, innovation, and export potential. However, the CPRs and current framework do not deliver adequately on these goals.

Economic modelling scenarios

Three budget-neutral scenarios were modelled (i.e., assuming no change to the Defence budget set out in the National Defence Strategy) to quantify the national benefit of a revised procurement approach. All three scenarios create positive impacts through increased local jobs, taxes, and indirect supply chain stimulus.

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

Table 1: Comparison of scenario outcomes

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

This analysis demonstrates that prioritising Australian-owned primes in defence procurement delivers significantly greater economic returns for Australia. Relatively more spending with genuinely Australian-owned companies (Scenario 2) generates a 57% greater return to national GDP. And when combined with a 5% reduction in imports (Scenario 1) this produces the maximum Defence Dividend (Scenario 3) – a net annual GDP gain of between $5 billion and $8.1 billion.

Table 2 below shows the greatest gain is achieved from redirecting imports to all firms in Australia, incorporating foreign subsidiaries and Australian firms. The funds going to genuine Australian companies offer an incremental gain of $0.35-$0.58 per dollar (or a 57% added gain), as shown in Table 2.

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

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

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

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

The green-highlighted rows emphasise that reallocations of spending from imports and domestic spending toward Australian companies delivers the best outcomes.

Table 2. Economic gains per $1 million reallocated

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

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

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

In contrast, genuinely Australian sovereign companies:

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

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

Scenario 2, which focuses on prioritising spending with Australian companies (rather than Australian-based foreign subsidiaries) directly addresses this leakage. It retains profits, taxes, and strategic control within Australia. The economic impact of plugging the leakage is substantial because the retained wealth then tends to be reinvested into local R&D, workforce development, and capability expansion. As a result, Scenario 2 boosts national output, producing an additional $0.77–$1.2 billion in GDP and returning $1.37–$2.13 per dollar spent.

Therefore, when comparing Scenarios 1 and 2, there is a large net benefit achieved by moving funds away from imports and towards domestic spending (Scenario 1) as well as an added incremental benefit from allocating those funds to genuinely Australian companies rather than Australian-based foreign subsidiaries (Scenario 2). This sovereign defence dividend encompasses not only immediate economic multipliers but also innovation spillovers, export potential, supply chain resilience, and ESG advantages that foreign-owned entities have not historically delivered.

In summary, although shifting defence procurement spending away from imports to any domestic supplier is beneficial, the evidence shows a greater and compounding benefit is achieved when that spending is directed to genuinely Australian companies. They retain a much larger share of the investment within the Australian economy, delivering a superior return for the taxpayer and building a more resilient industrial base, thus producing a larger sovereign defence dividend.

Scenario 1 and Scenario 2 are not mutually exclusive. Scenario 3 (which simply combines Scenarios 1 and 2) incorporates both their effects, thereby producing a multiplicative effect. The Government can unlock returns to the Australian economy by both increasing the share of Defence procurement awarded to domestic suppliers, as well as by increasing the share of domestic procurement awarded to Australian primes. Implementing both measures together would increase Australian GDP by between $5.0 billion and $8.1 billion annually and generate between 25,569-43,205 FTE jobs within Australia annually, as shown in Figure 1 below.

Figure 1. Annual GDP added and job creation from reallocating Defence spending

Defence Procurement Context and Strategic Imperatives

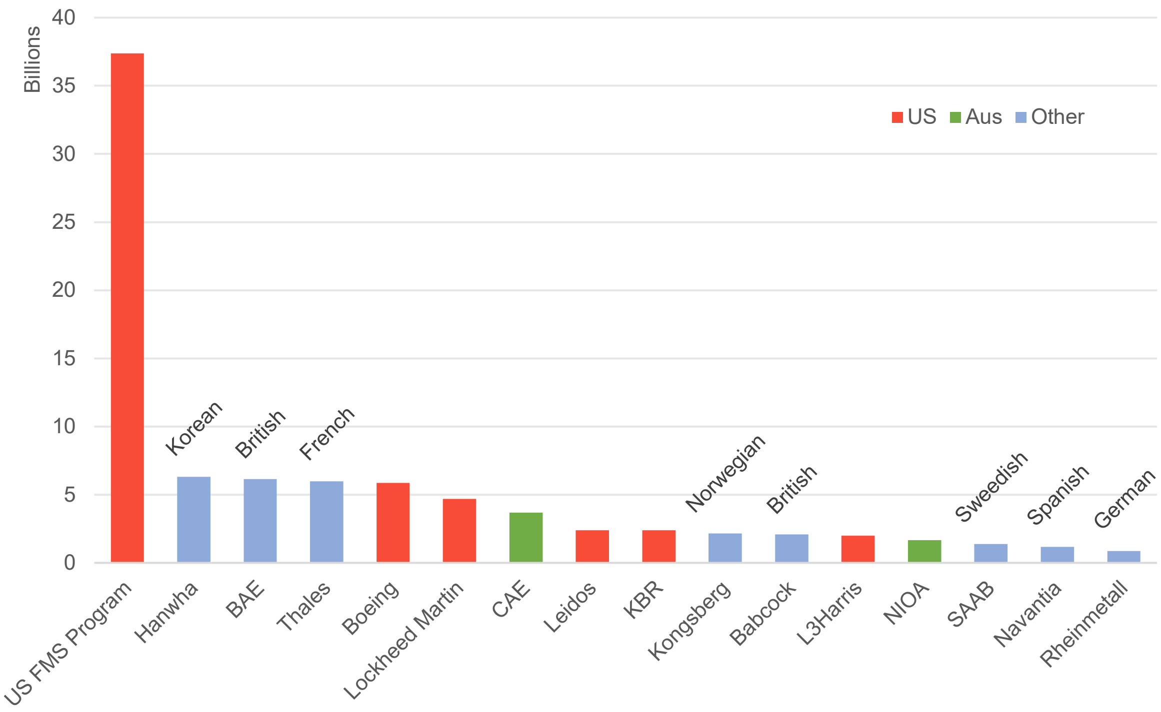
The Australian Government introduced reforms to the CPRs which came into effect in 2025 with the aim of directing more procurement toward goods and services from domestic firms. The CPRs apply to all Commonwealth Government procurement but will have a particularly significant impact on Defence, which is the largest departmental procurer by a considerable margin, accounting for around 56.1% of government contracting by value in 2024-25.

The CPR reforms strengthen requirements to consider “broader economic benefits” by lowering the thresholds for high-value procurements that require this assessment and increase commitments to source from SMEs, which are a significant component of the Australian defence industry, operating alongside large international primes, which have dominated Defence procurement to date. In addition, the Government included a definition of an Australian business for procurement and introduced an ‘Australian preference’ clause.[1]

The top 15 defence contractors are virtually all foreign-owned entities (known as primes), as shown below. Many have businesses operating in Australia, with Australian ABNs and addresses, but their headquarters and IP are not owned by Australia.

[1] https://www.finance.gov.au/government/procurement/commonwealth-procurement-rules

Figure 2. Value of Australian defence contracts awarded to the top 15 defence contractors, FY2021-2025[2]



Although the Australian Government has recognised the importance of directing more procurement toward Australian defence firms in broader policies and strategies, the "certain circumstances" in which the Australian preference applies is for procurement values under $125,000, which is very small by Defence standards, significantly reducing the breadth of its potential impact.

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

As revealed by a 2025 review of Defence contracts by the Australian National Audit Office, Defence has struggled to meet basic local participation commitments. The ANAO Report commented that 'Defence has not maximised Australian industry participation through the administration of its contracts' and that it had not been able to ensure suppliers met their local participation promises. This highlights a failure to translate policy ambition into operational reality and to fully capitalise on the strategic potential of domestic industry engagement.

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

Figure 3. ANAO Review (2025) of Defence's implementation of local participation requirements

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

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

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

Source: ANAO analysis of Department of Defence documents.

Benefits of Directing Procurement to Australian Businesses

Supply Chain Resilience and Sovereign Capability: Domestic sourcing fundamentally reduces exposure to global supply chain disruptions, geopolitical tensions, and strategic dependencies on potentially unreliable international suppliers. Local capacity ensures continuity of supply during crises, particularly conflict scenarios where international supply lines can be compromised or prioritised towards domestic markets. Sovereign Australian primes maintain control over critical technologies, IP, and production processes, enabling rapid surge capacity, design modifications, and sustainment without requiring foreign approvals or technology transfers. This sovereign control is indispensable for operational readiness and strategic autonomy in an era of heightened geopolitical uncertainty.

Economic Multipliers and Employment Creation: Every dollar invested in a domestic defence business circulates through the Australian economy, creating powerful multiplier effects. Direct spending supports high-skilled, high-wage employment for engineers, technicians, project managers, and tradespeople. Indirect benefits extend throughout supply chains—steel fabrication, software development, logistics, professional services, and research institutions—supporting a vast ecosystem of Australian primes. Critically, domestic investment minimises economic leakage—the portion of expenditure that flows offshore through profit repatriation, dividend payments, and foreign supply chain procurement. When contracts are awarded to genuinely Australian-owned primes, profits are retained onshore, reinvested in local research and development (R&D), workforce development, and capability expansion. The resulting tax revenue from corporate profits and employee incomes further strengthens the national fiscal position, creating a virtuous economic cycle.

Innovation and Technological Spillovers: Defence procurement sits at the technological frontier, driving advances that diffuse into civilian markets and generate substantial positive spillovers across the broader economy. The internet, GPS, advanced composite materials, and autonomous systems all originated in defence applications before transforming civilian industries. Australian companies are frequently at the forefront of innovation in rapidly evolving fields such as artificial intelligence, autonomous systems, counter-drone technologies, cyber security, and advanced sensors. These firms demonstrate agility and capacity for rapid prototyping and adaptation compared to large multinational primes. Government investment in sovereign defence projects de-risks private R&D, creates demand for cutting-edge solutions, and accelerates national productivity growth, driving transition towards a more complex, high-value industrial base. This technological diffusion is difficult to achieve through simple purchases of equipment from overseas suppliers.

Export Potential and Global Competitiveness: The global defence market is valued at over US$2.6 trillion in cumulative spending between 2023 and 2032. Directing procurement to Australian firms capable of developing exportable IP and services, advanced manufacturing and digital products, and conducting R&D, positions Australia to capture a share of this market, transforming defence from a cost centre into a revenue-generating export industry. Exports reduce lifecycle costs through economies of scale, attract private capital investment, strengthen international partnerships, and enhance Australia's strategic influence. Prospective export gains represent substantial long-term economic upside.

Environmental, Social, and Governance (ESG) Benefits: Australia's robust regulatory environment delivers superior ESG outcomes compared to key international suppliers. Australian emissions intensity is approximately 30% lower per dollar of GDP compared to US-based suppliers, the largest source of Defence imports. Australian labour standards, workplace safety, diversity and inclusion practices, ethical governance, and environmental stewardship significantly exceed those of major competitor nations. Offshoring defence procurement to overseas suppliers lacking Australia's strong ESG regime produces measurable global environmental and social harm in areas including but not limited to elevated carbon emissions, worker exploitation, and weak governance. Directing procurement to Australian firms ensures responsible stewardship of taxpayer funds and alignment with Australia's international commitments and domestic social licence objectives.

Costs, Risks, and Strategic Considerations

Local Cost Premium: In some cases, Australian defence companies face higher upfront costs due to smaller production runs and limited economies of scale compared to multinational primes. Industry sources suggest cost premiums may range from 15% to 40%, depending on sector and product complexity. However, many of the multipliers are determined in traditional manufacturing context. By contrast, when an Australian company designs and builds an original good or service, Australian procurement may involve lower costs than international procurement and be highly cost effective. Australian companies assert that their costs are competitive with or even lower than overseas competitors.

Industrial Capacity and Workforce Constraints: Australia’s economy faces structural challenges including fragmentation in advanced manufacturing capacity, skilled workforce shortages (notably in engineering, cyber security, professional services and trades), and supply chain bottlenecks limiting scalability. Addressing these constraints requires deliberate investment in workforce development, coordinated industry policy, and targeted capability building aligned with Defence procurement priorities.

Avoiding the Infant Industry Trap: The Australian Government must remain strategically focused, identifying priority areas for increased domestic procurement while leveraging trusted international partnerships for capabilities where domestic production is not feasible or cost-effective. Lessons from past protectionist policies, such as the automotive industry, underscore the importance of fostering globally competitive industries rather than permanently dependent and inefficient sectors. Strategic targeting combined with performance accountability will maximise economic benefits, including future export revenues and economies of scale.

Procurement Framework Deficiencies

Outdated Definition of Value for Money

The CPRs rightly emphasise "value for money," but this principle is too often narrowly interpreted as lowest upfront tender price. This fails to account for whole-of-life costs, fiscal dividends from taxation, economic stimulus from local wages and supply chain spending, strategic premium of supply chain security, innovation spillovers, export potential, and ESG impacts. Current guidance provided to procurement officers on defining, measuring, and weighing broader economic benefits is inadequate. Definitions in the CPRs remain broad and open to interpretation, lacking practical, repeatable frameworks for decision-making. Consequently, value-for-money calculations become theoretical exercises rather than robust tools for implementing strategic policy. The analysis has developed a Sovereign Scorecard System.

Ambiguous Definition of an Australian Business

The 2025 CPR reforms introduced a formal definition of an "Australian business" requiring at least 50% Australian ownership, tax residency, and principal place of business within Australia. The ambiguity surrounding Australian versus foreign-subsidiary classification has allowed the majority of high-value contracts to flow to multinational primes maintaining Australian ABNs but retaining foreign ownership, IP, and decision-making authority. This marginalises genuinely Australian firms, suppresses technological development, and limits export potential.

Governance and Implementation Gaps

The 2025 ANAO review identified systemic failures in Defence contract administration, including weak monitoring and enforcement of Australian industry content plans, insufficient guidance and support for procurement officers, and ineffective verification of supplier compliance with local participation commitments. A risk-averse procurement culture frequently defaults to large, well-marketed foreign firms over innovative Australian companies, undermining sovereign capability objectives and national resilience.

Recommendations

1. Redefine 'Value for Money'

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

2. Adopt a Quantitative Framework for Procurement Decisions

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

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

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

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

- Australian Ownership and Control: Prioritise entities with majority Australian ownership, an Australia-based board, and ultimate decision-making authority residing within Australia.

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

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

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

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

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

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

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

Need for a Balanced Approach

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

Conclusion

Australia's Defence procurement system represents a strategic opportunity to transform Australian Government spending into a powerful instrument of national policy delivering a measurable sovereign dividend. Realigning procurement policy towards genuinely Australian-owned primes, combined with transparent value-for-money frameworks and institutional empowerment, will cultivate a sovereign industrial base underpinning national security, innovation leadership, sustainable economic growth, and international influence. The economic modelling presented in this report provides a rigorous, data-driven blueprint demonstrating that strategic reallocation of Defence procurement to sovereign Australian firms delivers superior economic returns. Scenario 2 grows Australia's GDP by $0.35–$0.58 per dollar of the defence budget reallocated. That is, there is a compelling net benefit to be achieved from moving funds from imports to total domestic spending, but also a significant further additional benefit from allocating those funds to Australian companies rather than Australian-based foreign subsidiaries. This sovereign dividend encompasses immediate economic multipliers, innovation spillovers, export potential, supply chain resilience, and ESG advantages that foreign-owned entities cannot deliver. By championing these reforms, the Australian Government can ensure that Defence investment delivers not only the military capability Australia requires but also the resilient, innovative, and sovereign industrial base upon which our future security and prosperity depend.

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