

Victorian Government Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Defence Sub-Committee

Inquiry into Government Support for
Australian Defence Industry Exports

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Introduction

The Commonwealth Government's Joint Standing Committee on Foreign Affairs, Defence and Trade Defence Sub-Committee has received a reference from the Minister for Defence to inquire into Government support for Australian defence industry exports.

The Terms of Reference for the inquiry are as follows:

- Identification of barriers and impediments to the growth of Australia's defence exports;
- How government can better engage and assist Australian defence industry to export its products;
- The operations of the Defence Export Control Office (DECO);
- Assessment of the export support given to defence industry by governments of comparable nations; and
- Any other related matters.

The Victorian Government's submission to this inquiry focuses on three of these Terms of Reference:

- Identification of barriers and impediments to the growth of Australia's defence exports;
- How government can better engage and assist Australian defence industry to export its products; and
- The operations of the Defence Export Control Office (DECO).

The Victorian Government welcomes this inquiry in recognition of the importance of defence industry for Australia, the significance of defence exports as a contributor to the Victorian and Australian economies, and the opportunity to grow this industry in Victoria and Australia.

The Victorian Government recognises that as nations around the world move to modernise defence capabilities, the sheer volume of planned expenditure will create new opportunities for Australian industry with unique, specialist products and services to offer into these markets. This is particularly so in the Indo-Pacific where the likely growth in defence expenditure may exceed the capacity of regional countries to supply products to this market. Australia has an opportunity to become a supplier of choice to this burgeoning market, alongside Australia's traditional lines of supply to allies such as the United States of America (USA).

This submission recognises that a vibrant and prosperous defence industry in Victoria and the other states and territories is a substantial contributor to the Commonwealth's delivery of its national Defence obligations, in partnership with key regional allies and friends. It also provides context for ongoing economic engagement with Australia's global allies and trading partners, focusing on major projects and identifying market opportunities

The Victorian Government's defence industry strategy *Securing the Future*¹, in conjunction with its international engagement activity, seeks to create the conditions for a vibrant defence export industry in Victoria. Victoria committed \$8.7 million in its 2014-15 State Budget to drive growth and innovation across Victoria's \$1.5 billion defence and aerospace industry. The Victorian Government will work to

¹ <http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/securing-the-future-victorias-defence-industry-strategy>

identify key defence market opportunities as a centre of this strategy. To that end, the Victorian Government welcomes the Joint Standing Committee's deliberations on government support for Australian defence industry exports and looks forward to its conclusions.

Summary of submission

The Victorian Government's submission responds to the Terms of Reference under the following headings:

1. Barriers and impediments to defence industry exports:
 - a. Limited Commonwealth Government support for industry to engage with international defence market opportunities;
 - b. The lack of a level playing field for Australian companies seeking to compete in the global supply chain against companies with offsets for their local defence industry;
 - c. Limited access to foreign intellectual property related to defence technology; and
 - d. Lengthy certification processes that prevent Victorian SMEs from entering specialised military manufacturing bids.
2. How government may best assist Australian industry export activities:
 - a. Increased government agency engagement and coordination; and
 - b. Trade and defence technology agreements.
3. The operations of the Defence Export Control Office (DECO)
 - a. Suggestions to improve DECO's outreach to Australia's defence industry.

Each of the headings is explored and, where appropriate, recommendations made in the relevant section of the submission.

While many of the recommendations relate to improvements that would help SMEs, the submission acknowledges the vital role that global primes play in the defence industry and its global supply chain. The Victorian Government welcomes any activity to facilitate global prime contractor contribution to Australian defence exports.

1. Barriers and impediments to the growth of Australia's defence exports

In considering this Term of Reference, the Victorian Government has identified a number of barriers and impediments to the growth of Australian defence exports:

- Limited Commonwealth Government support for industry to engage with international defence market opportunities;
- The lack of a level playing field for Australian companies seeking to compete in the global supply chain against companies with offsets for their local defence industry;
- Limited access to foreign intellectual property related to defence technology; and
- Lengthy certification processes prevent Victorian SMEs from entering specialised military manufacturing bids.

1.1. Limited Commonwealth Government support for industry to engage with international defence market opportunities

- *Despite existing government supports for defence industry, opportunities for defence exports are missed by certain industry areas which might have capabilities relevant to defence global supply chains.*

Understanding a target market's local culture, language, defence capability (both materiel and services) requirements, regulations and business practices – including any inter-governmental political sensitivity – all pose challenges to successfully doing defence business overseas. The Defence Materiel Office's (DMO) Business Access Offices support Australian governments on trade missions overseas. One such recent mission was the Victorian Government's successful trade mission to the US in May 2014. It received excellent local knowledge and support from DMO Business Access Offices in the USA and resulted in projected Australian export and sales of up to \$60 million over the next two years.

Given the challenges for local SMEs attempting to enter the global defence market, increased engagement from the DMO with local SMEs would assist them to enter this complex environment. The existing DMO Global Supply Chain (GSC) program assists local SMEs to lift their capabilities to become an acceptable GSC partner.² However, its work relates principally to those companies obviously placed within a defence supply chain, such as Marand, a precision tooling company who was able to bid to produce the vertical tail fin for the F-35.³

² <http://www.defence.gov.au/dmo/id/gsc/>

³ <http://www.marand.com.au/press/item/79-marand-signs-long-term-agreement-for-supply-of-jsf-vertical-tails>

To complement this, a parallel GSC program that covers SMEs outside the normal defence supply chain would enable a broader range of companies, such as those relating to emergency services, advanced manufacturing or the wider security industry, to access defence opportunities.

This would address the issue faced for a Victorian company related to emergency services, for example, which was unable to procure a defence range to test its products even though it attempted to engage the DMO for assistance. This followed significant overseas defence interest in this emergency services product.

In general, greater coordination in strategic planning between Australian governments, at both a State and Commonwealth level, and Australian defence industry would increase local SMEs' ability to participate in the competitive global supply chain. This submission notes that while such coordination would assist SMEs in particular, global primes may benefit from such coordination even where they would likely not depend on it.

1.2. Lack of a level playing field for Australian companies seeking to compete in the global supply chain against companies with offsets for their local defence industry

- *Australian companies seeking to compete against international defence companies for global supply chain work are rendered inherently uncompetitive by defence offsets in the countries of certain defence companies.*
- *The Commonwealth Government could negotiate better deals for Australian companies seeking to enter the global supply chain and compete against companies already at a significant market advantage from offsets in their home countries.*

Competition in international defence trade does not always occur on a level playing field. Many countries confer regulatory and taxation advantages to domestic companies to improve their cost-competitiveness in relation to international counterparts, and to drive economic benefits for local industry by leveraging major military procurement programs. Increasing self-sufficiency in the supply of defence requirements through the active support and development of an indigenous defence industry continues to be the focus of many countries keen to establish national security and foreign policy independence.

A comparison of existing defence offset policies⁴ around the world illustrates offset requirements ranging from 30 to 100 percent on defence contracts exceeding prescribed levels. Canada's Industrial Regional Benefits (IRB) Policy requires companies bidding on certain defence and security contracts to undertake business activities in Canada valued at 100 percent of the awarded contract. India officially seeks 30 percent offset obligations, with higher local industrial participation targets driven where contracts are regarded as strategic. Singapore sets a 25 to 30 percent offset requirement for contracts over USD\$10 million, Israel pursues 50 percent offset on defence contracts

⁴ http://www.defence.gov.au/deu/docs/Offsets_Database.xls

over USD\$5 million and the United Kingdom seeks to encourage industrial participation targets of up to 100 percent negotiated on a case-by-case basis.

Australia has no formal offset policy for defence procurement to similarly protect local defence industry with well-defined, minimum local industrial participation requirements. However, the Commonwealth Government has established Australian Industry Content (AIC) requirements for major Australia defence procurement programs. Defence primes who are awarded such contracts must demonstrate how Australian industry will be involved.

Australian defence industry would benefit from Commonwealth Government negotiation of effective terms for their participation in offshore defence contracts, where offsets exist in that country. Where bidding for global supply chain work is inhibited by offsets imposed upon bidding companies, Australia could seek to negotiate terms with the relevant government to gain an exemption for Australian companies who possesses a technological edge against other competitors. This might be especially valid where Australian companies could not compete if bound to the offset.

This is one example of how the Commonwealth Government might approach improving access to defence opportunities in countries where offsets exist to the advantage of their local defence manufacturers.

1.3. Limited access to foreign intellectual property related to defence technology

- *Defence intellectual property (IP) restrictions are creating economic and security barriers to developing the Australian defence industry and growing Australian defence exports.*
- *IP restrictions prevent Australian companies from accessing and building on emerging technologies to develop innovative solutions that establish a competitive advantage for Australian defence companies.*
- *Industry would benefit from government advocacy for Australian access to the IP of foreign defence technologies to enable Australian companies to innovate and capitalise on these technologies to the advantage of Australia and Australia's allies.*

Protection of technological competitive advantage by implementing IP restrictions on military technology is a common practice in the global defence industry. For example, USA International Traffic in Arms Regulations (ITARs) dictate that technology and information used by or for the military cannot be shared with any non-USA individual without proper authorisation. This prevents countries such as Australia having access to knowledge used in complex defence weapons systems. Australian companies are therefore directly limited in their ability to innovate on complex defence technologies and generate Australian exports with international competitive advantage.

The lifting of IP restrictions on defence technologies is bound up with economic and security complexities. In general, countries such as the USA are reluctant to share the IP related to defence

technologies for security reasons. This is the case even where there are economic benefits and existing alliance relationships such as that between Australia and the USA. Despite this, the Victorian Government considers that the potential for IP sharing arrangements between close security allies such as the USA and Australia should still be considered.

Economically, for a country to consider surrendering its defence-related IP represents a potential loss of the economic competitive advantage that the sale of military technology brings. This in turn reduces the economic conditions under which a country seeks to prosper and the security consequent on a country's economic growth.

More critically, the surrendering of defence related IP represents the potential loss of security advantage for that country. A country's possession of defence technology represents a strategic advantage for that country as well as a perceived deterrent against strategic competitors. For this reason, countries are inherently reluctant to share defence-related IP. For example, USA precision weaponry currently possesses range and capability that alongside other USA capabilities provides significant overmatch for US forces against any competitors in conventional armed conflict. This is considered to deter potential US competitors while also providing the USA with a distinct advantage in global security and strategic affairs.

Even for close allies such as Australia, access to the "thought-code" of USA precision weaponry and other key defence technologies such as cyber is difficult to access for economic and security reasons. The Commonwealth Government should negotiate better terms of access to foreign IP for defence technologies and related hardware. This would increase Australia's contribution to its existing alliance relationships by establishing it as a potential source of technological innovation for these relationships. It would also contribute to Australia's economic potential as a defence exporter by driving a competitive edge in the fields of Australian defence science and technology.

For example, shared access to existing technologies related to USA combat systems would provide Australian companies with the opportunity to innovate and adapt them to local Australian conditions.⁵ This is particularly relevant with USA forces now based in Darwin, where local Australian conditions generate distinct problems for USA defence equipment.

1.4. Lengthy certification processes that prevent Australian SMEs from entering specialised military manufacturing bids

- *Costly and lengthy certification processes can prevent local industry entering into specialised military manufacturing bids.*
- *Commonwealth Government assistance to SMEs seeking to enter the global supply chain may help them surmount barriers that prevent them undertaking global accreditation processes.*

⁵ As an example of such innovation, Australia's principal combat rifle, the AUSTEYR, underwent considerable adaptation to Australian conditions before becoming effective for Australian troops. USA equipment may have similar requirements. Australian companies are well positioned to provide such innovations efficiently.

- *Such assistance may be financial or incentive-based, but should assist Australian SMEs to collaborate to gain accreditation for participation in the global supply chain. Such assistance could position Australia's long-term strategic entry into global defence markets.*

Entry into competitive international defence supply chains often requires companies to acquire and maintain specialised certifications to support their bid. These certifications are required also to enable these companies' ongoing participation in the global supply chain. The requirements are imposed by global defence primes as a means of quality assurance for their manufacturing processes.

For example, an Australian aerospace heat treatment facility uniquely acquired two key accreditations that enabled the company to enter the Joint Strike Fighter (JSF) program in 2009 – AS9100 and Nadcap respectively.⁶ The accreditations were for global aerospace quality management systems and aerospace manufacturing processes. Nadcap is specified as a mandatory requirement for specialised manufacturing by particular international primes in Europe and the US – Lockheed Martin, Boeing, Airbus and others. Companies without Nadcap accreditation were unable to compete successfully in bids for JSF work where they lacked resources to acquire Lockheed's pre-requisite accreditations.

Given such benchmark requirements for entry into the global supply chain, the Commonwealth Government should consider financial or incentive-based assistance to Australian SMEs seeking to enter the competitive international defence market. Financial assistance could consist of incentive-based approaches where groups of SMEs receive tax or other benefits to undertake collaborative efforts to gain global-supply chain accreditation.

While the specific detail of such incentive-based assistance is beyond the scope of the present submission, such assistance could be framed in terms of government's facilitation of the long-term entry of Australian defence industry into the world's defence markets. More than simply "handouts", such an approach would prepare and consolidate Australian defence export industry strategically with a view to Australia's long-term entry into these markets. This would have benefits for Australia's security capabilities alongside the economic gains from Australia's increased participation in global defence markets.

⁶ Nadcap was formerly NADCAP, the National Aerospace and Defense Contractors Accreditation Program.

2. How government may best assist Australian industry export activities

Targeted action is required by the Commonwealth Government to assist Australian defence exporters.

Two critical areas of focus at a national level are:

- Increased government agency engagement and coordination; and
- Trade and defence technology agreements.

2.1. Increased government agency engagement and coordination

- *Increased collaboration between Commonwealth Government agencies and Australian defence industry is needed to assist defence exporters to identify and maximise global defence market opportunities.*
- *This might consist of a “one-stop-shop” for defence exporters seeking to enter the global supply chain or global defence procurement programs.*
- *Short of such a one-stop-shop, existing Commonwealth agencies should outreach more regularly into the defence industry in Australia to keep it informed of emergent opportunities in Defence export markets that are known to the Commonwealth. Engagement could be coordinated in Victoria with the Victorian Defence Industry Unit.*

Several Commonwealth Government agencies exist that make a substantial contribution to Australian defence industry exports. Increased coordination of these agencies with one another, combined with effective and strategic outreach to Australian defence industry exporters, would enhance Australia's defence industry export capabilities by generating transparency between Commonwealth agencies and Australian defence industry. This would in turn assist Australian companies to compete more effectively when entering the complex and changing environment of the global defence market.

At present, Commonwealth Government offices related to defence industry exports are gathered in the Department of Defence and the Defence Materiel Organisation (DMO) in Canberra. This includes such things as the Defence Export Control Office (DECO) and the Defence Export Unit (DEU).⁷ While the range of agencies is wide and their functions valuable for defence exporters, there appears very little consolidated approach from within DMO to assist defence exporters who are seeking to enter the complex global defence industry market.

⁷ For a list, see: i) Department of Defence (Defence Export Control Office): <http://www.defence.gov.au/deco/> ; and ii) DMO's Industry Resources tab at their website: <http://www.defence.gov.au/dmo/index.cfm> . Sourced on 11 July 2014.

For example, the Industry Resources tab on the DMO website⁸ lists some 23 further websites related to defence industry. But it highlights no place a new defence exporter might start at, were they seeking to enter the defence export market. Additionally, the Industry Resources tab lists the “Defence and Industry ePortal” halfway down its 23 links. But this adds nothing to clarity and only directs the reader further into the apparently labyrinthine complex of Australian defence industry policy.

This may be a result of past Australian defence industry policies or simply a fact of DMO’s existing website design. What it indicates clearly is a need for a more consolidated approach from the existing agencies listed within the DMO website, to DMO’s external industry customer and partners.

Defence industry would benefit from a “one-stop-shop” that provided guidance on, at a minimum:

- A company’s obligations to the Commonwealth as a defence exporter (covering, for example, legislative requirements around Australian defence exports; restrictions on defence trade from Australia; exemptions available to defence exporters operating in Australia; existing international treaty agreements of which Australian exporters must be aware; and other relevant Commonwealth material);
- Existing companies within the Australian defence industry export space of which new and existing defence exporters might wish to be aware (e.g. companies contracted to deliver elements of the current Defence Capability Plan, where such contracts are a matter of public record);
- Processes through which a company should move relevant to their field of expertise – e.g. land, sea, air, space, cyber – when undertaking entry to the global defence market, either in tendering terms or related to placing new defence products on the international market; and
- Other relevant material to guide new and existing companies through a consolidated Australian industry approach to engagement with international defence markets. Ideally this should include a single expert unit within DMO for managing the interface between Commonwealth defence requirements and Australian defence exporters in various states.

While such a consolidated approach may or may not warrant further integration of existing agencies or offices within DMO, it would assist Australian industry to become more easily aware of the realities and opportunities associated with defence trade from Australia.

Independent of such a consolidated approach, the continued outreach of existing government agencies resident in Defence and DMO will assist Australian industry to become aware of, and respond to, international defence market opportunities.

Such outreach by the Commonwealth Government could beneficially be coordinated with the states, working with state government units such as the Victorian Defence Industry Unit. For example, defence industry days with joint representation of Commonwealth and state agencies would allow

⁸ See <http://www.defence.gov.au/dmo/index.cfm>. Sourced on 11 July 2014.

businesses to have coordinated conversations and reduce the amount of time they need to spend engaging with government. In addition, the Commonwealth could invite Australian defence industry on a quarterly basis to Canberra, to update industry and the states on changes to the strategic and industry environment that are relevant to Australian industry. This would provide the states and industry with the ability to coordinate their international engagement with a view of the strategic horizons in Canberra.

For reference, this submission lists some of the existing Commonwealth agencies relevant to defence industry, their function, and Victoria's interaction with them below:

Department of Defence:

- **Defence Export Control Office (DECO):** This Office administers the control of exports of defence and dual-use goods, including the granting of authorisations to export these goods.
 - *Numerous Victorian companies have benefitted from attending DECO export training.*

Defence Materiel Organisation:

- **Defence Export Unit (DEU):** This Unit facilitates and promotes Australian defence industry exports through a whole-of-Government approach.
 - *DEU's use of senior military personnel for introductions and to establish Australian credibility with foreign defence procurement agencies has been invaluable for Australian defence exports. Victoria recognises the importance of military-to-military engagement in facilitating effective defence exports.*
- **Australian Military Sales Office (AMSO):** This Office facilitates disposal and export-related activities in support of Australian industry's promotion and export of established defence products and services. This includes government-to-government sales of Australian produced defence equipment. This Office has assisted Australia's sale of significant military equipment to regional partners and has edified existing relationships with these countries.
 - *Victoria does not deal routinely with this office directly due to sales of existing military equipment being a Commonwealth matter. However, given Victoria's role in developing, for example, new military vehicle capabilities, the Victorian Government would support this Office's role as a future point of sale for Victorian-produced military equipment to regional counterparts.*

- **Global Supply Chain (GSC) programs:** This program was established with major defence primes to support Australian industry content in both national and international defence supply chains.
 - *The GSC program played a significant role in Marand's successful bid for the JSF tail-fin⁹ and continues to support Victorian industry effectively.*
- **TEAM Australia:** This Unit collaborates with Australian industry to promote high quality, sustaining capability solutions to meet the requirements of valued overseas customers.
 - *TEAM Australia assisted a Victorian defence consulting company to participate in both the Paris and Farnborough UK airshows.*
- **DMO Business Access Offices (BAO):** These offices assist industry to understand Defence business and facilitate awareness of Australian industry capabilities.
 - *DMO Business Access offices have made invaluable contributions to Australian industry and export forums, such as that undertaken by the Victorian Government in May 2014. They continue to be a key interface between Australian industry and global defence markets.*
- **Skilling Australian Defence Industry (SADI) program:** This program is designed to increase the skills base of Australia's defence industry to create pathways for industry participants and address skill capability gaps.
 - *SADI supports at least two Victorian companies to participate in the global defence industry.*
 - *Notwithstanding its significant value, some parts of industry report that administrative elements of SADI around funding timelines could be improved. Better interface between SADI and the SME business environment may assist these improvements.*

2.2. Trade and defence technology agreements

- *The Commonwealth Government should work, where possible, to secure defence security technology sharing agreements alongside its bilateral trade agreements.*
- *The recent historic Economic Partnership Agreement with Japan that was accompanied by an agreement to deepen defence science, technology and materiel cooperation is one example of a potential two-pronged government approach to economics and security.*

⁹ See above and <http://www.marand.com.au/press/item/79-marand-signs-long-term-agreement-for-supply-of-jsf-vertical-tails>

- *Even in the absence of trade agreements, exploration of defence and technology sharing agreements with global allies and partners will assist Australia generate technology and industry innovations that provide competitive advantage edge for Australian defence industry exports.*
- *This economic competitive advantage is alongside the skills-sharing that such international agreements help generate.*

Australia recently signed what the Australian Prime Minister described as an historic free trade agreement with Japan. It was accompanied by an equally historic agreement to deepen Japanese-Australian defence science, technology and materiel co-operation.¹⁰ The coupling of the economic and the defence sharing arrangements through this Economic Partnership Agreement functioned as a benchmark for increased integration between the economic and security activities of Australia's region. It has the potential to be the benchmark for further exploration on defence technology sharing between Australia and Australia's global partners.

Commentary has been made extensively on the economic rise of the Indo-Pacific region that is being accompanied by an increase in the region's defence spending.¹¹ This commentary has been largely absent any serious account of the economic gain available to Australian industries from being a leader within the defence industry space within Australia's near region.

Aside from the economic benefits that accrue from having a vibrant defence export industry, the potential gains from being a regional leader in the development of defence-related technology are considerable. They position Australia as more than simply a strategic partner of choice for regional allies, based on Australia's strong existing alliance relationships with countries such as the USA and the UK. They empower Australia's voice in advocating for the strictly legitimate use of defence technologies, supported by existing international laws and treaties, within the bounds of the existing norms of international relations. This empowerment is in addition to Australia's status as a signatory to conventions on the use of armed force in military conflicts and peacekeeping operations.


Strategically, the possibility of entering into defence technology sharing arrangements with countries other than our existing allies and partners is limited. To this extent, careful consideration should be given to expanding any existing bilateral trade agreements to ensure that defence-technology sharing is only done with allies and partners who share Australia's stated security goals of ensuring regional stability, and who continue to act in accord with these principles.¹²

With these caveats, however, entering into defence-technology arrangements with countries with whom Australia has existing military-to-military relationships and with whom we conduct joint military exercises should not be discounted. While such possibilities would require careful further consideration, they would cast a frame for regional economic relationships that are composite with regional security-sharing. Such a frame has the potential to generate economic benefits that are

¹⁰ <http://www.pm.gov.au/media/2014-07-08/deepening-economic-and-defence-ties-japan>

¹¹ See Australia's Defence White Papers in 2009 and 2013, respectively:
http://www.defence.gov.au/whitepaper2013/docs/WP_2013_web.pdf ;
http://www.defence.gov.au/whitepaper2009/docs/defence_white_paper_2009.pdf

¹² For Australia's security stance, see:
http://www.defence.gov.au/whitepaper2013/docs/WP_2013_web.pdf



initiated by Australia but which have a regional strategic impact. Skills and technology sharing around advanced Australian manufacturing capabilities, for example, has the potential to generate security and economic benefits for regional allies and partners as well as for Australia. This is especially the case in high-end manufacturing where skills-acquisition is difficult but can contribute directly to defence programs sitting on the leading edge of technology development.

3. Defence Export Control Office (DECO) operations

The Victorian Government is generally satisfied with the operation of DECO, but makes a number of suggestions to improve DECO's outreach to Australia's defence industry.

3.1. Targeted education and outreach by DECO to Victorian defence industry

- *Targeted education and outreach by DECO to Victorian-based primes and SMEs to inform them of DECO's activities, legislative and other frames of reference, points of contact, operating procedures, and current priorities.*
- *Victorian defence industry would benefit from DECO's exposition of the 2012 amendments to the Defence Trade Controls Act in terms addressing Victorian defence industry specifically.*

The Defence Export Control Office (DECO) works from Strategic Policy Division in the Australian Department of Defence. On behalf of the Minister for Defence, DECO regulates Australia's export of defence and strategic goods and technologies, especially around dual-use technologies.¹³

It is understood that recent digital upgrades to DECO's data-management system have substantially improved the processing time for exports requiring DECO oversight. Victoria is aware of positive feedback from industry regarding recent engagement with DECO, and that system changes in DECO have improved the interaction between DECO and local defence industries.

Additionally, DECO's recent engagement with universities around the Defence Trade Controls Act¹⁴ has seen a greater appreciation by DECO and the university sector of the complexities involved in defence technology research and exports.

In order to maximise defence industry's ability to act in line with Australia's trade, treaty and legislative obligations relevant to defence exports, the Victorian Government would welcome increased and targeted outreach by DECO to Victorian defence industries. This might assist Victorian industry's appreciation of DECO's operational improvements. It would also provide DECO the opportunity to explain the significance of the 2012 changes to the Defence Trade Controls Act in terms specifically relevant to defence industries in Victoria.

This is particularly relevant for "dual-use" technologies,¹⁵ where Victorian industries may be unaware of their business development activities entering the scope of the Act. This is particularly important in

¹³ For information on DECO, see <http://www.defence.gov.au/DECO/AboutUs.asp>

¹⁴ <http://www.defence.gov.au/deco/DTC.asp>

relation to what the Act describes as the “intangible supply of technology relating to defence and strategic goods, such as supply by electronic means”.¹⁶ Increased Victorian industry awareness of the range and significance of this Act will enable Victoria to identify legal and legitimate defence export opportunities that do not conflict with the terms set out in the new legislation.

DECO's engagement with state government units like the Victorian Government's Defence Industry Unit will facilitate DECO's ability to communicate widely with a range of relevant stakeholders for activities such as this. It is situated within the Trade, Manufacturing, Aviation and Employment Division of the Victorian Department of State Development, Business and Innovation. As such, it is in a position to highlight the Act's relevance to other parts of Victorian industry that would not ordinarily consider themselves as falling within the scope of defence or national security concerns.

The Victorian Government's Defence Industry Unit will look forward to close collaboration with DECO in the future on this and other relevant matters.

¹⁵ Dual-use technologies are technologies capable of civilian and military use, lethal and non-lethal.

See <http://www.defence.gov.au/DECO/AboutUs.asp>

¹⁶ See <http://www.defence.gov.au/deco/DTC.asp>

Conclusion

Australian industry and defence industry globally face barriers to successful trade, including protectionist markets, limited access to accurate market information, lengthy and costly tender processes, and extensive export/import control procedures. The sensitivity surrounding military technology and inter-governmental relations further impact on global defence trade.

This means that Australian defence industry requires particular and specific government intervention to ensure its success, sometimes very different to the intervention sought by neighbouring industries such as automotive and other conventional manufacturing industries.

In particular, defence manufacturing's intimate connection to international conventions around arms control, export and use mean that Commonwealth Government advocacy is required at an international level to generate successful defence exports. This relates to defence industry's being intertwined with alliance relationships and security treaties that condition the range and extent of possible Australian defence exports, and the possibility of their ultimate success.

Notwithstanding this, the Victorian Government recognises that effective local industry engagement into global supply chain opportunities will generate national opportunities for industry diversification, technology transfer, and competitive business practices. The Victorian Government will strongly collaborate with the relevant Commonwealth and defence agencies, other state and territory governments and Australian defence industry to implement initiatives or establish communications that will assist local industry to become 'export ready' and well informed on emerging market opportunities, and reduce where possible the barriers to defence trade for Australian industry.

The Victorian Government greatly looks forward to the outcomes of the Joint Standing Committee's deliberations, and will continue to work proactively with the Commonwealth Government to facilitate the national outcome that is an ongoing increase in Australia's defence exports.

Points of Contact

For inquiries regarding this submission, please contact:

w: dsdbi.vic.gov.au/defence | w: invest.vic.gov.au/defence | w: export.vic.gov.au

or

w: dsdbi.vic.gov.au/defence | w: invest.vic.gov.au/defence | w: export.vic.gov.au