



Export Council of Australia

The Voice for Australia's Exporters

Committee Secretary
Joint Standing Committee on
Foreign Affairs, Defence and Trade
PO Box 6021
Parliament House
Canberra ACT 2600

Sent by email to: jscfadt@aph.gov.au

Export Council of Australia submission to the Inquiry into Government Support for Australian Defence Industry Exports

The Export Council of Australia (ECA) is pleased to have the opportunity to put forward a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade in relation to the Inquiry into Government Support for Australian Defence Industry Exports.

The ECA is a not-for-profit, membership based organization and the peak industry body representing Australia's exporters and importers. With a membership base of 1,000 and a reach of 15,000, the ECA represents companies of all sizes and across a wide range of industry sectors. The ECA's core activities include research, advocacy, events and skills development.

This submission addresses each of the terms of reference, and aims to help shed light on some of the issues and opportunities faced by Australia's defence industry exporters.

Preamble

At the outset, the ECA recognises that the suppliers to the defence industry face specific and unique issues that are not faced by suppliers in other industries. One issue is that defence is rightly seen as an issue of paramount national interest, meaning that governments around the world need to support their local suppliers and ensure that there is not undue reliance on overseas suppliers. Governments may also have an obligation to ensure that exports by local suppliers are not sent to hostile countries and are not in breach of international or other sanctions.

All of these considerations support sensible and transparent restraints on exports and imports by those in the defence industry. However, at the same time, the ECA endorses the principle that the Australian Government (and other governments) should act in a way which supports and enhances the ability of those supplying to the defence industry to export their products. As a result, the ECA encourages the Inquiry to seek ways to improve exports in a manner which is consistent with both legitimate national and security interests, and international obligations.



1. Identification of barriers and impediments to the growth of Australia's Defence exports

a) Local Defence Industry Constraints

- The ECA understands that Australian defence exporters are highly dependent on the US' defence spending, and thus the US defence budget allocation for export sales. This can leave exporters exposed to variations in the US budget and without a strong domestic industry, this can leave businesses in a vulnerable position.
- The Australian defence market is relatively small and defence suppliers can struggle to achieve the economies of scale needed to compete in domestic and international markets.
- The ECA notes that the current tender process for defence goods and services has been criticised by some in the defence industry for having too strong a focus on "value for money", without necessarily looking at the broader strategic perspective.
- The focus on procuring lowest cost goods is perfectly understandable given current budget constraints; however, thought should be given at an institutional level to the wider benefits of developing a stronger local defence industry sector, including the potential skills and employment outcomes. The ECA understands the need to reduce Australia's reliance on international defence suppliers for strategic and national security reasons is one justification reform, as are the benefits that would accrue from capability development and knowledge spillover effects in the domestic economy.
- The ECA understands that it can be a challenge for Australian defence exporters to sell their defence products overseas when they are not being used by the Australian Defence Force (ADF).
- A stronger local defence sector could better position defence suppliers to take advantage of export opportunities with economies of scale.

b) Costs, Risks and R&D

- Operating in the defence industry in Australia can be a costly business. The ECA understands that start-up costs, R&D investment costs, and the strategic/perceived risks of procuring defence hardware or software from Australian SMEs—especially those producing or developing highly innovative technologies—can act as an impediment to export and achieving economies of scale.

c) Coordination of Defence Marketing and Promotion

- The ECA understands that there is a lack of a 'Team Australia' approach in the Australian defence industry in terms of promotion and representation in international markets. In countries such as the US and the UK, government and industry work closely to build their profile internationally and help businesses succeed in winning overseas contracts.
- At defence trade shows, the ECA understands there can be a lack of a common theme and Australian companies can be somewhat disadvantaged by not being positioned together.

d) Lack of High-Level Government Support

- In the defence industry, when competing for high value contracts in international markets it can be valuable to have the support and badge of government. Governments of major defence exporting countries will often send high-level government officials, even the President or Prime Minister, to attend critical business meetings to support their companies. This has proven to be a valuable exercise but is not commonly practiced by the Australian Government.

2. How Government can better engage and assist Australian Defence industry to export its products

Government could better engage and assist Australian defence industry exporters through the following:

- a) Reviewing the ADF procurement policies in order to help develop a more robust local defence sector. Finding a way to provide capable and competitive Australian defence suppliers, including SMEs, with greater chance of winning domestic contracts without disregarding the requirement for value for money or our international obligations, would be desirable outcome.
- b) Working with the defence community, especially SMEs, to better understand their financial and investment barriers and working collaboratively to find sustainable solutions.
- c) Looking to improve coordination with industry to better represent Australia's defence industry internationally, pursuing a stronger 'Team Australia' approach. It would be advisable to analyse what the likes of the US, UK and France are doing in terms of supporting and promoting their defence sectors.
- d) Seeing a greater commitment by ministerial and diplomatic representatives to provide physical support on trade missions and for Australian companies involved in tendering for major contracts overseas. This level of support is provided by other governments and has proven to be of great benefit to the companies they assist.

3. The operations of the Defence Export Control Office

Australia's defence industry exporters are legally obliged to adhere to the international treaties and agreements ratified by the Australian Government as well as those adopted by Australia under its autonomous sanctions regime and as such, permits are required from either DECO, Customs and/or DFAT to export defence hardware and software. While recognising the excellent work of those agencies and that work is limited by funding, there is scope for further improvement in communication and co-ordination between these government departments. Better coordination would result in a reduction in the administrative burden placed on exporters and would help improve the timelines for exporting these highly regulated goods. By global standards, the regulatory burden and time taken to get defence goods approved for export in Australia is good but that is not to say more should not be done to make the process more transparent and efficient. This would be particularly beneficial to relatively inexperienced defence exporters, to whom the regulatory process can be particularly challenging to navigate.

The ECA notes that DECO is actively engaging with industry and is currently working with relevant government departments to develop a 'whole-of-government' approach to working with the defence industry. The ECA sees this as a welcomed move toward increased

communication and collaboration between departments, which will ultimately have a positive impact on defence exporters.

4. Assessment of the export support given to Defence industry by governments of comparable nations

The ECA understands that the UK and US particularly have a more targeted and structured approach to their defence export support than Australia. For example, the UK Government offers defence specific support through the UK Trade and Investment Defence and Security Organisation, while some other major defence exporting countries' governments have similar programs and often provide ministerial and diplomatic support to their companies when competing for major contracts in international markets.

The ECA understands from those in Australian industry, that in order to be more internationally competitive, more could be done—within reason, given the significant resource constraints that exist in government and in a manner consistent to international obligations—to support Australia's defence exporters. The ECA believes that the Inquiry should pay special attention to the submissions by or on behalf of those in the Australian defence industry which suggest practical and efficient ways to improve support

5. Other Related Matters

The ECA believes that the following additional aspects should be considered:

- a) The ECA understands that the AUSFTA is acknowledged by the defence export sector as being of great benefit as it allows Australian companies improved access to the government procurement market in the US. The ECA believes that all FTAs to which Australia becomes a party (whether bilateral, multilateral or regional) should aspire to include similar government procurement provisions.
- b) In addition to the general government procurement provisions the ECA recommends that when the Australian Government is negotiating FTAs it should actively seek input and recommendations from the defence industry as to issues they face in dealing with the markets covered by the FTA (if it does not already do so), and seek to include specific provisions regarding defence exports. This should extend to permit representatives of the defence industry to attend negotiating sessions to address issues specific to them.
- c) The ECA applauds the initiative of the Australian and US Governments in entering into the Australia-US Defence Cooperation Treaty and the associated Community arrangements which, by subsequent legislation, have enabled approved exporters to export without the need for export permits for certain defence equipment. The ECA recommends that the Australian Government advances similar arrangements with other trusted defence partners whether on a bilateral or multilateral basis.
- d) The ECA also recommends that the proposed Trusted Trader Program being developed by the Australian Customs and Border Protection Service take into account the specific needs of the Australian defence industry, both to facilitate exports and to facilitate imports of inputs to manufacture.

The ECA would be pleased to provide further input either in writing or in person as the Committee may require.

Sincerely

Lisa McAuley
Chief Operating Officer
Export Council of Australia