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Committee Secretary

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

Defence Teaming Centre Incorporated

Submission to the

**Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into
Government Support for Australian Defence Industry Exports**

Introduction

Thank you for the opportunity to provide a submission to the subject inquiry on behalf of South Australia's defence industry.

The Defence Teaming Centre

The Defence Teaming Centre (DTC) is the peak defence industry body in South Australia. Founded in 1996 as an incorporated not-for-profit association with 24 member companies, the DTC has grown to a membership of 200+ companies that employ in excess of 17,000 workers nationally. DTC members include Prime contractors (Primes), Small and Medium Enterprises (SMEs) and Professional Service Providers (PSPs).

The mission of the DTC is to represent the South Australian defence industry as part of the 'Defence State' and support its members to maintain and enhance their capabilities in order to maximise opportunities in the defence and related industry sectors. The DTC's vision is to be nationally and internationally recognised as a model industry body that is relevant, responsive and reliable to its membership.

Defining Defence Industry

As the sixth largest country in the world, Australia is an isolated island nation with almost 60,000 kilometres of coastline to defend. With greater than 90% of our imports and exports transiting through nine key shipping lanes, if we want to assure our national security and ensure we are not reliant on other nations to repair, maintain, upgrade and overhaul our military hardware, having a viable indigenous defence industry capability is not a 'nice-to-have' it is a 'must-have'.

In order to address the Inquiry's intent, it is important to have baseline understanding of what defence industry is. In the absence of any formal definition, the DTC has developed and applies the following:

Australia's defence industry consists of Australian-based businesses that are actually or potentially involved in supplying military capability and/or are influenced by Defence business policies or purchasing decisions.

Capability in the Defence context is the combined effect of multiple inputs. It is not the sum of those inputs, but the synergy that arises from the way those inputs are combined and applied that determines the level of capability in a particular context. In Defence, the 'Fundamental Inputs to Capability' (FIC), are categorised as:

- Personnel,
- Organisation,
- Collective training,
- Major Systems,
- Supplies,
- Facilities,
- Support, and
- Command and Management

Diagram 1 below provides an example of the relationship between the FICs and just some of the industry sectors that support them. The purpose of the diagram is to demonstrate the breadth of the defence industry in Australia. It also highlights that Australia's defence industry is more than those companies involved in supporting the fabrication of military hardware. The DTC proposes that Australia's defence industry be recognised by the Federal Government as the ninth FIC (Diagram 2). This would assist in generating an understanding and acceptance that defence industry is a critical partner to Defence's capacity to deliver military capability for government.



Diagram 1: The Fundamental Inputs to Military Capability and Industry



Diagram 2: Defence Industry - the Ninth Fundamental Input to Military Capability

Baseline Premise of this submission

The baseline premise of this submission is that in order for Australia's defence industry to successfully export, it needs to be a viable capability. To that end, this submission raises issues that impact on industry's capacity to be a going concern that can export.

Barriers and Impediments to the Growth of Australia's Defence Exports

A significant barrier or impediment to the growth of Australia's Defence exports is the lack of consideration of the importance of an indigenous defence industry to the national economy. It is important that Government appreciates that the quantum and value of Australian Defence expenditure is such that it represents national revenue and decisions cannot be made on the basis of Defence imperatives alone.

Understandably, Defence is allocated a limited budget and its ambition is to gain the maximum benefit from a finite resource. When Defence is not compelled to consider the national benefits of its investments, unsurprisingly, it is motivated to acquire the least expensive options.

Government should be compelled to consider 'value for money' in the context of holistic whole-of-life cost benefit analysis from a national perspective. This would see a greater focus on recognising the full benefits to the nation of the acquisition and sustainment of Defence capabilities through a national indigenous defence industry capability and would ensure consideration is given to:

- maximising the return of Australian taxpayers' dollars to the Australian economy,
- assuring the security of our nation,
- growing innovation and inspiring our future workforce,
- enhancing technology transfers,
- securing intellectual property, and
- sustaining our nation's industrial capability.

How Government Can Better Engage and Assist Australian Defence Industry to Export

Government can better engage and assist Australia's defence industry to export by simplifying the variety of convoluted, time-consuming and expensive bureaucratic processes industry is compelled to navigate in order to engage with the Department of Defence.

A first step could be the appointment of a Defence Industry Advocate. This needs to be an individual with significant strategic defence industry experience who is afforded a non-executive role in the Defence leadership group.

The Defence Industry Advocate should be supported by an office formed through the consolidation of the disparate industry liaison offices and business intelligence units spread throughout Defence into a single Industry Division. This office would provide a single point of conduit for industry to engage with the whole of Defence. Like the Advocate, a consolidated Industry Division must have significant defence industry experience in its workforce. The Defence Export Control Unit would be best placed within a centralised Industry Division.

Government can better engage and assist Australia's defence industry by focusing on negotiating and managing performance-based contracts. Project management is best left to industry which has the requisite experience and expertise to do so. Defence should focus on good contract management and not try to run parallel project management regimes that only serve to duplicate effort and confuse the process. If it is deemed that a capability acquisition requires Defence involvement in the project management process, consideration should be given to the formation of an alliance.

Government can better engage and assist Australia's defence industry to export by smoothing out the peaks and troughs of Defence contracting. Naval shipbuilding is a good example. Diagram 3 below is an indicative representation of the peaks and troughs of naval shipbuilding in Australia. In the 1990s the nation generated a workforce of in excess of 15,000 workers building three different fleets of naval vessels simultaneously. At the end of those build programs the workforce and associated skills and building experience were dissipated. In the 2000's a new workforce had to be generated to build the Air Warfare Destroyers and fit-out the Landing Helicopter Docks. Due to a lack of ongoing contracts, it is highly likely that these workforces will also dissipate at the end of the build programs. A new workforce will have to be generated again in the late 2010's to build future frigates and submarines.

It is time to break the paradigm of discussing naval ship and submarine build programs in terms of a total number of vessels to be made in a discrete project. It is better to speak of a sustainable and innovative industry that will produce, for example, a warship and a submarine every two years in a continuous spiral development construct. Continuous build programs allow industry to improve its productivity and evolve innovative solutions that enhance their capacity to export.

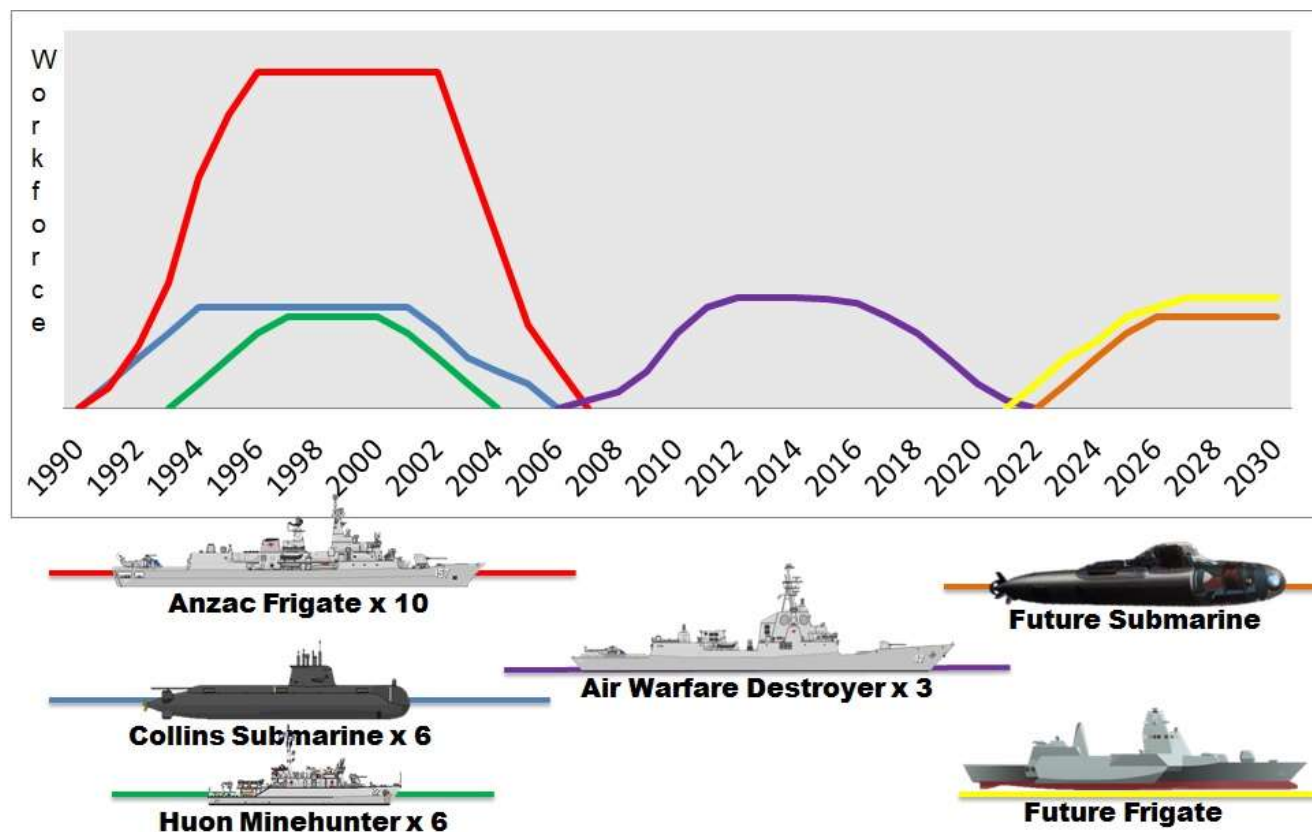


Diagram 3: Indicative representation of the peaks and troughs of naval shipbuilding in Australia

The impact of the electoral cycle and politics on the Government's Defence capability acquisition and sustainment decisions has had an increasingly debilitating effect on defence industry. The constant changing and cancelling of projects and the Government's lack of commitment to its acquisition plans have led to a loss of confidence that has curtailed investment and growth.

Government can better engage and assist Australia's defence industry to export by establishing a multi-party committee which endorses major Defence capability decisions

assuring long-term commitment to acquisition plans similar to the Danish Government's five year multi-party Defence Agreements.

Industry has expressed concern with the fact that Austrade charges significant fees to support companies pursuing export opportunities. Anecdotally, it is understood that Austrade recently increased its hourly rates from \$190 to \$260 per hour with a minimum of ten hours to research an in-country market. If a company wants meetings with potential customers arranged in-country it is again, anecdotally understood that it is a minimum of another ten hours in fees for a minimum of three meetings. \$5,000+ is a significant minimum cost to industry on top of trip related expenditure to pursue export opportunities. Given that Austrade is an Australian taxpayer funded agency, industry questions why it must pay significant fees to engage Australian Government services?

Operations of the Defence Export Control Office

It is recognised that the Defence Export Control Office is an evolving organisation that is evidently striving to improve its practices and procedures. Feedback from industry is positive recognising that the office has introduced a new online system and is processing in excess of 3,000 transactions each year.

Support Given to Defence Industry by Governments of Comparable Nations

Australia's defence industry is increasingly encouraged by the Government to pursue opportunities and compete in the global marketplace. Unfortunately, it is difficult for them to compete on a level playing field. It is a global practice that many countries use policies and programs to preference and protect their indigenous defence industries. In contrast, Australia adopts an open market approach, with no hurdles for foreign suppliers to compete for its Defence acquisitions.

Programs implemented by other governments to protect their indigenous defence industries are offered under many titles including offsets, industrial cooperation and industrial participation. When challenged on these, the Australian Government stands lonely on the moral high ground that practices such as offsets contradict free market principles and contravene its commitment to Free Trade Agreements.

It is understood that Australia's Free Trade Agreements have specific 'carve-outs' for national security issues. In addition, it is also understood that Australia is soon to commit to the World Trade Organisation's Agreement on Government Procurement which prohibits the use of offsets in government procurement generally, but explicitly exempts actions necessary for the protection of its essential security interests relating to the procurement of arms, ammunition or war materials, or to procurement indispensable for national security or national defence purposes.

In judging Australia's defence industry performance when competing globally and exporting, the Government needs to be mindful that they are not competing on an even playing field. A second order effect is that foreign companies must focus on fulfilling their offset obligations in other countries before they can consider using Australian industry, which serves to further compound the dilemma for Australian industry.

Conclusion

Thank you on behalf of DTC members for taking the time to consider the views and concerns of defence industry in South Australia as presented in this submission.

Yours faithfully,

Chris Burns, CSC

Chief Executive Officer