



10 July 2014

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

## **AUSTRALIAN BUSINESS DEFENCE INDUSTRY SUBMISSION TO INQUIRY INTO GOVERNMENT SUPPORT FOR DEFENCE EXPORTS**

Australian Business Defence Industry (ABDI) is a national association representing the interests of defence industry in Australia. ABDI members cover all aspects of defence industry and range from the large global Primes to very small companies comprising a few employees.

On behalf of this diverse membership, ABDI is pleased to make this submission to the Parliamentary Inquiry into Government Support for Defence Exports.

Graeme Dunk  
Manager  
Australian Business Defence Industry

## **AUSTRALIAN BUSINESS DEFENCE INDUSTRY SUBMISSION TO THE JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE INQUIRY INTO GOVERNMENT SUPPORT FOR AUSTRALIAN DEFENCE INDUSTRY EXPORTS**

### **Preamble**

The Australian market for defence products is small and Australian producers therefore find it almost impossible to achieve the economies of scale needed to compete on price in both the domestic and global markets. Moreover, the Global Supply Chain (GSC) program is not the panacea to export problems, as interest is based on the requirements of the individual GSC companies rather than on national needs and requirements.

A vibrant local defence industry sector is required for, *inter alia*, the following reasons:

- mitigation of strategic risks;
- development of a degree of self-reliance in accordance with strategic guidance;
- development of defence capabilities suited for the operational circumstances facing Australia;
- contribution to the development of bilateral international relationships;
- development of national intellectual property,
- development of Science, Technology, Engineering, Mathematics (STEM) skills that have applicability across the entire economy;
- provision of employment opportunities, including in regional areas; and
- contribution to national economic activity.

Defence exports need to be considered as the end of a chain that extends from the identification of needs, through requirements definition, capability acquisition and introduction into service. It is only by considering actions along the entire length of this chain can we ensure that Government support is being provided for capabilities with the most value to Australia, and importantly to answer the always-asked defence export question, namely “is it being used by your defence force”.

In the majority of cases, provision of support at the export end of the chain will be of little consequence without aligned support for innovation, product development and introduction into service.

This concept will be explored and developed in the following answers to the questions posed by the inquiry.

### **Identification of barriers and impediments to the growth of Australia’s Defence exports**

As a country with a small defence sector, the barriers and impediments to the growth of Australia’s defence exports are many and, apart from the simple consideration of market size, include:

- No strategic view to developing and supporting defence exports, nor how exports may fit into the overall direction for the acquisition and sustainment of Australia's military capability;
- Little, if any, consideration of "Industry as a Capability" and hence how exports fit within the overall capability development and support chain;
- An over-reliance on Defence engagement through a small number of large offshore companies;
- An assumption that the interests of the global Primes and national interests will align;
- An overall focus on the delivery of programmes, rather than on achieving outcomes;
- Fragmented and minimal direct political support for export opportunities. The two-star support provided through Team Defence Australia is useful, but political involvement is sometimes required; and
- The nature of the local defence industry sector, with dominance by global companies headquartered offshore, can provide ownership tensions with respect to intellectual property, export promotion and export success. This may require specific support agreements between the Government (Department of Defence) and the companies concerned.

### **How Government can better engage and assist Australian Defence industry to export its products**

Government engagement and assistance for Australian defence industry exports needs to address the entire capability development to export chain if we are to obtain the maximum benefit from any investment. A concentration only on the end point where export is attempted will not provide the best return.

In many ways export success is the result of defence-industry engagement and associated involvement in multiple up-stream activities, including:

- Determination of military capability needs,
- Definition and description of military capability requirements,
- Support for innovative developments to address identified needs and requirements,
- Support for the commercialisation of innovative concepts and prototypes,
- Acceptance of the outcomes of innovation and commercialisation and introduction into service, and
- Support for exports.

As Government assistance will always be limited, it is important to focus on those activities where export will provide the best overall benefit for national security.

Exports also need to be addressed within a proper conceptual framework for defence industry policy, as this will provide the focus for any Government investment. ABDI has written extensively on this conceptual framework, and believes that there needs to be demonstrable link between industry investment (support) and strategic risk. The same link needs to apply with respect to defence export support as this will ensure that Government

investment will have the maximum impact on national security issues. This statement presupposes that the strategically-important industry sectors are properly identified and defined.

This discussion raises a number of other points with respect to industry, industry support and export support, namely:

- Should defence industry considerations reside in the DMO, in some other part of the Defence Department or within the Department of Industry?
- Does export support similarly belong in the DMO or in some other area?
- Export support for the local incarnation of an offshore parent needs to be premised on suitable safeguards being in place to ensure that the benefits of Government support are returned into the Australian economy, and not merely subsumed into the greater offshore corporate entity.
- Industry capabilities associated with strategic risk need to be better defined, measured and understood.

### **Assessment of the export support given Defence industry by governments of comparable nations**

The approaches taken by Governments of comparable nations shows, in many cases, a more advanced, structured and focussed approach to defence exports than that in Australia. In the United Kingdom, for example, exportability issues are considered in the early stages of the capability development process. This approach is consistent with the ABDI promotion of considering Industry as a Fundamental Input to Capability. In addition many countries address defence and security sector exports in the same basket.

Other examples of how other countries address defence-related exports include:

- The United Kingdom handles defence and security related exports through a single agency outside of the Ministry of Defence – the UK Trade & Investment Defence & Security Organisation (UKTI DSO).
- Canada has developed a specific Export Strategy to guide developments associated with the export of defence-related goods and services.
- Denmark places significant importance on defence exports and is using an expanded network of defence attaches to promote and support export efforts.
- Sweden has a single agency for all export promotion and support, and has stated that export support is required for the country to preserve and develop the necessary industry skills and capabilities in the defence sector.

### **Any related matters**

Defence industry considerations including defence export should not be resident within the DMO. As a procurement organisation the DMO is focussed on obtaining the best “Value for Money” results from Government procurement activities, and not on the strategic understanding, development and promotion of the local industry sector. The emphasis on

industry programmes rather than industry outcomes is associated with this inadequate point of view regarding industry.

Adoption of the concept of “Industry as a Capability” would indicate that industry matters (including export support) should be managed within the Capability Development Group, or removed entirely from Defence (as in some comparable countries) and managed by a separate entity such as the Department of Industry.