

Inquiry into the implications of the COVID-19 pandemic for Australia's foreign affairs, defence and trade

Submission by NIOA

NIOA has grown significantly since its first business enterprise in 1963 and now dominates the three primary adjacent markets of Defence, Law Enforcement (LE) and Sporting and Outdoors. NIOA is the largest Australian-owned supplier of weapons and munitions to the ADF, the largest supplier of weapons and munitions to the Australian LE market, and the largest wholesaler to licensed firearms dealers within the Sporting and Outdoors market. The company has emerged as the only Australian-owned weapons and munitions Prime contractor to the ADF and has demonstrated that an Australian-grown Small to Medium Enterprise (SME) can be a Prime contractor to the ADF in their own right. Throughout the COVID-19 crisis, NIOA has continued to deliver essential services to Australian law enforcement, security, primary production and defence. We work effectively with state and federal governments, ensuring jobs, know-how and investment stay in Australia. This includes:

- *A state-of-the-art Brisbane head office which employs 70 people. The 8300sqm facility includes a high-security warehouse, armoury, maintenance and testing facilities.*
- *A 7000sqm artillery shell forging factory in Maryborough with Joint-venture partner Rheinmetall Waffe Munitions that will eventually supply the Australian Defence Force and allied forces globally. More than 100 ongoing jobs will be created when the \$60m facility is fully operational by 2022.*
- *The commencement of a 10-year tenancy at the Australian Government-owned Benalla ammunition facility taking up over half of the output capacity of the facility.*
- *In an Australian first, Rheinmetall NIOA Munitions (RNM) will produce and export ammunition for the US F-35 Joint Strike Fighter program.*
- *NIOA is among the shortlisted tenderers for the management of LAND 159 Soldier Lethality Program which, over the next decade, will replace every weapon system that Aussie Diggers carry.*

The impacts of COVID-19 will resonate for many years including through Australia's foreign affairs, defence and trade. Government, business and community leaders should be commended for their efforts to mitigate risks, enact economic safeguards and make people safe. Australian business has also risen to the challenge amid the havoc to global supply chains caused by the unprecedented crisis. Our nation is facing perhaps its greatest test as

we not only strive to restore our economy but also shore up the risks to our sovereignty that have been laid bare by COVID-19.

As a direct consequence of this crisis, a new understanding of national security is evolving – not just in terms of our traditional defence industry but also our technology, health and energy capabilities. People are realising **it is time to rethink and reshape our reliance on the benefits of globalisation and restore key parts of our economic sovereignty**. This conversation about sovereignty and national resilience has moved beyond the corridors of power and into Australian homes. COVID-19 has shown us that we can no longer continue to rely on other countries to cover for crucial parts of our economy.

Amid all the chaos that COVID-19 has wrought, some clear thinking is emerging. This has been illustrated by Australia recently acting to ensure our nation has a sufficient and guaranteed supply of fuel. Energy Minister Angus Taylor announced the Federal Government would spend \$94 million on a fuel reserve in the United States to bolster the national stockpile. They would take advantage of historically low fuel prices to build a "strategic fuel reserve" to ensure Australia had enough fuel in case of future global disruptions.

Australia has already been on a positive trajectory, seeking Sovereign Industrial Capability Priorities on top of a pre-existing Defence Export Strategy. This was based on a goal to build a defence industry of scale which was sustainable. COVID-19 has increased the urgency around sovereignty and national resilience.

The meaning and importance of sovereignty have unfortunately been tangled with what some call Australian Industry Capability or Australian Industry Content (AIC). The confusion has continued with controversy around the Attack Class Submarines program and the lack of work from that program for Australian companies. The key difference between sovereignty and AIC is this – industry capability is about the provision of defence industry work for Australian companies regardless of who actually controls the overall projects they're working on. But sovereignty is different and far more important. Sovereignty is not just about defence industry work in Australia. Sovereignty is about that work and the control of that work resting within our country.

Sovereignty will become critical as Australia's defence interests are shaped by COVID-19.

Australia's national interests are always best served when such important projects for our national security are done in a way in which the programs are controlled within this country. The ownership, the intellectual property, the company's headquarters, the jobs, the investments, the taxes, the profits and the control remain within Australia. It is time for the nation to have a wider debate about the importance of defence industry sovereignty and COVID-19 ensures that we must have that debate.

The Federal Government has an AIC focus, but there are genuine questions to be asked about the benchmarks that have been set. The Attack Class Submarines program is worth \$50 billion (in 2016 \$AUD) but recent stories raised new questions about how much work the French company that won the tender will direct to Australian companies. Australian firms have said that they are capable and are disappointed that work has not flowed their way. That is understandable but the Attack Class Submarines program remains in the hands of a French company. That is a more important debate than a concentrated focus on jobs and supply-chain matters. In the end, Australia's interests for key defence projects are best served when the control of those projects' rests within this country.

NIOA is optimistic that COVID will begin to sharpen the focus on the initiatives that were already underway prior to COVID-19. **In order to make sure that we maximise the advantage to the Australian economy and industry, we will need strong leadership.** National endeavours, large-scale shifts in public policy and the establishment of heavy manufacturing bases do not happen without effective leadership. That needs to be a partnership in the defence area between government, uniformed defence leadership and personnel and industry. We need to bring that together. Regardless of the policy settings it will come down to individuals with commitment and leadership prepared to make bold decisions.

COVID-19 can provide great opportunity for Australia. The nation spends approximately two per cent of Gross Domestic Product on the defence industry. That is a significant but worthwhile investment. Post-COVID we can't afford for that level of expenditure not to be maximised for the benefit of the Australian people.

We are a capable country with excellent defence industry options. Defence industry sovereignty deserves to be in the spotlight and considered as an important goal for our nation and COVID-19 provides the opportunity to further that discussion.