

Senate Economics References Committee

Inquiry into Australia's sovereign naval shipbuilding capability –
13 November 2020

COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC – Australian sovereign naval shipbuilding capability - 13 November 2020 -
Q2 - CDIC working with SMEs to enter supply chains - Gallacher

Question reference number: 2

Senator: Alex Gallacher

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

In the October 2020 Budget Estimates hearings you mentioned that the CDIC sometimes works with those slightly larger firms in order to help them facilitate work going to SMEs within their supply chains. Can you please detail or provide an example of the CDIC working with larger firms to help small and medium Australian businesses to break into these supply chains?

Answer:

The following are examples of the work of the CDIC to introduce small businesses to larger firms in the Defence supply chain.

Glyde Metal

Glyde Metal's capability includes steel fabrication, laser cutting, welding and engineering services. Glyde, from Dandenong South in Victoria, has been supplying to Land 121 – Project Overlander and is targeting Land 8116 – Protected Mobile Fires and Land 400 Phase 3 – Land Combat Vehicle System (Infantry Fighting Vehicle). The CDIC engaged with Glyde to expand Glyde's knowledge of the defence sector and improve its defence maturity. As part of this engagement, CDIC introduced Glyde to RUAG Australia to review the application of Industry 4.0 initiatives for both businesses, during which these businesses discussed their respective capabilities and were informed about current Defence projects.

Following the meeting, the CDIC recommended Glyde should initiate discussions with RUAG to determine if their business' capability aligned with RUAG's manufacturing and current projects. This led to RUAG awarding Glyde work as part of Boeing's Loyal Wingman project, for which RUAG supplies the landing gear. This has opened up an

opportunity for Glyde in the aerospace domain and as part of the potential rebuilding of Australia's aircraft manufacturing capability.

FortifyEdge

FortifyEdge is a small Tasmanian technology start up developing Artificial Intelligence and Machine Learning cybersecurity technology for wearable devices in the critical infrastructure sector. The CDIC introduced FortifyEdge to Thales, and Thales subsequently contracted the company to provide prototypes of their technology for demonstration at Pacific 2019 as well as MilCIS 2019. FortifyEdge now has ongoing development contracts with Thales for military wearable applications of its technology. FortifyEdge was subsequently successful in United States Air Force AFWERX technology challenges and the US Department of Defence Small Business Innovation Research program has contracted FortifyEdge to undertake concept development.

Zener Electric

Zener Electric, from Milperra in NSW, specialises in electronic variable speed drives that manage the performance of electric motors for use in applications such as liquids transfers and pumps. Naval Group was introduced in Zener's variable speed drives capability, and recommended that Zener work with the CDIC to improve aspects of the business's operations. Zener did not have experience working in the defence sector. Working with the CDIC provided the company with valuable sector context and improved quality management and cyber security systems. Zener now has an opportunity to respond to a request for quote for the Attack Class Submarine project.

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability – 13 November 2020 - Q3 - CDIC - Independent Review, Engagement with Business - Patrick

Question reference number: 3

Senator: Rex Patrick

Type of question: Spoken

Date set by the committee for the return of answer: 13 November 2020

Question:

Senator PATRICK: Thank you. In some sense, I'm a little bit frustrated. I'll share that frustration with you so that you can push back a little bit. Firstly, in terms of the independent review, it was actually conducted by you, Mr Fraser, and Kate Carnell—is that correct?

Mr Fraser: That's correct—but utilising a consultancy to provide the information to us.

Senator PATRICK: You had a number of submissions to this report. Were they by invitation or were they advertised?

Mr Fraser: Both. It was fully open and invited submissions. In addition to those, there were interviews conducted.

Senator PATRICK: Are those submissions public?

Mr Fraser: No. Some of them are quite sensitive, as you would expect. So, no, we have not made those public. In fact, most that have provided information requested it be retained with the sensitivity it was provided.

Senator PATRICK: I'd like some details about those submissions. I think there were 26 businesses interviewed. Is it sensitive to name who those businesses are, noting that we're not talking about the detail of—

Mr Fraser: Can I take that on notice? It's an issue that we have discussed and taken advice on. At this point, we've been advised not to name the specifics because you can take some certainty from some of the companies and we don't want to disadvantage any of the small businesses in particular.

Senator PATRICK: Sure, but, by its very nature, one would expect that no-one could draw anything from the fact that someone has made a submission without the details being disclosed. I'm accepting your claim of sensitivity. But, at the top level, I just want to get a feel for the types of businesses that were involved, and that really goes just to the names of the businesses and also the industry associations. There should be no sensitivity with the industry associations.

Mr Fraser: It was all the associations, but it was also state representatives and a full spectrum of primes down to small business.

Senator PATRICK: Can you take it on notice?

Mr Fraser: Sure. I'll find a way to try and help you out to give you a feel.

Senator PATRICK: I think there were 113 businesses that made submissions. Of those 113, how many recommended that you transfer back into Defence?

Mr Fraser: I'll take it on notice.

Answer:

To clarify, the review was not a review into “transitioning the CDIC to Defence”. The terms of reference of the review and the review discussion paper can be found at Appendix B and Appendix C of the final report.

1. The Reviewers, were very pleasantly surprised at the broad level of engagement from stakeholders with the review, particularly as the review occurred during the height of the COVID-19 pandemic. The Reviewers were particularly encouraged by the 141 written submissions from stakeholders.

Some key statistics:

- Of the 141 written (short and long) submissions, one-hundred-and-thirteen (113) written submissions were received from businesses.
- Seven (7) of the written submissions were from defence and industry associations.
- Nine (9) submissions were from a cross-representation of government agencies.
- The independent consultants interviewed 53 stakeholders, including businesses (small and large), state and territory defence industry advocates, defence industry association representatives, past and present CDIC Advisory Board members, CDIC and Department of Industry, Science, Energy and Resources staff, and Department of Defence leadership.
- All industry associations were given the opportunity to be consulted during the review, and most made a formal submission and some agreed to be interviewed.
- Defence industry association members are also well represented on the CDIC Advisory Board.

Stakeholders supplied information under the expectation that they could do so privately and the content of their consultation would not be made public. Of the 26 “non-individual” interviews conducted by the independent consultants, 22 were representatives of incorporated businesses of which 19 would be considered small businesses and three would be considered to be medium to large businesses.

2. The review terms of reference and the discussion paper questions did not specifically ask for or lead stakeholders to make a decision or disclose a preference on the domicile of the CDIC. Indeed, some stakeholders believed that the CDIC was already a part of the Department of Defence. The submissions to the review varied in format and detail, and after consideration of all the inputs to the review, the Reviewers offered two options (see Recommendation 3, Option A and B) on where the CDIC should be located for the Minister for Defence and the Minister for Defence Industry to consider. The advantages and disadvantages of both options are outlined in Section 7.2 of the final report. On balance, the Ministers accepted the recommendation that the CDIC be transferred to Defence, while the Department of Industry, Science, Energy and Resources retains the

grants' administration role. This decision was made in consultation with the Department of Industry, Science, Energy and Resources and the Minister responsible for that Department.

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 November 2020 -
Q4 - Decision to move CDIC to Defence - Patrick

Question reference number: 4

Senator: Rex Patrick

Type of question: Spoken

Date set by the committee for the return of answer: 13 November 2020

Question:

Senator PATRICK: I understand it was a clear recommendation of the review, but I wasn't aware that the decision had been made to accept that recommendation.

Mr Fraser: Those recommendations have been accepted.

Senator PATRICK: When were they accepted?

Mr Fraser: In September. I'll have to find the exact date for you.

Mr Chesworth: I think it was 17 September.

Senator PATRICK: And announced?

Mr Chesworth: We'll confirm that.

Answer:

The Government accepted eight of the nine recommendations of the Review of the Centre for Defence Industry Capability (CDIC) in early September 2020. The Government's response to the Review of the CDIC was announced by the Minister for Defence, Senator the Hon Linda Reynolds CSC, and the Minister for Defence Industry, the Hon Melissa Price MP, on 15 September 2020. The press release announcing the Government's response can be found at: <https://www.minister.defence.gov.au/minister/melissa-price/media-releases/more-support-business-following-cdic-review>.

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 November 2020 -
Q6 - Commonwealth Procurement Rules (CPR's) to Defence procurement - Patrick

Question reference number: 6

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

During the hearing the Chair and Mr Halloran had an exchange about the application of the Commonwealth Procurement Rules (CPR's) to Defence procurement and the desire of Australian small business to rely on Free Trade Agreements to aid export.

1. Mr Halloran stated that Defence only uses the exemptions in the CPR's in times of national emergency or when there may be a security threat.
 - a. Is this a CASG directive or does it apply more broadly? Please provide details as to the origin of this interpretation of the CPRs.
 - b. Has this been promulgated to project/procurement staff?
2. Can Defence please outline which Free Trade Agreements Australia has entered into that will facilitate the supply of Australian defence equipment to overseas countries, and the scope of that facilitation?
3. In the broader context of this topic, can Defence advise which countries have:
 - a. Unfettered access for the supply of defence/military equipment to their defence forces?
 - b. Offset requirements associated with their defence/military procurement?
 - c. Alternate limitations regarding the supply of military/defence equipment to their defence/armed forces?

Answer:

1.
 - a) Clause 2.6 of the Commonwealth Procurement Rules (CPRs) notes that the CPRs do not apply to the extent that an official applies measure determined by their Accountable Authority to be necessary for, among other things, the protection of essential security interests. The Defence Procurement Policy Manual (Defence Procurement Policy Directive D2 and Table 1) notes specific goods and services exempted under clause 2.6 of the CPRs. These include goods with specified United States Federal Supply Codes that have been exempted under Free Trade Agreements.

- b) Yes. The Defence Procurement Policy Manual operationalises the CPRs for Defence and contains mandatory directives for Defence procurement officials.
- 2. Australia currently has 14 Free Trade Agreements (FTAs) in force, two FTAs concluded but not yet in force and seven FTAs under negotiation (see <https://www.dfat.gov.au/trade/agreements/Pages/trade-agreements>). Australia's FTAs aim to facilitate trade and maximise opportunities for Australian industry and business by reducing or eliminating certain barriers to trade in goods and services, as well as investment. Each of Australia's FTAs deliver different liberalisation outcomes and there are differences in trade and investment conditions and requirements.
- 3. (a-c) Defence is not in a position to offer authoritative advice on other countries' policies for the supply of defence/military equipment, which are often complex and can vary in their application.

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - Australia's sovereign naval shipbuilding capability - 13 November 2020 -
Q7 - Progress of Resident Sovereign Industrial Capabilities - Patrick

Question reference number: 7

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

Can Defence provide the 'anecdotal evidence' Dr Sawczak referred to regarding progress of resident Sovereign Industrial capabilities?

Answer:

In relation to the impact that the Sovereign Industrial Capability Priorities and accompanying Implementation and Industry Plans are having in embedding new resident industrial capability in Australia, Defence offers the following anecdotal evidence.

Industry stakeholders have responded positively to the development and release of the Implementation and Industry Plans for the Sovereign Industrial Capability Priorities as a practical guide for their planning purposes. Five Plans have been released to date, and the remaining five are on track to be delivered by the end of 2020.

The Sovereign Industrial Capability Priority Grants Program has been heavily subscribed since its launch in 2018 – with 70 successful applications totalling \$35.5 million in funding. One successful applicant, TQCSI, used the grant to become the first and currently, only Australian company that can audit and certify companies in the aviation, space and defence sectors to AS9100 international quality standards. This means Australian businesses no longer need to use overseas companies to gain international accreditation in these sectors.

The Government's defence industry policy agenda and commitment to developing capabilities within Australia has also seen non-defence companies move into the defence industry sector. For example, Axiom Precision Manufacturing, a former car parts maker from South Australia, received a Sovereign Industrial Capability Priority grant to build a new facility to accommodate a large precision machining tool. This tool has enabled Axiom to deliver one of the most complex parts of the F-35 Joint Strike Fighter Vertical Tail, the Leading Edge Spar, which was previously delivered in the United Kingdom. As a result,

Axiom won a new contract with BAE Systems Australia, taking its annual contract value with BAE to more than \$3 million per annum.

Building an Australian sovereign defence industrial base that is resilient and internationally competitive will require sustained effort over the coming decade. The Sovereign Industrial Capability Priorities Industry Plans are intended to guide that effort in areas that are still, in many cases, nascent but which will over time, become increasingly resident in Australia. Defence will continue to develop measures that enable us to track the growth of Australia's defence industrial base.

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COMMITTEE INQUIRY QUESTION ON NOTICE

Department of Defence

Topic: SERC - CDIC - Australia's sovereign naval shipbuilding capability – 13 Nov 2020 - Q20 - Activities CDIC conducted - Patrick

Question reference number: 20

Senator: Rex Patrick

Type of question: Written

Date set by the committee for the return of answer: 27 November 2020

Question:

What activities have the CDIC conducted to address the capability gaps and/or capacity shortfalls of the Naval Shipbuilding sector?

Answer:

The Centre for Defence Industry Capability (CDIC) supports Australian businesses engage with continuous shipbuilding programs, helping improve their ability and capacity to support Defence requirements and access opportunities in Naval Shipbuilding supply chains. The CDIC does this through advisory and facilitation services to small businesses, and grants programs including the Sovereign Industrial Capability Priority (SICP) Grant. To date, the SICP grant has provided 30 grants worth \$13,553,891 to Australian businesses to support the capability development aligned to the continuous naval shipbuilding SICP.

In 2018-19 the CDIC worked with Defence and the Industry Capability Network (ICN) to develop a new taxonomy for the Hunter Class Frigate program that provides greater Defence-specific detail than was previously available. The ICN helps primes to present opportunities on the program and small and medium businesses to publicise their capabilities and register for future work packages.

The CDIC was not previously positioned to comprehensively undertake its role as described in the Naval Shipbuilding Plan. The outcomes of the CDIC Review support the need to refine and refocus the role of the CDIC and prioritise its resources to best meet Defence's objectives.