



Supplementary Submission No 14.1

Inquiry into Australia's Defence Relations with the United States

Organisation: Department of Industry Tourism and Resources

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Australian Government

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Mr Stephen Boyd
Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and
Trade
Parliament House
Canberra ACT 2600

Dear Stephen

Questions taken on notice

Thank you for sending me a copy of the transcript of evidence that I gave at the hearing on 2 April. I have no suggested corrections.

I have attached material in response to questions taken on notice and additional material that the committee requested.

Yours sincerely

Mike Lawson
General Manager
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**RESPONSE TO QUESTIONS POSED BY THE:
JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE**

Senator SANDY MACDONALD asked about the number of Australian working within the Lockheed Martin operation in the United States. (Friday 2 April, FADT 3-4)

Australian companies such as Marand Precision Engineering, GKN Aerospace Engineering Services, Hawker de Havilland and VIPAC Engineers & Scientists have employees working in the US, specifically on the JSF project. Not all of these Australians are with Lockheed Martin. The breakdown is as follows:

- Marand Precision Engineering has 1 engineer located at the Lockheed Martin facility in Palmdale, California. The focus of the activity is designing and constructing the production fabrication and assembly lines required to build the conventional control surfaces and edges at full rate production (FRP).
- Hawker de Havilland has 6 engineers working with Lockheed Martin engineers in Palmdale, California on designing and developing critical components of the JSF airframe.
- GKN Aerospace Engineering Services currently have 11 engineers located at the Northrop Grumman facility in El Segundo, California. The contract is for the design of centre fuselage components.
- VIPAC Engineers & Scientists will have 2 engineers located at the Northrop Grumman facility in El Segundo, California undertaking stress and test analysis work.

Mr EDWARDS and MR PRICE asked about the International Traffic in Arms Regulations Exemption (Friday 2 April, FADT 5-7)

The ITAR exemption negotiations were led by the Department of Defence because the Defence Department administers Australian export controls, and is the primary user of US defence equipment exported to Australia under the United States' International Traffic in Arms Regulations (ITAR). Defence has been assisted in the ITAR exemption negotiations by an Interdepartmental Committee drawn from a number of relevant Government departments and agencies, including the Department of Industry, Tourism and Resources.

In accordance with US law, the Australian and UK ITAR exemption agreements are required to be considered by the US Congress, to ensure that they represent an appropriate basis for adjusting existing US export control arrangements. Consideration of the Australian and UK agreements began in mid 2003, but has stalled in the US Congress where the exemption has the support of the US Senate but is opposed by the House of Representatives.

The fact that the agreements have been held up in the Congress does not reflect adversely on Australian efforts to promote and support the ITAR exemption, but rather a heightened United States sensitivity to the need to tightly control exports of US defence technology in the post September 11 environment.

Australian Ministers and senior officials - including the Australian Ambassador in Washington - have taken every opportunity to press the US Administration and US Congress on the

importance of the ITAR exemption to Australia. Our contacts with the UK Government suggest that senior UK Ministers and officials have also been lobbying strongly for the ITAR exemption.

Our Embassy in Washington is current working with the US Administration and Senate staff on possible initiatives that might achieve progress in the Congress' consideration of the ITAR exemption agreements.

DITR has been involved in the ITAR exemption issue - since the outset - through its membership on an Interdepartmental Committee that was set up to guide Defence during the negotiations and to try to resolve any issues that might arise. The international negotiations have been conducted by Defence and DFAT, DITR's contribution has been domestically orientated reflecting DITR's links with Australian industry.

MR EDWARDS asked about Assistance to companies. (Friday 2 April, FADT8)

I offered to provide a copy of a guide to Commonwealth, State and Territory industry support programs that we had produced for firms involved in the JSF program. A copy of the guide is attached.

MR PRICE asked about Defence Exports (Friday 2 April, FADT9)

Unfortunately, defence exports are not readily identified from Australian Bureau of Statistics information that is typically used to describe export levels and trends. It is not possible to disentangle purely defence exports from the broader industries' exports (aerospace, electronics, etc) in the data published by the Australian Bureau of Statistics.

However, there is some official export information on defence exports but it is of limited utility for discerning trends in defence exports. Official data on defence exports covers only exports that are controlled by legislation and regulation because of the nature of the export. Usually these are products that have to be declared for security and other reasons. The available data for most recent years is summarised on the following pages. It indicates relatively modest exports of defence and related goods of between \$50 million and \$100 million per year, with approximately half the exports directed to the USA. The proportion of dual use goods exported to the USA is much less, at between 5 per cent and 13 per cent. This information is sourced from the Annual Report of Exports of Defence and Strategic Goods published by the Defence Materiel Organisation, from Customs information provided to Defence.

This information should be treated carefully as it does not cover all of what might generally be considered to be defence exports, such as aerospace exports under the JSF program.

Exports of Defence and Strategic Goods from Australia to the USA

Destination	Year	Defence & Related Goods (incl. Military Goods, \$A)	Dual Use Goods (\$A)	Total
USA	2000-2001	\$25,318,922	\$70,246,308	\$95,565,230
Rest of World	2000-2001	\$20,997,776	\$484,429,902	\$505,427,678
Total	2000-2001	\$46,316,698	\$554,676,210	\$600,992,908

Source: Annual Report - Exports of Defence and Strategic Goods from Australia 2000-01; Defence Materiel Organisation

Values are in AUD, based on Australian Customs Service data provided to the Department of Defence covering the period 1 July 2000 to 30 June 2001.

Statistics reported only cover those exports of goods that are controlled by the legislation and regulations administered by the Defence Trade Control and Compliance section of the Department of Defence.

Destination	Year	Defence & Related Goods (incl. Military Goods, \$A)	Dual Use Goods (\$A)	Total
USA	2001-2002	\$47,949,426	\$12,902,494	\$60,851,920
Rest of World	2001-2002	\$51,199,388	\$240,852,114	\$292,051,502
Total	2001-2002	\$99,148,814	\$253,754,608	\$352,903,422

Source: Annual Report - Exports of Defence and Strategic Goods from Australia 2001-02; Defence Materiel Organisation

Values are in AUD, based on Australian Customs Service data provided to the Department of Defence covering the period 1 July 2001 to 30 June 2002.

Statistics reported only cover those exports of goods that are controlled by the legislation and regulations administered by the Defence Trade Control and Compliance section of the Department of Defence.

Australian Defence Exports to the US

	2000-01 (A\$)	2000-01 (% of world)	2001-02	2000-01 (% of world)
Defence & Related Goods (incl. Military Goods, \$A)	\$25,318,922	54.66%	\$47,949,426	48.36%
Dual Use Goods (\$A)	\$70,246,308	12.66%	\$12,902,494	5.08%
Total	\$95,565,230	15.90%	\$60,851,920	17.24%

Australian Customs Service data covering the period 1997-2002 have been used to observe the trend in defence exports. Again, this data only includes exports that have been declared and for which a permit or license is required. It is hard to distinguish a trend based on the available data.

Exports of Defence and Strategic Goods from Australia to the USA

Year	Defence & Related Goods (incl. Military Goods, \$A)	Dual Use Goods (\$A)	Total
1997-1998	\$7,982,326.00	\$42,517,082.00	\$50,499,408.00
1998-1999	\$9,535,816.00	\$12,861,156.00	\$22,396,972.00
1999-2000	\$3,517,357.00	\$ 30,520,301.00	\$34,037,658.00
2000-2001	\$25,318,922.00	\$70,246,308.00	\$95,565,230.00
2001-2002	\$47,949,426.00	\$12,902,494.00	\$60,851,920.00

Mr PRICE indicated he would be interested in additional material mapping defence industries (Friday 2 April, FADT9)

Unfortunately, a mapping of defence industries is not readily provided by official economic statistics because "Defence Industries" is not a classification used by the Australian Bureau of Statistics, defence industries are part of industries such as electronics, aerospace and shipbuilding. This is not simply a classification issue, it reflects the reality that the defence industries are an integral part of wider industry sectors. Firms supplying the defence sector often also produce goods and services for the civil sector and in some cases goods and services provided by firms to the defence sector cannot readily be differentiated from those provided to the civil sector.

The Department of Industry Tourism and Resources (DITR) has published an Aerospace Industry Action Agenda that includes chapters on the global market and Australian industry capabilities. A copy of the report is attached. It provided part of the basis for the submission I made to the committee.

The Department of Industry Tourism and Resources (DITR) has published an Electronics Industry Action Agenda that includes a chapter on the electronics industry in Australia and its position in the global economy. A copy of the report is attached.

The Defence Material Organisation's draft sector plans, produced by the Industry Policy Division of DMO in consultation with industry and relevant Departments, include some mapping of the defence industries. In particular, the Defence Electronic Systems Sector Plan has a useful chapter on the military electronic systems sector based on internal Defence data and a commissioned study, a copy of the relevant chapter is attached. The naval shipbuilding and repair sector strategic plan also has a useful mapping of that sector in Chapter 3.

The Australian Defence Magazine produces an annual survey of the top 40 Australian defence contractors. The latest ADM survey provides a supplementary list of a further 38 companies that supply the defence sector. It provides useful information on firms' turnover, contracts, and areas of interest. A copy is attached.