

## Defence industry engagement and assistance

### Introduction

- 3.1 Forms of Australian Government support available to the defence industry were explored during the inquiry. These programs and industry support measures are discussed in sequence through this chapter:
- Defence industry support programs, including the Global Supply Chain program. These programs are largely related to assisting industry with the research and development of products that may be suitable for export;
  - Austrade and market advice;
  - The Australian Military Sales Office (formerly the Defence Export Unit); and
  - Access to finance and the role of the Export Finance and Insurance Corporation.
- 3.2 Chapter four introduces support measures for defence industries and defence exports in other countries. Market advice, access to finance and assistance with sales were among such measures. In this regard, practices in Australia are broadly of a similar nature to comparable countries.
- 3.3 Chapter five brings together the discussion of how barriers to defence exports may be overcome. Relevant Committee views and recommendations relating to issues across these chapters are presented at the end of chapter five.

## Defence industry support programs

- 3.4 Industry support programs (based on information contained in Defence's submission as at August 2014) include the following:
- 3.5 *Skilling Australia's Defence Industry* (SADI) provides grants to companies to train and improve the skills of workers. The assistance covers tuition costs to non-supervisory employees and is provided to companies with links to current or planned Defence capital equipment projects.<sup>1</sup> Lockheed Martin Australia's submission supported the SADI program, noting that companies involved in advanced manufacturing incur 'large investment and training costs to bring machinery and staff up to the high levels required'.<sup>2</sup>
- 3.6 The *Industry Skilling Program Enhancement* (ISPE) package. Defence's website states that it aims to 'expand the pool of skilled workers from which defence industry can recruit, enhance work and career pathways and address specific skills gaps'.<sup>3</sup>
- 3.7 *New Air Combat Capability Industry Support Program* (NACC-ISP) provides grants to industry and research organisations involved with the Joint Strike Fighter project.<sup>4</sup>
- 3.8 *Capability and Technology Demonstrator* (CTD) program was established to give Australian industry and research organisations the opportunity to demonstrate capability-enhancing and innovative technologies to the ADF.<sup>5</sup> Although \$14.2 million has been allocated per year for the CTD program,<sup>6</sup> the Defence Procurement Policy Manual states that CTD 'not a grants program; rather it is a collaborative activity'.<sup>7</sup> The Columbus Group submitted that the CTD program is 'a highly competitive process with only a few winners' and that 'maybe 4 or 5' are selected from among 100 submissions.<sup>8</sup> In contrast, EM Solutions submitted that the CTD

1 Department of Defence, *Submission 41*, p.10. See also <<http://www.defence.gov.au/dmo/DoingBusiness/Industry/SkillingDefenceIndustry/SkillingAustralianDefenceIndustry/>> (viewed 26 August 2015).

2 Lockheed Martin Australia, *Submission 39*, p.2.

3 Department of Defence, 'Industry Skilling Program Enhancement Package', at <<http://www.defence.gov.au/dmo/DoingBusiness/Industry/SkillingDefenceIndustry/IndustrySkillingProgramEnhancement/>> (viewed 26 August 2015).

4 Department of Defence, 'New Air Combat Capability Industry Support Program', at <<http://www.defence.gov.au/dmo/DoingBusiness/Industry/IndustryPrograms/JSF-ISP/>> (viewed 26 August 2015).

5 Department of Defence, *Submission 41*, p.10.

6 Department of Defence, *Response to Questions on Notice* (Question No. 20).

7 Department of Defence/DMO, 'Defence Procurement Policy Manual', October 2014, p.4.15-1.

8 Columbus Group, *Submission 1*, p.1.

program was commendable and had resulted in a new product line for the company and recommended 'stronger support' for the program.<sup>9</sup> Northrop Grumman also supported the CTD program.<sup>10</sup>

- 3.9 The *Defence Innovation Realisation Fund* (DIRF) assists with moving ideas towards a point of maturity. The Defence Science and Technology Organisation's website states that the fund 'acts as a clearing house for various innovation programs supported by Defence'.<sup>11</sup>
- 3.10 *Defence Materials Technology Centre* (DMTC) aims to link public sector researchers, industry and Defence end-users to generate materials products suitable for the ADF.<sup>12</sup> DMTC's website states:
- Operational funding is drawn from several sources including the Commonwealth Government, State Governments, industry and the research sector. DMTC operates as a public company, limited by guarantee.<sup>13</sup>
- 3.11 Defence advised that \$38 million would be provided to the DMTC from 2008-09 to 2018-19. In addition, DSTO provides personnel and equipment to assist with some of DMTC's research projects.<sup>14</sup>
- 3.12 *Defence Industry Innovation Centre* (DIIC) provides advisory services to SMEs and 'helps companies build the business fundamentals on which export success depends.'<sup>15</sup> Lockheed Martin Australia described the DIIC as 'vital to the future success and competitiveness of the Australian defence industry.'<sup>16</sup>
- 3.13 *Rapid Prototyping Development and Evaluation* (RPDE) program was established to address Defence's complex capability questions. Defence's submission stated:
- Development of innovative ideas into leading-edge ADF capabilities can provide Australian companies with valuable export opportunities.<sup>17</sup>

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9 EM Solutions, *Submission 7*, p.2 and p.6; see also AIDN, *Submission 32*, p.3.

10 Lovell, *Committee Hansard*, 13 February 2015, p.41.

11 DSTO, 'Innovation Integration', at <<http://www.dsto.defence.gov.au/partner-with-us/innovation-integration>> (viewed 26 August 2015).

12 Department of Defence, *Submission 41*, p. 10; Department of Industry, *Submission 22*, pp.6-7.

13 DTMC, 'Company Overview', at <<http://dmtc.com.au/about-us/company-overview/>> (viewed 26 August 2015).

14 Department of Defence, *Response to Questions on Notice* (Question No. 16).

15 Department of Defence, *Submission 41*, p.10.

16 Lockheed Martin Australia, *Submission 39*, p.2.

17 Department of Defence, *Submission 41*, p.11; see also Birrer et al, *Committee Hansard*, 24 March 2015, pp.12-13.

- 3.14 *Priority Industry Capability Development Fund (PICDF)* is used by Defence to assist Australian companies 'whose capabilities are critical to the operations of the ADF and would benefit from export market development.'<sup>18</sup> Defence advised that as at March 2015, \$10 million per year had been allocated to the fund for a four year period.<sup>19</sup>
- 3.15 The *Joint Strike Fighter Industry (JSF)* program, which has similarities to the Global Supply Chain program but is focussed specifically on the JSF.<sup>20</sup>
- 3.16 Budget papers indicate that funding for 'industry programmes' in 2015-16 total \$26.5 million.<sup>21</sup> The Committee notes that industry support programs administered by Defence are all subject to review as part of the forthcoming 2015 Defence White Paper and Defence Industry Policy Statement.<sup>22</sup>
- 3.17 Defence's submission explained how these programs relate to defence exports and interact together:
- The AIC program provides the opportunity for Australian-based firms to participate in a range of Defence capital equipment projects especially those for equipment acquisition, by identifying where these firms can act as competitive or preferred Defence suppliers. A series of programs for industry labour skilling (currently led by SADI), innovation (currently led by CTDs and DIRF) and export market development (currently led by GSC) then make grants or other direct forms of assistance available to eligible firms. The PICDF programs overlays these activities by focusing on more prominent or urgent PIC related-issues. However, other programs for skilling, innovation and exporting also have PIC elements.<sup>23</sup>
- 3.18 The Department of Industry provided a summary of industry development programs, applicable to defence industry and to others that may be applied to other manufacturing areas, or linked to the defence market globally. These include:
- Research and Development (R&D) Tax Incentive;
  - Tradex;
  - Entrepreneurs' Infrastructure Program;
  - Automotive Diversification Programme;

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18 Department of Defence, *Submission 41*, p.11.

19 Department of Defence, *Response to Questions on Notice*, (Question No. 12).

20 Department of Defence, *Submission 41*, p.8.

21 Defence Portfolio Budget Statements 2015-16, p.203.

22 Department of Defence, *Submission 41*, p.8.

23 Department of Defence, *Submission 41*, p.9.

- Next Generation Manufacturing Investment Programme; and
- Manufacturing Transition Programme.<sup>24</sup>

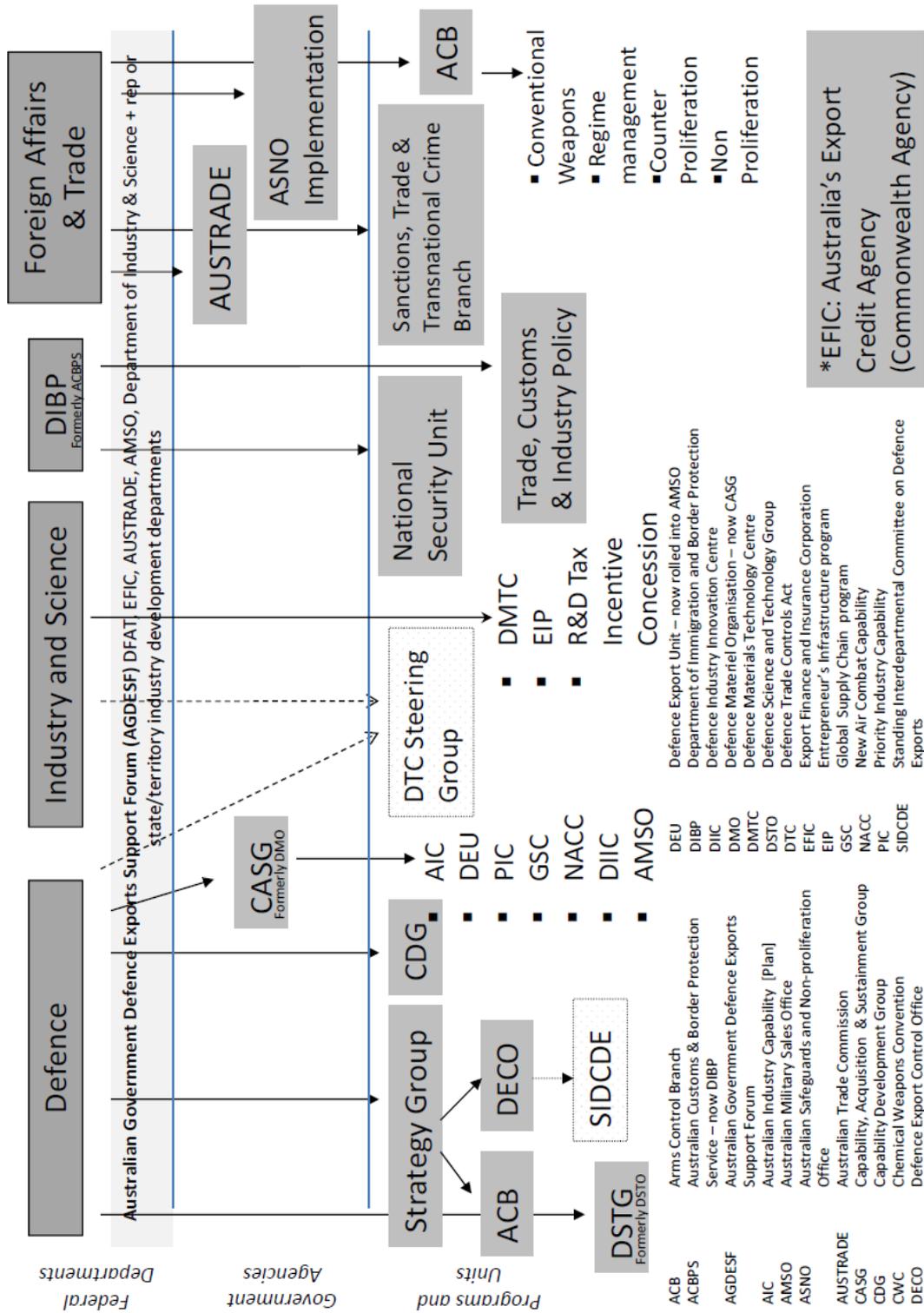
3.19 The following diagram illustrates the range of Federal Government agencies involved in the defence industry or Australian defence exports and their key relationships. The diagram should be interpreted in accordance with recent changes to administrative arrangements:

- As of 1 July 2015, the Capability, Acquisition and Sustainment Group has succeeded the former Defence Materiel Organisation.
- On 1 July 2015, the Australian Customs and Border Protection Service was merged with the Department of Immigration to become the Department of Immigration and Border Protection.
- The Defence Science and Technology Organisation has been renamed as the Defence Science and Technology Group.
- The Defence Exports Unit forms part of the Australian Military Sales Office.

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24 Department of Industry, *Submission 22*, pp.4-8.

Figure 3.1 Overview of departments and agencies involved in defence industry exports



- 3.20 An additional program of particular relevance to the defence industry and defence exports is the Global Supply Chain program.

### Global Supply Chain program

- 3.21 The Global Supply Chain (GSC) program is designed to establish relationships between Australian industry and large multinational defence companies (known as 'primes'). The GSC program is a way of introducing Australian companies to the global market and building connections. Defence's submission defined the purpose of the GSC program as follows:

This program provides funding to a small number of leading international defence capital equipment prime contractors with a presence in Australia, with the aim of encouraging them to explore the potential for competitive Australian firms to participate more broadly in contractor supply chains around the world.<sup>25</sup>

- 3.22 In exchange, the primes may assist and advocate on behalf of smaller Australian companies. Defence's website explained:

The participating primes establish industry units within their companies and identify bid opportunities across their defence and commercial business units. These opportunities are then provided to capable Australian companies and are won on merit. More often than not, the bid opportunities are also internationally competed, requiring the Australian business to be globally competitive.

In addition to providing bid opportunities, the GSC primes advocate on behalf of Australian industry, train and mentor companies in the primes purchasing practices and methods, and provide a range of market assistance including facilitating visits and meetings with key decision makers.<sup>26</sup>

- 3.23 Seven primes are listed on Defence's website as participating in the GSC program: BAE Systems, Boeing, Finmeccanica, Lockheed Martin, Northrop Grumman, Raytheon and Thales.<sup>27</sup>
- 3.24 Defence's submission described participation in the GSC program as 'a means of cultivating a more diversified and technologically advanced

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25 Department of Defence, *Submission 41*, p.8.

26 Department of Defence, 'Global Supply Chain program', at <<http://www.defence.gov.au/dmo/DoingBusiness/Industry/IndustryPrograms/GlobalSupplyChains/>> (viewed 26 August 2015).

27 Department of Defence, 'Global Supply Chain program', at <<http://www.defence.gov.au/dmo/DoingBusiness/Industry/IndustryPrograms/GlobalSupplyChains/>> (viewed 26 August 2015).

Australian manufacturing sector.’<sup>28</sup> The Victorian Government’s submission viewed the GSC as beneficial:

The Victorian Government recognises that effective local industry engagement into global supply chain opportunities will generate national opportunities for industry diversification, technology transfer, and competitive business practices.<sup>29</sup>

3.25 The Victorian Government’s submission also stated:

The GSC program played a significant role in Marand’s successful bid for the JSF tail-fin and continues to support Victorian industry effectively.<sup>30</sup>

3.26 The Australian Industry and Defence Network submission characterised the GSC as an ‘excellent initiative’ whilst having a ‘limited but valuable success’. The AIDN’S submission estimated that the value of contracts awarded to Australian businesses amounted to \$300 million,<sup>31</sup> although BAE Systems cited a figure of \$600 million.<sup>32</sup>

3.27 Mr Graeme Dunk (Manager, Australian Business Defence Industry) said:

It has had some unintended consequences. The first point is that the outcome of the global supply chain does not necessarily equate to my concept of strategic risk, so we may well be developing industry capabilities which are good themselves but do not actually contribute to the mitigation of strategic risk.<sup>33</sup>

3.28 On a previous occasion, Mr Dunk has explained his concept of ‘strategic risk’:

A defence industry policy focused on the management and remediation of strategic risk seems to be the obvious way forward. There are two issues for consideration: (1) the risk in being able to deploy the right capability into the field and achieve those tasks set by government (mission risk), and (2) the ability to do this in a manner over which we have control (sovereign risk).<sup>34</sup>

3.29 Mr Dunk continued:

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28 Department of Defence, *Submission 41*, p.5.

29 Victorian Government, *Submission 36*, p 16.

30 Victorian Government, *Submission 36*, p.12.

31 Australian Industry and Defence Network Inc, *Submission 32*, p.9.

32 Nicholson and Wilson, *Committee Hansard*, 13 February 2015, p.32.

33 Dunk and O’Callaghan, *Committee Hansard*, 13 February 2015, p.6.

34 Graeme Dunk, ‘Time for a Sensible Defence Industry Policy’, *ASPI Strategist*, 16 June 2014, at <<http://www.aspistrategist.org.au/time-for-a-sensible-defence-industry-policy/>> (viewed 26 August 2015).

The second point is that the global supply chain seems to have had the unintended consequence of restricting the ability of small companies to engage directly with Defence. A number of companies with quite innovative technologies have said to me that they have approached Defence directly about a number of these things they have been doing and they have basically been told to engage with one of the companies in the global supply chain and to convince them of the worth of their technology, and then Defence will have a look at it.<sup>35</sup>

3.30 Mr Gilbert Watters (Senior Principal Consultant – Government, QinetiQ) commented on the benefit of the GSC program:

On aircraft there are a number of different models. We have spoken about the JSF model, which I think is a very good way of getting Australian SMEs into the supply chain of Lockheed Martin. Defence also runs a global supply chain program which has all the major US companies signed up to try to open up opportunities for Australian companies. That is a very good example.<sup>36</sup>

3.31 Mr Peter Nicholson (Head of Government Relations, BAE Systems Australia) said:

It is very successful, with about \$600 million of contracts so far awarded. All of the global supply chain participants have the same objective, which is to identify opportunities for Australian suppliers in our global supply chains and to support particularly small and medium enterprises with capturing and then delivering on these opportunities.<sup>37</sup>

3.32 He continued:

The strength of a global supply chain is not that a bit of an Australian system would go into a major system, but rather that it would go into all of the aircraft. We have some examples like that – the Evolved Sea Sparrow Missile is a very good example of that. There are nine partner nations, and Australia has a 15 per cent share of the workload. I am not sure of that number, but it is that kind of proportion. The work that Australia does on the Evolved Sea Sparrow Missile goes into all Sea Sparrow missiles.<sup>38</sup>

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35 Dunk and O'Callaghan, *Committee Hansard*, 13 February 2015, p.6.

36 Taylor and Watters, *Committee Hansard*, 13 February 2015, p.16.

37 Nicholson and Wilson, *Committee Hansard*, 13 February 2015, p.32.

38 Nicholson and Wilson, *Committee Hansard*, 13 February 2015, p.36.

3.33 Mr Mike Lovell (Director, Operations and Integration, Northrop Grumman Australia) said:

We are really very strong advocates of the global supply chain program because we see it brings mutual benefits to us as a corporation, as a buyer of supplies, to Australian SMEs, which we work with very closely, and because it enhances the capabilities and skills of Australian industry in the broad.<sup>39</sup>

3.34 He added:

To date, Northrop Grumman has sourced about \$25 million worth of products and systems out of Australia for its global supply chain – and that is not counting stuff that we do here in Australia; that is globally. In our current pipeline there is over \$200 million worth of opportunities, and we think, over the next couple of years we will convert that into about \$100 million worth of exports.<sup>40</sup>

3.35 Lockheed Martin Australia submitted that it has awarded approximately USD \$13 million in contracts to Australian SMEs and research and development communities.<sup>41</sup>

3.36 An overview of the evidence received on these other forms of export support follows in the next sections.

## **Austrade and market advice**

3.37 The Australian Trade Commission (Austrade) provides services to businesses seeking to export overseas. The range of Austrade's services are summarised in its annual report:

Through its network of advisers, located offshore and in Australia, Austrade helps internationally ready Australian businesses by:

- Delivering market insight and intelligence;
- Providing advice on how to do business in prospective markets;
- Providing access to networks of key decision-makers, customers and contacts in overseas markets;
- Identifying and assessing business opportunities in international markets, and helping Australian businesses capture them; [and]

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39 Lovell, *Committee Hansard*, 13 February 2015, p.40.

40 Lovell, *Committee Hansard*, 13 February 2015, p.42.

41 Lockheed Martin Australia, *Submission 39*, p.1.

- Providing badge-of-government assistance to firms in-market and helping them with behind-the-border barriers to trade and investment.<sup>42</sup>

3.38 Austrade's services may be utilised by defence exporters. Austrade advised:

Over the last five years Austrade has provided 853 export services to Australian Defence organisations resulting in at least 171 export outcomes (Austrade collects export outcome information from Australian companies it works with on a voluntary disclosure basis).<sup>43</sup>

3.39 The Australian Government's 2014 industry agenda stated:

Specialised government agencies such as the Government's new Single Business Service and Austrade provide reliable information about markets, technology and business models to small and medium enterprises, accelerating industry growth and job creation.<sup>44</sup>

3.40 The Committee heard evidence that defence industry has been dissatisfied with Austrade. Mr Chris Burns (CEO, Defence Teaming Centre) said:

...a number of our member companies have expressed frustration with the costs and bureaucracy associated with gaining support from Austrade to pursue export markets.<sup>45</sup>

3.41 Mrs Sue Smith (Executive Officer, Australian Industry and Defence Network Inc) said:

Austrade regards support for defence exporting as a low priority and not their role. Austrade's approach to fee-for-service exacerbates this weakness. Their services, which SMEs find costly, often produce very little return on investment.<sup>46</sup>

3.42 Ms Phillipa Dawson (General Manager – Trade, Austrade) said that Austrade's interest was limited to 'the civil applications for some of the defence exports' and the transferable technology relevant to other sectors, such as aerospace. She said:

Our work predominantly is around looking at access: helping Australian companies access global value chains, particularly on the aerospace side, working with some of the big global companies

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42 Austrade, 'Annual Report 2013-14', p.2.

43 Austrade, *Response to Questions on Notice*, p.1.

44 Australian Government, 'Industry Innovation and Competitiveness Agenda: An Action Plan for a Stronger Australia', October 2014, pp.68-69.

45 Burns and Taylor, *Committee Hansard*, 9 October 2014, p.14.

46 Smith, *Committee Hansard*, 31 October 2014, p.40.

like Boeing and Embraer, and looking for opportunities for Australian SMEs in that space.<sup>47</sup>

- 3.43 Specialised assistance for defence exporters is available via the Australian Military Sales Office.

## Australian Military Sales Office assistance

- 3.44 The Australian Military Sales Office (AMSO) improves the position of Australian exporters by giving its sponsorship. Some submissions made reference to the Defence Exports Unit (DEU), which is now part of AMSO.<sup>48</sup> Defence's submission noted that Australian defence exporters may be viewed by international customers as a risk due to small scale, long-term support and supply distances. The submission stated that AMSO was created to 'facilitate the overseas sales of Australian made capital equipment through government-to-government channels', similar to the US Foreign Military Sales program.<sup>49</sup> Defence submitted:

In these instances, the Australian Government is effectively putting its reputation directly behind Australian suppliers, although legal and financial risks remain with the supplier to manage.<sup>50</sup>

- 3.45 Views of AMSO's performance were mixed. The Australian Industry Group had a positive impression:

The staff of the DEU have played a constructive facilitating role... Their extensive network of international military contacts proves highly valuable for SME managers seeking introductions overseas.<sup>51</sup>

- 3.46 Northrop Grumman described the DEU (or AMSO) as an 'asset' to local industry that 'should be further supported in the future.'<sup>52</sup>
- 3.47 Thales Australia had an alternative view:

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47 Dawson, *Committee Hansard*, 24 March 2015, p.1.

48 Department of Defence, *Annual Report 2012-13* (online supplement) at <[http://www.defence.gov.au/annualreports/12-13/part\\_four/dmo\\_program\\_1\\_3.asp](http://www.defence.gov.au/annualreports/12-13/part_four/dmo_program_1_3.asp)> (viewed 26 August 2015). AMSO was formed in July 2012 and comprises the former Defence Export Unit, Global Supply Chain, Defence Disposals Agency and the International Materiel Cooperation Directorates.

49 Department of Defence, *Submission 41*, p.7.

50 Department of Defence, *Submission 41*, attachment A.

51 AI Group, *Submission 35*, p.1.

52 Northrop Grumman, *Submission 28*, p.3.

AMSO needs to be a much more aggressive, commercially focussed organisation with annual sales targets and incentives.<sup>53</sup>

3.48 In addition, Thales Australia's submission recommended:

To be successful, AMSO should be staffed by marketing, sales and business development professionals with a proven record of success in international sales and export deals.<sup>54</sup>

3.49 Mr Bruce Armstrong (CEO, Aspen Medical) suggested three areas of improvement:

The first is that DEU develop and promote a program whereby senior ADF or government representatives are able to provide written references to support Australian export bids where appropriate. The second is that senior defence representatives such as the CDF [Chief of the Defence Force] – once again, where appropriate – include a trade component during their visits to other countries. The third is that DEU proactively coordinate events where Australian defence exporters can introduce their services or products to visiting foreign delegations.<sup>55</sup>

3.50 Supacat Pty Ltd's submission suggested introducing sales targets<sup>56</sup> and stated:

The benefit of a government defence export agency is that it brings the credibility of the Australian government who are active users of the products and services. The strongest sales agents are military users who can recommend products and services to their counterparts in friendly forces.<sup>57</sup>

3.51 Mr Michael Halloran (Managing Director, Supacat Pty Ltd) said that other barriers to defence exports are 'virtually irrelevant' if the ability to sell is not developed. He added: 'Selling is not a skill set or a culture that exists within Defence.'<sup>58</sup>

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53 Thales Australia, *Submission 19*, p.9.

54 Thales Australia, *Submission 19*, p.9.

55 Armstrong, *Committee Hansard*, 13 February 2015, p.47.

56 Supacat Pty Ltd, *Submission 18*, p.4.

57 Supacat Pty Ltd, *Submission 18*, p.4.

58 Halloran, *Committee Hansard*, 31 October 2014, p.8.

## Access to finance

- 3.52 Defence exporters may access facilities provided by the Export Finance and Insurance Corporation (EFIC). EFIC is a statutory corporation owned by the Commonwealth.<sup>59</sup>
- 3.53 EFIC's submission summarised its overall role as follows:
- EFIC's services are provided on a commercial basis and only when the private market is unwilling or unable to provide adequate support. Under our Act, we have three core functions:
- 1) Facilitate and encourage Australian export trade;
  - 2) Encourage banks and other financial institutions to finance exports; and
  - 3) Provide information and advice on financing and insuring Australian exports.<sup>60</sup>
- 3.54 In terms of support for defence exporters, EFIC submitted:
- EFIC has helped a number of defence related exporters as, in our experience, they can face specific financing challenges, due to the specialised nature of the goods and services being exported, the limited number of buyers (so they are not exporting consistently), and government procurement rules.<sup>61</sup>
- 3.55 EFIC informed the Committee that it 'cannot comment on the demand for defence-related exports' as EFIC's involvement 'generally comes after the exporter has been awarded the export contract.'<sup>62</sup>
- 3.56 The graphical representation below shows the movement of funds.

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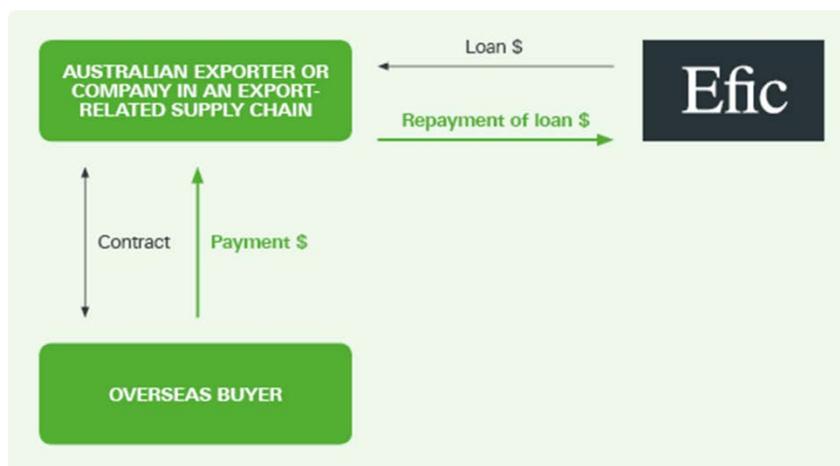
59 EFIC Annual Report 2013-14, p.27; see also the *Export Finance and Insurance Corporation Act 1991* (Cth).

60 EFIC, *Submission 48*, p.2.

61 EFIC, *Submission 48*, p.3.

62 EFIC, *Response to Questions on Notice*, p.2.

Figure 3.2 EFIC finance to exporters



Source EFIC website: <<http://www.efic.gov.au/client-solutions/sme-exporters/i-need-working-capital-to-fund-an-export-related-contract/>>

- 3.57 The Australian Manufacturing Workers' Union's submission described EFIC's support for defence exports as 'significant'.<sup>63</sup> Mr David Shiner (Vice President International Sales, Austal) said that having finance options is a 'major enabler' of defence exports.<sup>64</sup> Thales Australia submitted that EFIC 'could play a greater role in supporting defence exporters', such as by facilitating access to emerging and regional markets.<sup>65</sup>
- 3.58 In 2013-14, EFIC assisted four defence-related exporters, which included a grant to Ferra Engineering Pty Ltd, an Australian company exporting aircraft parts to the United States for the Joint Strike Fighter project.<sup>66</sup> EFIC's website states:
- While Ferra's work involved substantial costs for materials and labour, under the contract it wouldn't receive payment until the parts were shipped. This meant the company needed additional working capital to fulfil the contract.<sup>67</sup>
- 3.59 Ferra Engineering's submission agreed that access to capital reduces barriers for SMEs:

Limited access to finance present key barriers and impediments for small to medium enterprises (SMEs) striving to build business and capacity as capital is needed to drive and deliver export sales.

63 AMWU, *Submission 24*, p.6.

64 Shiner, *Committee Hansard*, 13 February 2015, p.29.

65 Thales Australia, *Submission 19*, p.8.

66 EFIC, *Response to Questions on Notice*, p.3.

67 EFIC, 'Ferra Engineering', at <<http://www.efic.gov.au/news-events/case-studies/manufacturing/ferra-engineering/>> (viewed 26 August 2015).

The Australian Government has addressed domestic barriers in part by forming the Export Finance and Investment Corporation (EFIC). This has enabled SME's to seek funding for key projects by paying a margin to EFIC.<sup>68</sup>

3.60 Nevertheless, Ferra Engineering submitted that the cost of borrowing via EFIC had been too high.<sup>69</sup> Mr Arthur Gaka (Financial Controller, Ferra Engineering) said that whilst EFIC had been 'fantastic', these additional costs affected competitiveness.<sup>70</sup> He said an Australian base rate of 2.5 per cent, a bank margin of 2.2 per cent, a 3 per cent margin to EFIC (totalling around 7 per cent) and an additional percentage to hedge against foreign currency movements had to be incorporated into prices.<sup>71</sup>

3.61 Mr Gaka stated:

If we, or the defence sector, could get that assistance whereby the government acknowledges that: 'Okay, you're selling to Lockheed Martin or you're selling to Boeing, instead of asking for three per cent, let us make it 1½ per cent.' We are not saying that we need to get a free handout but that we need to try and be on a level playing field, if we are going to grow those exports.<sup>72</sup>

3.62 Austal's submission stated:

While Austal has worked closely with EFIC in the past, this support tends to be largely on commercial terms without any consideration of the strategic importance of better government-to-government relations with particular potential customers.<sup>73</sup>

3.63 Mr Andrew Hudson (Director and Chair - Trade Policy Committee, Export Council of Australia) said that SMEs could be deterred from engaging with EFIC because of approval uncertainty. He said:

Perhaps the process of EFIC approvals needs to be adjusted slightly so that there is a higher level of certainty at an earlier stage. I think, if you put those things together, you are likely to get a better use of EFIC's services by SME exporters and SME defence exporters.<sup>74</sup>

3.64 Matters arising in this section relating to EFIC have semblance with themes arising in a 2012 Productivity Commission inquiry into Australia's

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68 Ferra Engineering, *Submission 15*, p.2.

69 Ferra Engineering, *Submission 15*, p.2.

70 Gaka, Hill and Thompson, *Committee Hansard*, 17 October 2014, p.42.

71 Gaka, Hill and Thompson, *Committee Hansard*, 17 October 2014, p.42.

72 Gaka, Hill and Thompson, *Committee Hansard*, 17 October 2014, p.42.

73 Austal, *Submission 31*, p.14.

74 Hudson, *Committee Hansard*, 31 October 2014, p.36.

export credit arrangements. The Productivity Commission found that EFIC facilities had been offered below commercial rates and were 'effectively being subsidised by taxpayers'. Changes to legislation were recommended to ensure EFIC's use of its commercial account would be based on 'competitive neutrality'.<sup>75</sup>

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75 Productivity Commission, 'Australia's Export Credit Arrangements', May 2012, p.35.

