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Defence Sub-Committee
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Response to the Australian Parliamentary Joint Standing Committee Enquiry into Government Support for Exports, on behalf of the Premier's office.

The terms of reference for the enquiry are as follows:

- Identification of barriers and impediments to the growth of Australia's Defence Exports
- How Government can better engage and assist Australian Defence Industry to export its products;
- The operations of the Defence Export Control Office
- Assessment of the export support given to Defence Industry by governments of comparable nations. And
- Any other related matters.

Background:

Tasmania has no significant front line tactical defence operations based in the state and no defence industries which derive one hundred percent of their income from defence manufacturing or exports. Tasmania however has the largest number of Defence Reserves per capita in Australia and nearly 200 training and administration staff servicing Tasmanian barracks in the major centres.

The Tasmanian Government has, over a number of years, encouraged Tasmanian companies to seek out defence related sales both domestic and international.

Since 2004 the Tasmanian Government has financially supported The Tasmanian Defence Initiative (TDI) as a joint industry and government project.

The TDI aims to:

- help businesses that support defence to become competitive, grow their capability and skills to win defence-related contracts;

- attract investment by defence and related industries in Tasmania;
- leverage economic development from export opportunities in the international defence sector; and
- ensure a strong, reliable, informed and supportive relationship exists between the Tasmanian Government, defence and the defence community.

❖ Four successful tools have been used to support these goals:

1. A quality capability statement in the form of a cost shared defence brochure for use as marketing collateral.
2. Attendance at key Defence events in Australia and overseas with Tasmanian industry, including providing financial assistance.
3. Regular liaison with Australian government defence organisations including Defence Material Organisation (DMO), Enterprise Connect Defence Innovation Centre (DIIC), Defence Science and Technology Organisation (DSTO), Defence Reserves Support (DRS), Defence Export Office (DEO) and Team Australia and international Defence Primes.
4. Facilitating many public events in Tasmania jointly with the above organisations to raise the image and profile of defence manufacturing and services.
5. Monitoring sector intelligence including a marine manufacturing survey of 24 firms released in May 2014 which identified that five of these firms are active in defence exports and six firms trade domestically in defence. Marine Defence volume of business divides into 43% with international customers and 57% to domestic.

Attachment 1: Response to the Terms of Reference:

❖ Identification of barriers and impediments to the growth of Australia's Defence Exports

The Tasmanian Government conducts extensive industry consultation during the course of its facilitation and from this the following issues for Tasmanian based manufacturers were identified:

- Defence Primes and major corporates seek ongoing reduction in prices.
- Traditional brand loyalty is being constantly challenged by similar quality, low cost imports.
- Rising input costs including freight, labour, energy and packaging reduce margins.
- The high Australian dollar has promoted increasing competition from overseas.
- New global competitors from emerging low-cost countries such as Asia and Africa
- The rapid pace of technological development in high speed digital production.
- Global trade barriers.
- Difficulty accessing capital for Tasmanian manufacturing companies.
- Difficulty meeting labour needs with lack of soft skills from younger recruits and poor image of manufacturing in the youth job market generally.
- Skills gaps and shortages with traditional training mechanisms not suiting modern advanced manufacturing, eg 3D printing and metallurgy
- Cost to businesses of ongoing skill development.
- Increased ease and acceptability of global sourcing, leaving small regional firms off the map.
- Weak domestic demand for a number of manufactured products.
- "Dumping" (deliver at prices lower than production) of foreign manufactures into Australia.
- Lack of resources to explore opportunities in new international markets and respond to global competition.
- Limited access to new technologies including broadband.
- SME's reluctance to restructure or adapt business models due to cost in response to changing cost structures and market demands.
- SME's poor production processes and management systems which do not meet global supply chain expectations.

- Financial weakness of some enterprises to engage with Primes, including low margins and low financial reserves, limits opportunities even where the enterprises have the right product or IP.
 - The United States' *Merchant Marine Act* (1920) prohibits large scale purchases into the USA of vessels constructed overseas.
- ❖ How Government can better engage and assist Australian Defence Industry to export its products

The Tasmanian Government would like to see a federally funded industry revitalisation framework implemented through the Joint Tasmanian Economic Council chaired by the Prime Minister, particularly given the issues facing the manufacturing sector in Australia.

1. Metrics

- Undertake a manufacturing industry export capability and capacity audit
- Establishing a Manufacturing Export Network

2. Market development and likely future industries

- Identification of Off island projects, markets and opportunities

3. Management and Workforce development

- Delivery of outcome focussed continuous improvement events for manufacturers to meet requirements of Primes
- Skills development and workforce training for exporters
- Disruptive Technology Testbed Facility to allow rapid product development
- Deliver global Quality Assurance (QA) systems by introduction of a voucher system
- Design Integration – embed international industrial designers and specialists in enterprises through collaborative partnerships
- Provision of specific engineering, science and research expertise for enterprises

The overall aim of the Manufacturing Framework is to:

- stabilise the existing decline in the Australian sector
- identify the capacity of SMEs
- define the customer, ie Primes and foreign governments have different needs
- set the industry strategy for transition
- identify new diversified markets (oil, gas, defence, off island)
- build the vacant industry and enterprise capacity
- facilitate industry connections at local, national, and international levels

- focus relevant stakeholder agencies – State Governments, AusIndustry, Industry Capability Network, Defence Materiel Organisation, Defence Science and Technology Organisation, Defence Materials Technology Centre, Department of Industry.

The manufacturer's framework will provide a starting point to support those manufacturing companies with the capacity to grow and diversify into exports.

Advice from local industry:

Local industry, which is largely comprised of SMEs who are small, flexible and highly customised, have in some cases long standing trading relationships with export customers. Clearer rules would enable trade relationships with these customers to continue.

The approvals with DECO and DFAT are workable but there is a lack of consistency across all three agencies involved in approvals. Interface issues with Customs services and advice are particularly problematic as this is where the ultimate approval lies. Customs exhibits a lack of clarity of their rules and seem to lack a business system that tracks written advice to firms they interface with. An auditable path is not clear.

Confiscations of parts and products have occurred on occasions and this affects the ability of a firm to service customers. This leads firms to question the viability of a project.

❖ The operations of the Defence Export Control Office

The state government has no direct knowledge of the operations of DECO.

Advice from local industry:

Local industry have found DECO a helpful agency, however their amount of paperwork and long list of questions for one sales order is considered onerous. Firms struggle with some of the wording and while intending to comply with the questions asked and being transparent, risk jeopardising a project and having products prohibited. There is no type tested approval offered by DECO and every new order has to be approved, with validity extending only for twelve months. A list of the types of products that are definitely not acceptable would help save time. Firms that are developing new products for defence, including R&D, need encouragement to share prototypes with customers rather than barriers that inhibit this.

- ❖ Assessment of the export support given to Defence Industry by governments of comparable nations.

The Tasmanian Government provides export support to Tasmanian companies from all sectors including those that provide products and services for the Defence sector.

The Tasmanian Government's offers a range of services and programs to help Tasmanian defence related businesses develop sustainable export markets. Direct support activities such as trade missions, inward buyer programs, industry partnerships supporting attendance and participation at trade exhibitions and referral connections to the Austrade international network of export advisors.

Financial re-imbursement support can also be provided to eligible companies through the Tasmanian Government's Marketing Assistance Scheme which is designed to assist Tasmanian enterprises in planning and implementing their national and international marketing activities and who are not accessing the Federal Government, Export Market Development Grant.

The scheme may provide assistance to:

- commission market research and business matching services
- undertake promotional activities including advertising
- develop promotional materials
- attend trade exhibitions and promotions
- assist with inbound buyers' visits to Tasmania
- travel to undertake marketing activities

Local industry value the trade and marketing support provided and would welcome further support where this can be provided.