



21 January 2015

The Hon Teresa Gambaro MP
Chair
Joint Standing Committee on Foreign Affairs, Defence and Trade

Dear Joint Standing Committee Members,

Hawker Pacific Pty Ltd is pleased to provide a response to the Questions on Notice (QON) arising from the Committee's public hearing on 31 October 2014 in relation to the Australian Government *Inquiry into Government Support for Australian Defence Industry Exports*.

Question RE: TRADE MISSIONS (p. 25)

Senator O'NEILL: ...What is your experience of national coordination, which we have heard from other witnesses is an important part of giving credibility, particularly for Defence purchases...

Mrs Binotto: Unfortunately I have never been on one of the trade missions. I have not actually attended myself, but a colleague has...

Senator O'NEILL: What are they like? How cumbersome or easy is it to do that?

Mrs Binotto: It is not easy. There are a lot of phone calls, a lot of following up. At times firm numbers and names are everything, which I understand as part of the process need to be provided but they are not always available right at that moment in time. As a company, we have a network of people that we work with across the company so it might not be the right person to send Bob every time to the trade mission. We might need to send someone slightly different depending on the market that we are going in to. We do not always have those details four or five weeks out. I know that frustrates the coordination teams. We understand that but we cannot always provide that hard information.

Senator O'NEILL: So there is a bit of a mismatch between 'we have seriously got our systems in place and these are the systems we apply' and businesses, which really have to be very flexible in response to market pressures which includes staffing arrangements at the last minute. So the mismatch is between that structure and the business one. You have got that on the record, what else?

Mrs Binotto: I guess once they get over there it is understanding how it actually all is coordinated and working at times.

Senator O'NEILL: And does it?

Mrs Binotto: I think broadly it does but it is by the efforts of the individuals involved more so than the structure. We talk about structure leading up but, once it gets over there, from my understanding, it can get a bit messy. It is maybe not always as it was expected to be. That may be of nobody's particular fault or lack of attention but it adds to the experience being a positive or negative one. I am happy to go and get some more direct feedback from the person who has been there

Response RE: TRADE MISSIONS QON

The issues are more often than not, not the doing of the Australian parties but generally the foreign organisations and/or travel and customs requirements such as import and export regulations on certain equipment/product – especially military equipment/products which is exactly what most of these companies are selling. For instance, on one of the trade missions there was an Industry participant who ended up getting stuck in the transit country because he wasn't allowed to enter/exit with the particular equipment (a real equipment piece) through that country. The story at the time was that not all of the necessary paperwork had been completed, and hence he ended up having to stay in transit with the piece of equipment until such time as appropriate agreements/paperwork had been processed to allow him to return the item to Australia. Throughout this situation, the AUSTRADE folks and Trade Mission team provided all assistance possible to help the participant

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resolve the problem. This issue is made very clear by the DECO/Trade Mission team that such import/export approvals can be difficult/complex and needed due attention as suited to the particular product. It's not the DECO/Trade Mission team responsibility to actually manage each individual company through this – the company needs to be primarily responsible and seek assistance from DECO/Trade mission team if required.

In terms of overall Trade Mission effectiveness and AUSTRADE/AUSGOV (Defence Military Attaché) assistance and support, in our experience we see that they actually go out of their way to be as pro-active as possible and any negative outcomes or perception on the trade mission 'success' by the Australian companies is mostly a result of inadequate knowledge and planning by the company representatives - or due to the in-country visit programs being disrupted by foreign parties despite the Trade Mission/Embassy staff efforts.

The overall perspective by Hawker Pacific on the value of the trade missions to Defence Industry and the Government support via the DECO for (partially) sponsored overseas Defence Trade Missions and participation in overseas Defence-related Trade Shows/Conventions/Exhibitions is that they provide an exceptional opportunity for Australian companies to directly access foreign nation user organisations (Defence organisations or Defence-related companies). Sponsorship in terms of financial support/coverage is only one aspect, but more importantly, the level of access enabled by having official Australian Government representation is significant. Equivalent access opportunities by most Australian Companies would simply be unachievable. Hawker Pacific strongly supports the ongoing resourcing and Government commitment to this important capability offered to Australian Defence Industry.

Question RE: ENGINEERING CERTIFICATIONS (pp. 26-27)

CHAIR: Last question, regarding the airworthiness authority. When CASA moved to the EASA system and the part 145 approach to maintenance—because they created an Australia-unique approach to a certain extent—did that cause you any problems in terms of regional customers who then did not recognise your engineering certification, or did you in fact go and get an EASA recognised part 145?

Mrs Binotto: We hold both CASA 145 and the EASA as well.

CHAIR: Would it be a lower cost to you if you only had to maintain one as opposed to both?

Mrs Binotto: I am not 100 per cent sure of what the ongoing requirement is attached to that, but I would imagine not having to audit for two systems would certainly deliver a savings.

CHAIR: Could you perhaps take that on notice and speak to the appropriate people within Hawker Pacific? I am interested in knowing from a whole-of-government perspective. If we are trying to help people export then, clearly, having our regulatory systems either directly aligned or at least in appropriate agreements with other countries so that they accept our system as being equivalent would, I imagine, be a help to industry. If you could give us an idea of what additional costs you are bearing with that, that would be great.

Mrs Binotto: Absolutely. I could give you an example of an experience where we had a CASA qualified person for weight and balance required to sign off for an aircraft in New Zealand. The aircraft was in New Zealand, but we could not use a New Zealand weight and balance officer to perform the weight and balance on the aircraft. We actually had to send someone from Australia because the aircraft was flown under the Australian register. The New Zealand weight and balance officer was not able to sign it off. That cost more than it should have because we needed to send a CASA delegated weight and balance officer to New Zealand to sign off the paperwork on the Australian aircraft that was in New Zealand, because the New Zealand airworthiness certification was not recognised back under the CASA system.

Response RE: ENGINEERING CERTIFICATIONS QON

We have understood Senator Fawcett's questions to cover two discrete areas of engineering certification, those being;

- a) When CASA moved to the EASA system and the part 145 approach to maintenance—because they created an Australia-unique approach to a certain extent—did that cause you any problems in terms of regional customers who then did not recognise your engineering certification, and
- b) I am interested in knowing from a whole-of-government perspective. If we are trying to help people export then, clearly, having our regulatory systems either directly aligned or at least in appropriate agreements with other countries so that they accept our system as being equivalent would, I imagine, be a help to industry. If you could give us an idea of what additional costs you are bearing with that, that would be great.

With that in mind we can provide the following comment/response in the context of our experiences, both from the Engineering and Operational (Maintenance Repair and Overhaul facility) perspectives.

Response to Part a):

Historically and generally speaking CASA approved designs (including designs approved under CAR 35) were not accepted as approved designs by the NAA's in the region (i.e. China, Malaysia, Singapore, Indonesia, etc.), the only exceptions being NZ and PNG. This has remained as the status quo under the new CASR Part 21J approval system. Generally speaking, the NAA's in the region only automatically accept FAA (including 8110-3 DER) or EASA (including EASA 21J organisational) approved designs. Hence for Hawker Pacific to be able to promote and export its capability in the region, it generally has to factor in gaining either FAA or EASA design approval so as the local NAA will accept the design. This can add considerable cost and schedule to a project, and can make Hawker Pacific uncompetitive against other suppliers (namely USA or European based suppliers).

In Commercial MROs, the dual certification environment does impact in terms of repair approach and workforce qualifications. Once again this accrues additional internal expenses which when flowed through represent additional costs to the Customer – where EASA certified repair is required. In order to provide services to those customers who sought to register their aircraft under EASA, Hawker Pacific has in fact undertaken the process of EASA registration. The investment to obtain EASA registration is significant and there are annual ongoing costs associated with audit and validation processes to retain registration. In addition to these costs, it is also of significance to note that an approval to conduct maintenance under the EASA framework is facility specific and is not transferrable to other facilities also operated by a particular organisation. This in turn restricts service offerings to specific locations presenting a substantial cost penalty in order to gain EASA certification, alongside CASA certifications, across multiple sites and provide flexibility to the end customers of the region.

From a strategic workforce perspective there are a few areas that should be highlighted; training/skills mix, and also the Industrial Relations issues that result. One Australian Registered Training Organisation, that we are in regular contact with, is now offering both EASA and CASA training programs, finding that the majority of their customers actually come into the AME training program looking for EASA qualifications – which is essentially the same training program as the CASA approved program. This is the current training preference as once students hold an EASA licence, they are easily able to apply for the CASA equivalent licence – becoming dual licence holders. Moreover, some companies are now insisting on EASA training, as CASA training alone may result in the limitation of business opportunities throughout the region. EASA certification is an attractive position for potential employees, however one negative outcome, as an employer, is that these staff attract, and expect, a higher hourly rate than sole CASA license holders. Once again, this highlights how an Australian based commercial MRO is less competitive in the global market (specifically those operating under EASA) than others where the market does not required them to operate under a dual registration/certification environment.

An example demonstrating the end-to-end impacts of this environment, i.e. consumer to compliance, would be an instance where a consumer purchases a second hand aircraft, currently of VH registration (CASA), and wishes

to be able to operate that aircraft under the EASA register, i.e. into Asia and the Pacific. This is not an uncommon occurrence due to the geographical proximity of Australia to regions operating under EASA governance. One of the considerations in purchasing the second hand aircraft is the modification status of the asset. This is a result of current disparities between the two systems, whereby any modification to the aircraft from its original certification configuration approved under CASA regulations, needs to be submitted and approved by EASA in order to transfer registration to the EASA register. This process and its associated expenses places Australian industry at a considerable price-point disadvantage when competing for business throughout the region.

Response to Part b):

With reference to a whole of government perspective to assisting organisations exports their products, and in particular within the aviation industry the options, as far as we are aware, are:

1. Having in place bi-lateral arrangements between CASA and other regional NAAs, where CASA approved designs (including those approved by 21M delegates (current approval system) or 21J organisations (future/transitional approval system), thereby negating the need to gain FAA or EASA approvals; or,
2. CASA adopting either the FAA or EASA system (rather than a hybrid system)

Noting that Option 2 may be a by-product of adopting Option 1, and that Option 2 would come at significant cost to both CASA and Industry.

With reference to what additional costs we are currently bearing under the extant framework; this depends very much on the complexity of the work-scope, but generally speaking additional program costs are at least US\$5-10K in order to gain FAA DER approval on a small modification program, and up to \$500K to gain a FAA STC on a complex modification program. In terms of schedule and performance, these processes can add 6-12 months to the duration of a program of deliverables. In comparison, EASA charges are higher for modification approvals; however the turnaround time for approval is generally quicker.

Again, we appreciate the Committee's Inquiry into the Australian Defence Industry Export environment. This is an area where many organisations face constant challenges in operating in a global market.

If the Committee requires any further details in relation to this please do not hesitate to contact me.

Kind Regards

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Government Business