

Department of Defence

JSCFADT Defence Industry Exports Hearing - 24 March 2015

Question on Notice No. 1 - Priority Industry Capabilities

Senator Fawcett asked on 24 March 2015, Hansard page 6:

CHAIR: You make the comment in paragraph 44 that the ADF needs to ensure that these capabilities—that is, the PIC capabilities—are factored into the early stages of the defence capital equipment procurement cycle, which is what you just described there. Can you give me any examples where that has actually resulted in a decision to procure an Australian produced capability, or capability element, into a larger contract, because there has been lots of complaint and comment from industry that things have been identified as a PIC but the process nearly always ends up with a foreign product being procured as opposed to an Australian one. I would welcome some examples of where this process has led to an Australian capability being chosen.

Dr Bourke: I think I will take that one on notice. There are examples, I believe, but I am not aware of the exact details of some of those. We would be happy to take that on board and provide it.

Response:

The following table provides examples of Australian Industry Capability (AIC) Plans where an Australian capability has been chosen and is delivering in support of Priority Industry Capabilities (PIC).

Project	Company	Description	Value of Australian industry work	PIC
Strategic Munitions Interim Contract	Thales Australia Limited, trading as Australian Munitions	Supply and manufacture of munitions to the ADF.	\$290m	Selected ballistic munitions and explosives.
SEA 5000 Phase 1	CEA Technologies	Development of a High Power Phased Array Radar concept demonstrator.	\$20m	High-frequency and phased array radars.
SEA 1448 Phase 4A	Exelis Inc.	Replacement of ANZAC-class electronic support system.	\$35m	Electronic warfare High-end system and system of systems integration.

Stardust In-service Support Contract	Ultra Electronics Avalon Systems Pty Ltd	Software support of analyst and analyst training systems.	\$1.7m	Electronic warfare.
F88 Rifle Factory Thorough Rebuild	Thales Australia Limited	Supply of services involving the factory thorough rebuild of the F88 Austeyr rifle variants.	\$89m	Infantry weapons and remote weapons stations.
SEA 1397 Phase 5B – Nulka Upgrade	BAE Systems Australia Ltd	BAE Systems Australia will continue the improvement and upgrade of the Nulka System.	\$25m	Electronic warfare. Through-life support of mission critical and safety critical software. High-end system and system of systems integration.

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Question on Notice No. 2 - Preparation for Defence attaches

Senator Fawcett asked on 24 March 2015, Hansard page 11:

CHAIR: Sure. Is there any structured, pre-posting brief, though, whereby people who are going to be attaches actually have a familiarisation 'course'—for want of a better word—about Australian industry in areas where Australian industry is active and potentially looking to export? I know there are many military officers who are incredibly competent and proficient at their military roles but who probably would not know one end of an industry player from another.

Mr Dewar: In terms of our preparation of defence attaches: we run them through a number of things before they go. I would have to check; I am not sure if my colleagues are aware if AMSO, in particular, presents to the DAs before they go.

Mr Egan: We might have done it a couple of times—presented to the DAs.

CHAIR: Is that a standard part or is that just something that has occurred because people have thought it is a good idea?

Mr Egan: That occurred not long after AMSO was established. We were invited to present to the DAs when they were gathered together in Canberra. I have done that on a couple of occasions since.

CHAIR: Could the committee take then that it is now becoming part of your standard preparation for DAs? Or is it still not actually part of your normal practice?

Mr Dewar: I think it has happened on many occasions. I would have to check the last course we did. It is a one-week to 10-day course that we do for the DAs before they go. I would have to check who the specific presenters were. I am happy to do that.

CHAIR: Sure. Could you just take that on notice?

Mr Dewar: Sure.

Response:

Defence conducts a three-week long Defence Attaché Seminar annually to prepare Defence Australian Public Service and Australian Defence Force personnel (including Defence Attachés) who are about to be posted as attaché staff to overseas diplomatic missions. The seminar program is constantly refined, and includes feedback from current and previous attaché staff.

Between 2010 and 2013 the Defence Attaché Seminar included a presentation from the Defence Export Unit, now known as the Australian Military Sales Office (AMSO).

A presentation on AMSO was not included in the 2014 Defence Attaché Seminar because of program constraints. Planning for the 2015 Defence Attaché Seminar includes a presentation from the AMSO.

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Question on Notice No. 3 - Local offset requirements

The Committee provided in writing:

The Committee has received evidence (Thales, Defence Teaming Centre) arguing that the lack of local offset obligations in Australian defence contracts undermines the competitiveness of local industry in securing tenders.

- (1) Could you briefly summarise Australia's history of offset requirements in ADF contracts? How important were they for local industry and why were they removed?
- (2) Given the large acquisition projects soon to be undertaken by the ADF (SEA1000), would Defence consider reintroducing offset requirements in these contracts?

Response:

- (1) Offsets with prescribed minimum Australian content requirements for Defence capital equipment projects were superseded from the early 1990s by a series of alternative industry policy measures with similar overall objectives but no mandatory content targets.

These measures now include the Australian Industry Capability (AIC) program, the Priority Industry Capability (PIC) program, the Global Supply Chain (GSC) program and the New Air Combat Capability Industry Support Program (NACCISP). Current measures also include assistance provided by Defence to Australian defence industry in relation to industry skilling, innovation and export market development.

Offsets programs were replaced for a number of reasons: uncertainty in relation to whether the programs were securing for Defence and industry the type of higher technology workload or technology transfers Australia was seeking to obtain; uncertainty in relation to whether Australia paid a price premium for the offsets work it secured; and, the programs which superseded offsets being designed around most, if not all, of the objectives offsets sought to achieve in a way which reduced the potential economic distortions involved.

A brief history of Australian defence offsets programs, including program impact on local industry, can be found in Stefan Markowski and Peter Hall, "The Defence Offsets Policy in Australia" in Stephen Martin, *The Economics of Offsets: Defence Procurement and Countertrade*, Routledge, Netherlands, 1996, pp. 49-74, Industry Commission, *Defence Procurement*, Report No. 41, Canberra, August 1994, pp.55-58 and Stefan Markowski, Peter Hall and Robert Wylie, *Defence Procurement and Industry Policy: A Small Country Perspective*, Routledge, Netherlands, 2010.

All of these programs and assistance measures are currently being reviewed as part of the new White Paper process.

(2) The Government is committed to maximising opportunities for Australian industry involvement in the acquisition and sustainment of Defence capabilities. This issue is currently under consideration as part of the development of the new Defence White Paper and associated Defence Industry Policy Statement to be released later this year.

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Question on Notice No. 4 - Open market approach for defence acquisition

The Committee provided in writing:

The Committee was informed that Australia's open-market approach for defence acquisition has made it difficult for local industry to compete with foreign suppliers. (Australian Industry & Defence Network, Australian Business Defence Industry)

- (1) Why does Defence employ an open-market approach when most nations have some form of regulatory measures to protect local industry?
- (2) Do you believe this approach runs the risk of undermining the long-term capabilities of local industry?

Response:

(1) An open-market or open competition approach to the procurement of defence capital equipment is normally preferred by Defence for capital equipment projects. Market competition, from domestic and/or overseas sources, provides in many or even most cases the single most effective and efficient policy instrument for securing the best capability and value for money for capital equipment acquisition and sustainment projects.

However, Defence does not rely on open competition where the costs of doing so are likely to outweigh the benefits. Consistent with Commonwealth Procurement Rules (CPRs), Defence can and does rely on procurement methods other than open competition - including sole sourcing - where this is likely to achieve the best value for money outcomes for Government.

(2)
As a general rule, Defence does not protect Australian industry from international competition except where such protection is needed to secure in-country industry capabilities of especially high military-strategic value. However, even in this case, protection is only provided when industry cannot overcome its own 'health' problems and protection constitutes the best policy option available.

Capabilities of high military-strategic value are currently identified through the Priority Industry Capability (PIC) program. The PIC program is currently being reviewed as part of a new Defence White Paper.

Defence has at its disposal a range of industry assistance measures to ensure that industry capabilities essential to the Australian Defence Force (ADF) are adequately maintained.

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Question on Notice No. 5 - Australian Industry Capability (AIC) Program

The Committee provided in writing:

The Australian Industry Capability (AIC) program requires prime contractors to include Australian industry participation in ADF contracts worth over \$20 million.

- (1) Has the AIC program proven to be a successful mechanism in developing local industry capabilities? Could you discuss any specific examples where the AIC program has led to contracted work for Australian SMEs?
- (2) The Committee has received evidence suggesting that the AIC program is sometimes ignored or overlooked by procurement agencies in Defence (Australian Industry and Defence Network Inc). What monitoring mechanism does Defence have in place to ensure that the AIC program requirements are implemented by both Defence agencies?

Response:

(1) The Defence Australian Industry Capability (AIC) policy requires tender respondents to submit a draft AIC Plan for evaluation in procurements that have an estimated value of \$20 million or greater, or where the procurement contains an identified Priority Industry Capability (PIC) element.

Public AIC Plans are an element of the contracted AIC Plan. They provide Australian industry with visibility of companies that have been contracted and the work to be performed including signalling future opportunities that may exist for Australian industry. Content can vary and could range from a brief high level summary to a more detailed record depending upon the size, scope, security sensitivities and complexity of the work to be undertaken.

There are now thirty four Public AIC Plans published on the Defence website:

<http://www.defence.gov.au/dmo/DoingBusiness/Industry/IndustrySupportPrograms/AustralianIndustryCapability/PublicPlans.aspx>

The aggregate contracted value of published plans is now AUD 3.8 billion, with planned and potential Australian industry work totalling AUD 2.2 billion.

By the nature of the contracted AIC Plan being an enforceable provision the Prime Contracted party is unable to amend or alter the Australian companies, dollar values or work to be contributed without the prior written consent of Defence. This process is managed and evaluated as part of Contract Change Proposal (CCP) provisions in the contract.

The following table provides examples of Public AIC Plans where the AIC program has led to contracted work for Australian SMEs.

Project	Company	Description	Total value delivered by Australian industry
JP2097 Phase 1B - Project Redfin	Supacat Pty Ltd	Supacat has been contracted by the Commonwealth of Australia to supply eighty nine (89) Special Operations Vehicles - Commando (SOV-Cdo) under JP2097 Phase 1B.	\$35m
ANZAC Class Ship Repair and Maintenance Services	Naval Ship Management (Australia) Pty Ltd	Naval Ship Management (Australia) Pty Ltd (NSM), is an incorporated joint venture between Babcock Australia and United Group Infrastructure. NSM (Aust) will provide ship repair and maintenance services for the eight Royal Australian Navy ANZAC Class frigates over the next five years under the ANZAC Group Maintenance Contract (GMC).	\$296m

(2) Defence has a number of monitoring mechanisms in place, to ensure that the AIC program requirements are implemented by both Defence and industry, these include:

- (a) All procurement teams are required to assess the applicability of the AIC and Priority Industry Capability (PIC) program when planning their procurements. The requirement to undertake this assessment is mandatory and identified as part of the Defence Procurement Policy Manual (DPPM) which is the principal reference document for Defence officials conducting procurement.
- (b) Under the DPPM, Defence Procurement officers are required to ensure that AIC program monitoring and reporting requirements are captured both in tender request documentation and in provisions under the final contract.

- (c) As part of tender evaluations, an assessment of the benefits and costs are taken into account in determining the capability, sustainability, risk and cost benefits of having industry activities performed in-country. This information is presented as part of the tender evaluation report and considered by the appropriately delegated authority along with all other evaluation elements.
- (d) Defence Project and Contract Officers accountable for delivery of the specific contract, are responsible for monitoring and enforcing contracted AIC program requirements. This is conducted as part of scheduled reviews of the contractor's performance against contract requirements. At a minimum this occurs every six months. Where degraded performance is identified, without appropriate justification, there is a need for the development and implementation of a remediation plan.
- (e) Defence uses the Company ScoreCard system to monitor, assess and report contractor performance against AIC program requirements at an aggregated level. Assessments occur over two six-monthly reporting periods per year. The Company ScoreCard, which identifies a company's past contract performance, is also used to inform future source selection decisions.

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Question on Notice No. 6 - User-support for Australian technologies

The Committee provided in writing:

Throughout the inquiry, the Committee was told that the lack of ADF support for locally produced technologies makes it difficult for SMEs to market their products on the international market. (Australian Industry and Defence Network Inc, Australian Business Defence Industry)

- (1) How does Defence take into account the perceived benefits of sovereign capability when determining the outcome of contracts?
- (2) Are there measures in place to ensure that key Defence capabilities are owned and produced by Australian firms?

Response:

- (1) When determining the outcome of contracts, Defence takes the issue of sovereign industry capabilities into account primarily through a combination of two programs: the Australian Industry Capability (AIC) program and the Priority Industry Capability (PIC) program.

The PIC program identifies domestic industry capabilities of especially high military-strategic value to the ADF - or 'sovereign' capabilities. The AIC program ensures that these capabilities are considered, along with other relevant factors, when tenders for Defence capital equipment projects are being prepared and evaluated by the Department.

These matters are being examined as part of the development of the Defence White Paper and accompanying Defence Industry Policy Statement.

- (2) As a general rule, Defence does not intervene to influence the ownership of Australian-based firms supplying capital equipment to the ADF. However, the potential implications of foreign takeovers of these firms are considered by Defence when providing input to the work of the Foreign Investment Review Board.

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Question on Notice No. 7 - Defence Industry Policy Framework

The Committee provided in writing:

A number of submissions have identified the need to have a defence industry policy framework which guides the entire capability development process, from initial innovation to export. (Australian Industry Group, Australian Business Defence Industry) Is this a recommendation that Defence would support?

Response:

The Government recognises the importance of getting its approach with industry right across the entire capability development process and, in this respect, will release a Defence Industry Policy Statement in conjunction with the Defence White Paper later this year.

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Question on Notice No. 8 - CDG relationship with Defence Industry

The Committee provided in writing:

- (1) Could you explain the Capability Development Group's (CDG) relationship with the Australian defence industry?
- (2) When and how is industry consulted when the CDG is considering future capabilities for the ADF?
- (3) Is this adequate?

Response:

- (1) The relationship between Capability Development Group (CDG) and the Australian defence industry is continuous, open and pro-active, and is conducted through formal and informal mechanisms.
- (2) CDG consultation with the Australian defence industry commences up to ten years prior to First Pass Government project approval and extends through to Second Pass approval via a range of engagement mechanisms.
 - (a) CDG prepares, subject to Government approval, a public version of the Defence Capability Plan (DCP) to inform industry of major capital acquisition projects with First and Second Pass Government approvals planned in the ten years after release.
 - (b) CDG personnel may initiate informal Australian defence industry engagement at conferences and exhibitions, via email messages or face to face meetings early in each DCP project's life cycle to assist in the capability development process. CDG also regularly receives approaches from Australian defence industry bodies and individual enterprises.
 - (c) Australian defence industry is formally consulted in the development of initial project options through Rapid Prototyping, Development and Evaluation (RPDE) program activities. CDG also consults RPDE's Australian defence industry members to resolve complex and high risk capability development problems that arise at various project life cycle stages. RPDE includes over two hundred and fifty Australian defence industry members.
 - (d) Chief CDG chairs six-monthly Capability Development Advisory Forum meetings with senior executives of Australian defence industry organisations, including five Australian defence industry associations, to discuss strategic capability development issues.

- (e) CDG executives co-chair with elected industry representatives four Environmental Working Groups (EWGs). In collaboration with representatives from their respective Defence industry sectors, the EWGs disseminate and discuss DCP program, subprogram or project level information. EWGs meet up to twice yearly but instigate ongoing collaborative focus group activities to resolve specific DCP program, subprogram or project issues. CDG employs Govdex, a Government online collaboration website facility, for the dissemination of EWG information and interactive engagement between EWG members.
 - (f) CDG also engages with industry through the Capability and Technology Demonstrator (CTD) Program, which is funded by the DCP and administered by the Defence Science and Technology Organisation. The CTD Program puts out annual calls to Australian industry and other research organisations for innovative proposals that have the potential to enhance defence capability.
 - (g) CDG engages industry through the Australian Defence Test and Evaluation Office (ADTEO) via commercial support arrangements for complex Test and Evaluation (T&E) planning specialist activities. ADTEO also uses industry T&E experts to supplement its Trial function.
 - (h) CDG employs a Capability Development Commercial Support Agreement to contract pre-approved Australian defence industry service providers to satisfy specific specialist demands. For example, CDG may require cost estimation or project management expertise during the development of Requirements Phase project proposals for Government consideration.
 - (i) CDG contractual engagement with Australian Defence industry can also occur through the Defence Materiel Organisation Support Services panel, the Professional Services panel or the Defence Infrastructure panel.
- (3) CDG considers the above mechanisms for CDG engagement with the Australian defence industry as adequate, noting that other Groups and Services (particularly the Defence Materiel Organisation) also engage with industry in the performance of their separate functions.

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**Question on Notice No. 9 - Defence Industry as part of Australia's
defence capability**

The Committee provided in writing:

Evidence to the inquiry has suggested that defence industry needs to be considered as part of Australia's defence capability. (QinetiQ, Australian Business Defence Industry) What is your view of this?

Response:

The Government supports local industry and recognises how valuable it is to our nation. The new Defence White Paper and the associated Defence Industry Policy Statement will articulate the critical role of industry in Defence business and provide greater clarity and certainty of Defence's requirements of industry.

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Question on Notice No. 10 - Whole of Life cost benefit analysis and industry capability plans

The Committee provided in writing:

Evidence received by the Committee (Australian Industry and Defence Network, Northrop Grumman, Defence Teaming Centre) recommends the development of an Industry Capability Plan to articulate the industrial capability development required by Australia, from innovation to eventual export. In your experience managing and promoting local defence exports, would Australia benefit from having a whole-of-life cost benefit analysis (when considering value for money) which could better inform an industry capability plan?

Response:

These issues are under consideration as part of the development of the new Defence White Paper 2015 and associated Defence Industry Policy Statement, and further information will be provided when they are publicly released later this year.

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**Question on Notice No. 11 - Recommendation for reinstatement of a
procurement ministerial portfolio**

The Committee provided in writing:

Recent comment by former CDF, Admiral Chris Barrie AC RAN, recommended reforming the acquisition process to involve industry. Admiral Barrie, AC RAN, was quoted in the Australian Financial Review on 16 March 2015 as saying: “One of the bedevilling things about the way we do business is no one’s actually responsible for anything and so things slip through the cracks.”

Would Defence support a recommendation for reinstatement of a ministerial portfolio such as a Parliamentary Secretary for Defence Procurement, or similar?

Response:

Such a decision is a matter for Government.

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Question on Notice No.12 - Priority Industry Capabilities - drafting and funding

The Committee provided in writing:

- (1) To what extent does Defence consult with leading primes and SMEs when drafting Priority Industry Capability plans and considering its future capabilities? In the drafting of the upcoming Defence White Paper and First Principles Review, was input actively sought from local industry as part of the submission process?
- (2) How often is the list of priority industry capabilities reviewed and updated? Upon what criteria does Defence determine whether something should be considered a priority industry capability?
- (3) How much funding is available under the Priority Industry Capability Development Fund? How often has this fund been required to support the development of priority capabilities?

Response:

(1) Determining what is a Priority Industry Capability (PIC) is primarily a Defence function. It centres on the current and future needs of the ADF. However, in order to ensure PICs are available in-country, the ability of domestic industry to supply to ADF requirements is an essential consideration. The supply aspects of the PIC program are covered through close consultation with relevant Australian-based defence manufacturers.

In developing the new Defence White Paper 2015 a comprehensive program of public engagement has occurred, including the formal Community Consultation program. The Community Consultation program involved receiving written submissions as well as holding public and private forums around Australia with members of the public, think tanks and academia, and industry. Defence has also held a number of further discussions with industry peak bodies to further understand their views on Defence and security policy matters.

Input was actively sought from local industry during the development of the First Principles Review.

(2) Defence currently has a list of 12 PICs. For the most part, the list - which is publicly available - describes capabilities at a generic level. Although the list of 12 PICs has not varied, the precise contents of each PIC do change in line with shifts in the size, timing and nature of individual Defence capital equipment procurement projects.

The exact criteria used to identify PICs remains confidential to Defence. However, in general terms, the criteria focus on three factors: the importance of an industry capability to the operational needs of the ADF; the ability of the ADF to access these

capabilities from overseas should the need arise; and, the availability of the capabilities from Australian industry in the normal course of business.

From this, an industry capability is more likely to be a PIC where that capability is: essential to ADF operations; not readily accessible from overseas under a range of strategic scenarios; and, not readily available from Australian industry under normal business conditions.

(3) The Priority Industry Capability Development Fund (PICDF) is only one means through which PICs might be supported by Defence should the need arise. The funding available for PICDF for the next four years is in the order of \$10 million per annum. PICDF has not yet been accessed. The future of the program is being reviewed as part of the new Defence White Paper.

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Question on Notice No. 13 - Australian Government Defence Export Support Forum (AGDESF)

The Committee provided in writing:

In their submission, Austrade noted that the Australian Government Defence Export Support Forum (AGDESF) attempts to provide a coordinated approach for defence exports.

- (1) Can you attribute any successes or notable outcomes to this forum?
- (2) Do you think AGDESF could play a greater role in the suite of support arrangements for Australian defence industry exports?

Response:

(1) and (2) The Australian Government Defence Export Support Forum (AGDESF) is chaired by the Defence Materiel Organisation's Industry Division and includes representatives from Federal, State and Territory Governments including Austrade. The primary outcome achieved from the forum is a coordinated approach to initiatives across federal and state government departments on defence industry export related activities. In recent meetings there has been a push by attendees to focus more strongly on greater collaboration between State, Territory and Federal departments in coordinating Defence industry export promotion activities. Successful trade missions run by Team Defence Australia influenced through this coordinated approach is one example of successful outcomes achieved through the forum.

The AGDESF forum remains a valuable mechanism for whole of Government coordination defence-related export promotion, albeit with only an indirect capacity to influence success for Australian industry in respect of winning export contracts.

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Question on Notice No. 14 - Global Supply Chain Program

The Committee provided in writing:

The Committee has received evidence supporting the important role of the Global Supply Chain (GSC) program in sourcing opportunities for Australian defence firms.(Australian Industry Group)

(1) Could you briefly explain to the Committee how the GSC program works? What level of funding does the program have? Given the generally positive feedback of the program, does Defence have plans to expand program further? In what areas could it be improved?

(2) The committee received evidence suggesting scope to further improve the GSC program. The example given claimed that the current funding does not cover expensive travel by SME representatives, and others believe that relationships between some overseas and Australian primes is not sufficient to access international supply chains. In fact – the success is primarily due to a number of ‘big ticket’ projects. (Australian Industry Group). To promote the benefits of the GSC program, do you think there is scope to list which Australian defence industry companies have gained exports under the GSC and the value of their exports?

Response:

(1) The Global Supply Chain (GSC) program facilitates access to bid opportunities in the global supply chains of multinational defence companies and their major suppliers. Funding is provided for the establishment of a GSC office or team within the prime who then perform a range of activities in support of Australian industry. These activities include the identification and provision of bid opportunities across the prime’s military and commercial business, market assistance and mentoring, and a range of technical and cultural training to increase the Australian company’s global competitiveness.

In FY 2009/10, \$59 million was allocated over 10 years to the GSC program. This funding has been supplemented by project funding where a GSC prime has been the successful tenderer.

The Government is committed to maximising opportunities for Australian industry involvement in the acquisition and sustainment of Defence capabilities, as well as supporting industry to improve its international competitiveness and linkages into global supply chains. These issues are currently under consideration as part of the development of the new Defence White Paper and associated Defence Industry Policy Statement to be released later this year.

(2) Travel related expenses will naturally be incurred when conducting business in overseas markets. Some State Governments provide grants or direct funding to subsidise travel when SME's participate in state or federal trade missions. This includes Team Defence Australia missions which are administered by the DMO and often involve visits to the GSC primes. Austrade's Export Development Market Grant is also commonly utilised by SMEs seeking to export their goods and services. The GSC program is complementary to these programs and does not duplicate the assistance provided by other Government organisations.

Non Disclosure Agreements between the primes and SMEs would prevent the publication of detailed contract information. Aggregate information relating to the number of companies that have been awarded contracts directly attributable to the GSC program, and the number and total value of those contracts, is reported by Defence. Good news stories are also regularly reported by the prime contractors and Defence.

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Question on Notice No. 15 - DMO and management of export promotion

The Committee provided in writing:

DMO is the key Defence agency managing export promotion.

- (1) Do you think DMO is well-suited to manage export promotion as part of its portfolio? Is there a strong level of collaboration with the Department of Industry?
- (2) In order to improve coordination between relevant Government departments and agencies, would there be benefit in having a separate defence export agency that coordinates, promotes and engages with local industry, similar to the UK Trade and Investment Defence and Security Organisation?

Response:

(1) and (2) The DMO has an effective working relationship with the Department of Industry & Science in relation to a wide range of industry programs and issues, including export promotion. The Department of Industry & Science is represented on the Australian Government Defence Export Support Forum (AGDESF).

These matters are being examined as part of the implementation of the First Principles Review, the development of the Defence White Paper and accompanying Defence Industry Policy Statement.

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Question on Notice No. 16 - Defence Materials Technology Centre

The Committee provided in writing:

The Defence Materials Technology Centre aims to deliver advanced materials/manufacturing technology that can be incorporated into Defence industry products and services.

- (1) Could you provide examples of technologies that have been developed in collaboration with this Centre? Of these, have any been exported?
- (2) What role does the Department of Defence play in the Centre's activities?
- (3) What are some of the technologies currently being developed by the Centre?

Response:

- (1) The following are some examples of technologies that have been developed by the DMTC.
 - (a) Vibration Dampening Mechanism - Work carried out on vibration dampening and titanium machining process optimisation at BAE Systems Australia has resulted in a reduction of machining time. The appropriate application of vibration dampening materials and fixtures has resulted in less rework on Joint Strike Fighter (JSF) products. This has the potential to be delivered to the JSF Global Supply Chain through BAE Systems Australia to the UK and USA.
 - (b) Automated robotic programming and welding – DMTC has developed unique Automated Offline Programming technology allows assembly robots to be automatically programmed on the basis of assembly drawings. This technology has been implemented in the Thales Bushmaster production line with adoption for future platforms also planned. The Bushmaster is in use by the ADF and Thales has exported Bushmaster variants to the Netherlands, United Kingdom, Japan, Jamaica and Indonesia.
 - (c) Advanced coatings for cutting tools - The DMTC has worked with Sutton Tools to establish the Advanced Surface Solutions Facility (ASSF). The ASSF has been the centre point for the examination of the behaviour between coatings and the cutting tool, and the development of new advanced coatings. Sutton Tools has adopted the application of coatings and techniques developed through DMTC facilitated research projects, with the end products exported to Germany, China, Singapore and Thailand.

- (2) The Department of Defence's role in the Centre's activities is as follows:
- (a) The DMTC was established and receives funding under the Defence Future Capability Technology Centre (DFCTC) program. DMTC will receive \$38m (GST exclusive) under the DFCTC program from 2007-08 to 2018-19.
 - (b) The contract with the DMTC is funded by DMO and administered by the Department of Industry and Science (DoIS) which has extensive experience in managing collaborative research centres.
 - (c) DMTC is advised of Defence's priority research areas through a Defence Advisory Panel which meets at least once a year. Oversight of the DMTC and its delivery against the DFCTC program is provided through the DFCTC Committee which meets at least once a year.
 - (d) DSTO is one of DMTC's participating organisations and contributes resources (personnel and equipment) towards some of DMTC's research projects.
 - (e) Areas within Defence can fund DMTC to undertake research programs specific to their requirements e.g Land Systems Division has engaged DMTC to develop high performance protective equipment for troops on deployment.
- (3) The following are the technologies currently under development by the DMTC.
- (a) High strength fabrics for combat clothing - The outcome of this research project will be advanced textile materials and garments which will allow higher levels of comfort, increased service life, and improved resistance to fragmentation injury and reduced contamination of the injury site from airborne debris resulting from improvised explosive devices or similar.
 - (b) Portable Power Supply - Through RMIT University and with support from the Defence Science Institute and DSTO, DMTC is conducting a scoping study into portable power supply for defence applications based on reversible hydrogen fuel cell technology. The study is assessing the Australian industrial capability to develop and manufacture a portable power supply, and develop a technology and commercialisation roadmap.

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Question on Notice No. 17 - DMO promotion of Australian exports

The Committee provided in writing:

- (1) To what extent does DMO engage with Austrade, DFAT and state governments to promote Australian exports, either through trade missions or Australian defence attachés overseas?
- (2) How is Australia perceived internationally as a source/destination of defence products?
- (3) Does it attract interest as an exporter of defence technologies?

Response:

- (1) DMO engages with Austrade, DFAT, State governments, the Department of Industry and Science and Australian Defence attachés overseas on a regular basis, including in the lead up to Team Defence Australia (TDA) participation at selected international defence-related trade shows and missions. Austrade and state governments are also represented on the Australian Government Defence Export Support Forum.

Australian Defence attachés and Austrade's overseas offices assist defence companies and facilitate meetings for Australian companies. Although the priority task for Australian Defence attachés is the advancement of Australia's bilateral defence relationship with the host nation's government, they also provide assistance to Team Defence Australia missions and, in this way, assist to market Australian industry products or services overseas.

- (2) Australia is perceived to be a source of innovative niche defence capabilities adapted to challenging environments. In the defence sector programs such as TDA, the JSF Industry program and the Global Supply Chain program provide Australian suppliers with invaluable contacts and opportunities in the supply chains of major multinational defence prime contractors.
- (3) Yes. In relation to Team Defence Australia activities alone, it is noted that since 2007 TDA has assisted 288 defence industry companies to secure export contracts for defence capabilities and technologies to the value of approximately \$785 million.

Department of Defence

JSCFADT Defence Industry Exports Hearing – 24 March 2015

Question on Notice No. 18 - Defence Attachés

The Committee provided in writing:

- (a) Could you explain to the Committee how Australian missions overseas are structured? Are defence attachés guided by the head of mission or do they take direction from the Department of Defence?
- (b) Are Defence attaches in Australia's diplomatic missions involved in lobbying overseas governments or companies about Australian products and services? Do they provide advice back to Australian businesses on local regulations and procedures overseas? If not would you see value in this and how could it be done? At posts where no Defence Attaché located, how do we engage?

Response:

- (a) In accordance with the 2010 Prime Minister and Cabinet Directive *Guidelines for Management of the Australian Government Presence Overseas*, Defence Attaché staff fall under the overall supervision and management of the Head of Mission (HOM). The Defence Attaché's primary responsibility as the Senior Defence Representative is to advise and assist the HOM to represent the Government of Australia on all Defence matters.

To fulfil that responsibility, Defence Attachés are supervised and managed by the First Assistant Secretary International Policy (FASIP), who is in turn responsible through Deputy Secretary Strategy to the Secretary of Defence and the Chief of the Defence Force (CDF) for providing policy advice on international matters with implications for Defence, managing Defence's international relationships, and the Defence Cooperation Program.

- (b) Defence Attachés posted to Australia's diplomatic missions play a limited role in lobbying overseas governments or companies about Australian products and services. Defence Attachés respond to requests received through either AUSTRADE or the Department of Defence's Australian Military Sales Office (AMSO) to provide unclassified, specialist military advice to Australian businesses on the host-nation Defence Department / Ministry and Defence Force(s).

The Australian Military Sales Office (AMSO) also has access to the Defence industry advisory staff within the Australian High Commission to the United Kingdom and Embassy to the United States of America for the purpose of providing advice and promotional support to industry as required. The industry advisory staff cooperate with the Heads of Australian Defence Staff

(Defence Attachés) in London and Washington, and support activities across Europe and the United States.

Advice on host-nation business regulations and procedures overseas is provided by AUSTRADE given their familiarity with those matters. At posts where there is no Defence Attaché located, this engagement is conducted through either AUSTRADE or the Department of Foreign Affairs and Trade, with specialist advice sought from the Department of Defence, as required.

Department of Defence

JSCFADT Defence Industry Exports Hearing - 24 March 2015

Question on Notice No. 19 - Defence markets - own forces as customer

The Committee provided in writing:

Evidence received by the committee indicates that it is difficult to sell into a defence market unless you have your own forces as a customer. (Prof. Gooran Roos, Australian Business Defence Industry) It is claimed that countries which successfully assist their domestic industry to generate defence exports ensure that those companies do support and supply their own forces.

(1) How would you respond to these arguments?

Response:

(1) Anecdotal evidence from industry suggests that it can sometimes be more difficult for Australian defence manufacturers to sell into export markets without first selling to the ADF. Procurement decisions are made foremost on the basis of supporting the capability needs of Defence and delivering value for money, whilst at the same time seeking to maximise opportunities for Australian Industry.

Department of Defence

JSCFADT Defence Industry Exports Hearing – 24 March 2015

Question on Notice No. 20 - Capability and Technology Demonstrator (CTD) program

The Committee provided in writing:

- (a) The Committee received evidence (EM Solutions) that recognised the Capability and Technology Demonstrator (CTD) Program in supporting innovation in local industry.
 - What level of funding is allocated to the CTD Program? Given the significant costs associated with research and development, is Defence likely to increase this amount of funding?
- (b) One key criticism of the CTD program has been the lack of a follow-on program to ensure that technologies developed are linked to a procurement program.
 - Of the technologies developed under this program, what percentage are eventually considered for procurement by the ADF?
 - Your submission notes that the Defence Innovation Realisation Fund aims to move selected technologies from the CTD to the point of being ready for acquisition. Could you explain how this fund works?

Response:

- (a) The CTD program is allocated \$14.2m per annum out of the Defence Capability Plan. Any change to this level of funding will be addressed in the Government's new Defence White Paper.
- (b) All technologies developed under the CTD Program are considered as potential options for future procurement by the ADF.

The Defence Innovation Realisation Fund is intended to progress priority technologies that have been developed under other technology programs in Defence, e.g. CTD Program, Rapid Prototyping, Development and Evaluation Program, etc, but require additional development to be competitive for acquisition. Candidate technologies are evaluated within Defence and companies are subsequently approached individually for proposals addressing the desired aims of the development. Proposals are then considered within Defence in competition with one another for the available funding. Recommendations are then made to the Minister for Defence regarding which proposals should proceed.

Department of Defence

JSCFADT Defence Industry Exports Hearing - 24 March 2015

Question on Notice No. 21 - Barriers to growth of Australian defence exports

The Committee provided in writing:

Some of the main barriers and impediments to the growth of Australia's defence exports that have been identified during this inquiry include: the difficulty accessing international export markets; IP ownership issues; lack of offsets and industrial cooperation; and the absence of local procurement preferences for the ADF.

- (1) Would you care to comment on any of these barriers and suggest ways in which these could be addressed?
- (2) Are you aware of any other barriers that may be inhibiting Defence industry exports at the moment?
- (3) Is there anything that the Government could do to maximise or generate further spill over benefits?

Response:

(1) – (3) Defence's current export promotion programs and export control measures are designed, in part, to help address the barriers listed above, in addition to those highlighted in Defence's submission to the Committee inquiry.

These issues are currently being considered as part of the development of the new Defence White Paper.

Department of Defence

JSCFADT Defence Industry Exports Hearing- 24 March 2015

Question on Notice No. 22 - Defence Export Unit

The Committee provided in writing:

- (1) Could you describe the relationship between the Defence Export Unit (DEU) and the Australian Military Sales Office (AMSO)? How are they distinguished in their role and responsibilities?
- (2) The Committee has received mixed responses in regards to the level of DEU support for Australian companies at international trade shows. How does DEU support Australian companies at international trade shows? Does the DEU preference companies it considers have particular market potential?
- (3) In the drafting of Free Trade Agreements, is there a level of coordination with Defence to ensure that Australian defence companies have preferential access to international markets?

Response:

- (1) When the Australian Military Sales Office (AMSO) was established on 2 July 2012, it incorporated the Defence Export Unit (DEU).
 - (2) DMO supports Australian companies at international trade missions and events under the Team Defence Australia (TDA) banner, to signify the relationship between Defence and Australian defence industry. TDA promotes industry and bilateral engagement by leading trade missions at select international trade events. TDA supports Australian companies at these overseas events through the provision of an Australian pavilion to showcase the companies' products and services. In addition to funding the hire of floor-space and the construction of the stand, TDA provides companies with free capability booklets, stand management and administration and local ground transport. Senior Australian military specialists (typically engaged as Reservists) act as advocates to promote capabilities of the participating companies. Overall, TDA-supported activities provide companies with low-cost export promotion opportunities, which would otherwise be cost prohibitive for the majority of companies if participating independently.
- Selection of companies for TDA events is through a competitive application and assessment process. TDA also targets known companies for participation in events based on the matching of a company's capability to known opportunities in the region. The application and assessment process introduced in early 2012 reviews company applications against several criteria including linkages with the Priority Industry Capabilities (PIC), Australian intellectual property and products and services that are unique, or niche, and ready for export.

(3) In its coordination comments on Free Trade Agreements presented for Government approval, Defence seeks to ensure that standard security and procurement exemptions (consistent with Article XXI of the General Agreement on Tariffs and Trade (GATT) and the United States-Australia Free Trade Agreement (USAFTA)) form part of the negotiated agreement.

The security exemption ensures Australia does not need to comply with its obligations under the GATT and USAFTA in relation to matters of essential national security procurement and the maintenance of international peace and security.

Department of Defence

JSCFADT Defence Industry Exports Hearing – 24 March 2015

Question on Notice No. 23 - Defence Export Control Office (DECO)

The Committee provided in writing:

The feedback received from industry on the Defence Export Control Office (DECO) was largely positive. (Australian Industry Group) Suggestions to improve DECO, however, included the following:

- (1) Ministers should provide written guidance to Defence, setting out their preferred approach to handling export approvals;
- (2) Defence should only refer cases to the Minister where there is doubt about settling the right outcomes;
- (3) DECO should establish an industry contact group that can be used to assess the performance of export control processes; and
- (4) Retain DECO in Strategy Group and separate from any export facilitation organisation.

Could you comment on these recommendations?

Response:

- (1) Defence officials have been delegated authority to approve exports. Only the Minister for Defence can deny export permission, or revoke an existing permission.
- (2) Complex export applications can be referred to the Minister for Defence for decision if required. Only the Minister for Defence can deny export permission or revoke an existing permission.
- (3) A Strengthened Export Controls Steering Group was appointed by the Minister for Defence to consider the effect of the *Defence Trade Controls Act 2012*. The Steering Group includes representatives from industry, research, and government sectors. The Steering Group and the Industry Experts sub-group that it oversees will continue.
- (4) DECO remains in the Strategy Group and is separate to Defence's export facilitation functions.

Department of Defence

JSCFADT Defence Industry Exports Hearing - 24 March 2015

Question on Notice No. 24 - Advice on procurement

The Committee provided in writing:

The committee understands that Commonwealth procurement is governed by the Public Governance, Performance and Accountability (PGPA) Act 2013, the PGPA Rules and the Commonwealth Procurement Rules (CPRs). There is also a range of mandatory Commonwealth procurement related policy which may impact on procurement, including initiatives such as Coordinated Procurement, Indigenous policy and AusTender reporting.

- (1) Does Defence seek or receive advice from Department of Finance when considering Defence procurements or capability development, or is it all left to the Delegate?
- (2) If yes, which area of Department of Finance provides advice?
- (3) If not, would you explain why they are not taken into account?

Response:

- (1) Occasionally, Defence may seek general advice from the Department of Finance on the interpretation of certain requirements of the Commonwealth Procurement Rules (CPRs). However, consistent with the devolved nature of the Government's procurement framework, Defence delegates are responsible for decisions made and actions taken in the context of individual Defence procurements, generally on the advice of internal procurement specialists. In relation to capability development proposals, Defence seeks Finance comments in accordance with standard government processes for seeking external agency comments on Cabinet submissions.
- (2) Any general advice sought by Defence on the interpretation of the CPRs nature would be sought from the Department of Finance, Procurement Policy Branch. Comments on Cabinet submissions related to capability development proposals are sought from Department of Finance, Defence Capability and Intelligence Branch.
- (3) N/A.

Department of Defence

JSCFADT Defence Industry Exports Hearing - 24 March 2015

Question on Notice No. 25 - Spill over benefits

The Committee provided in writing:

Evidence received by the committee (eg Professor Goran Roos) indicates that ‘spill over’ benefits are generated in countries where companies planning to export begin by establishing a local presence in that country and link in to the domestic supply chain. It is further argued that a consequence of this is an increase in capability of that industry and associated supply chain, and the opening up of that industry for opportunities that they otherwise may not have had.

- (1) When providing support to Australian businesses does Defence factor in potential spill over benefits or second order economic benefits as part of your considerations?
- (2) Can you give examples of where second order effects may have been taken into account when considering Defence procurements or capability development:
 - (a) Can you give examples of what these may include?
 - (b) Do you have a method to account for, or measure such benefits?
 - (c) Is it possible that in the value for money considerations an option that has potentially more to offer, but is more costly, may not succeed?
 - (d) Do you think that the Commonwealth Procurement Rules are interpreted or used appropriately when considering ‘risk’ during considerations?

Response:

(1) The industry innovation and export assistance programs currently managed by Defence are, to some extent, provided on the understanding that industry recipients will generate so-called spillovers. For example, support for industry skilling rests in part on the notion that the skills built through grant funds will be of broader benefit in other projects inside or outside defence industry. However, spillovers can be formidably difficult to quantify even after a project is complete.

(2)(a)-(c) There is no commonly agreed method across Commonwealth Government departments and agencies for measuring second order benefits. Methods can vary depending on the individual circumstances involved.

Consistent with the Commonwealth Procurement Rules and internal policies, Defence officials must apply value for money as the primary basis for defence procurement decisions. With more than \$10 billion of taxpayer’s money spent each year on supplying and supporting the capital equipment needs of the Australian Defence Force (ADF), it is essential that the best possible value for money is achieved. This does not necessarily mean that Defence should buy from the cheapest source available, nor does it mean that an Australian-made solution will always be selected to meet the equipment requirements of the ADF. Choosing the best value for money

option entails balancing what is being offered against the price being asked. In some cases, better value for money can be - and is - obtained by paying more to achieve the required capability effects (including interoperability), to achieve earlier delivery or to provide assurance of long-term supportability.

(d) The Commonwealth Procurement Rules contain high-level principles based requirements relating to the treatment of risk in procurements. Defence has developed policy, processes and guidance material to assist Defence officials apply these requirements when conducting procurements.

Department of Defence

JSCFADT Defence Industry Exports Hearing – 24 March 2015

Question on Notice No. 26 - Responsibility for industry and export matters

The Committee provided in writing:

Submissions received by the committee (Australian Business Defence Industry) suggested that Defence industry considerations including defence export should not be resident within the DMO. As a procurement organisation the DMO is focussed on obtaining the best “Value for Money” in accordance with the procurement rules, and not on the strategic understanding, development and promotion of the local industry sector. Adoption of the concept of “Industry as a Capability” would indicate that industry matters including export support should be managed within the Capability Development Group, or removed entirely from Defence (as in some comparable countries) and managed by a separate entity such as the Department of Industry.

- (1) Is there merit in the concept, of “Industry as a Capability”?
- (2) Is there merit in having industry and exports responsibilities located outside of DMO or even the Defence organisation altogether?

Response:

(1) and (2) These issues are currently under consideration as part of the development of the new Defence White Paper and associated Defence Industry Policy Statement to be released later this year.