



July 14, 2023

Senator Raff Ciccone
Chair
Senate Foreign Affairs, Defence and Trade Legislation Committee
Parliament House
Canberra ACT 2600

Submission to the Inquiry into the performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry

Dear Senator,

Thank you for your Committee's invitation to provide a submission to its inquiry into the performance of the Department of Defence in supporting the capability and capacity of Australia's defence industry. We appreciate the time and resources being invested by the Committee on a subject that is so critical to Australia's defence capability.

Thomas Global Systems is an Australian-owned and headquartered manufacturer of high-integrity aviation and defence electronics. With engineering and manufacturing operations in both Australia and the United States, our defence business unit designs, produces and supports a range of highly engineered avionics, armoured vehicle electronics and training systems used by the Australian Army, the United States Army and Marine Corps and other international defence forces and government agencies.

Thomas Global Systems welcomes the positive progress made by the Department of Defence in supporting the capability and capacity of Australia's defence industry over the last seven years, commencing with recognition of Australia's defence industry as a "fundamental input to capability" as part of the 2016 Defence Industry Policy Statement. Since then, we have seen an increasing level of practical support for local industry from the Department of Defence. Our company has greatly appreciated the opportunity to participate in programs including the Defence Innovation Hub, Team Defence Australia and most recently the assistance received to secure a contract with Boeing Defense & Security to supply new avionics into the global AH-64E Apache program.

Notwithstanding, we believe that there are significant opportunities for the Department of Defence to further support the Australian defence industry and help accelerate the growth of local capability. These include:

1. Reform of Commonwealth Procurement Rules

The Department's ability to support local industry is greatly restricted by the Commonwealth Procurement Rules (CPR), which currently penalise Australian industry for development risk as part of value for money criteria. The effect of the CPR is thus often to preclude viable local solutions from ever being a competitive in tenders, given in most cases local companies will need to undertake some

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development activity versus foreign off-the-shelf solutions. We believe consideration should be given to adjusting the CPR's value for money criteria to account for the value to the ADF of industrial self-reliance and local capability.

2. Leverage Foreign Military Sales Acquisitions

Australia is one of the largest customers of the U.S. Foreign Military Sales (FMS) program. We believe these FMS acquisitions can be better leveraged by the Department to develop Australian industry. There are mechanisms within the FMS acquisition framework that allow for "customer directed sourcing" of equipment being purchased as part of the FMS acquisition, thereby allowing participation of local suppliers. Our company has proven through our recent Apache contract win that FMS acquisitions can facilitate excellent opportunities for Australian Industry Capability (AIC) development, without adding risk, affecting schedule or impacting on configuration. We believe the Department should consider implementing a formal process to ensure every effort is made to include competitive Australian suppliers in FMS acquisitions.

3. Small Business Set-Asides

Most Australian-owned companies involved in the defence industry can be classified as small or micro businesses. If we are to grow these companies into at least medium sized businesses with resultant increases in industry capability, we believe consideration should be given to establishing a Small Business Set-Aside program, which reserves certain procurements for small businesses. In our view, Contracts and Purchase Orders issued by Defence as part of such a program could build capability more effectively and efficiently than capability grant funding. We note the United States has conducted a successful Small Business Set-Aside program for many years.

4. Other

There are other actions that we believe the Department could consider to further enhance its vital role in supporting local industry. These include enhanced defence export market development support, a more effective Global Supply Chain Program, further support for ITAR reform; for brevity, we have not included detail on these here. We would welcome the opportunity to brief the Committee on these should that be of interest. Generally, it is important that the Department continues to do more to positively consider Australian industry earlier and more often throughout the capability life cycle.

I repeat our gratitude for the Committee's invitation to provide this submission, and for its inquiry into these matters.

Sincerely,

Angus Hutchinson
CEO