

THE RETURNED & SERVICES LEAGUE OF AUSTRALIA LIMITED

NATIONAL HEADQUARTERS

ABN 63 008 488 097

Joint Standing Committee on Foreign Affairs Defence & Trade Inquiry into Government Support for Australian Defence Industry Exports

Introduction

The National Board of the Returned & Services League of Australia (RSL) and its members welcome the opportunity to provide a submission to the Commonwealth Parliament's Joint Standing Committee on Foreign Affairs Defence & Trade inquiry into Government support for Australian Defence Industry Exports.

We note that the inquiry has been established to have particular regard to:

1. identification of barriers and impediments to the growth of Australia's Defence exports;
2. how Government can better engage and assist Australian Defence Industry to export its products;
3. the operations of the Defence Export Control Office;
4. assessment of the export support given to Defence industry by governments of comparative nations; and
5. any other related matters.

Instead of responding specifically to inquiry items 1 to 4, the RSL submission takes a broader approach dealing with item 5 and covering:

- RSL policy with respect to the Australian Defence Industry
- the fact that Australian Defence Industries must be provided with a fully funded feasible 10 year Australian Defence Capability Plan on which to base their investment plans
- the requirement that the Commonwealth Parliament acknowledge and accept that the Australian Defence Industry is an essential national strategic asset
- the need to strike a pragmatic balance between encouraging and supporting the Australian Defence Industry to invest in and produce defence equipment both for use by the Australian Defence Force and for export; and discouraging the Australian Defence industry from investing in or producing defence equipment readily obtainable at considerably less cost from overseas suppliers which meets the performance and operational requirements of the Australian Defence Force (ADF).
- the importance of maintaining and sustaining Australian Defence Industries and research establishments producing key sovereignty defence equipment such as electronic warfare and cryptographic devices and research in this area where defence exports must be limited for national security reasons to only the most trusted allies.



FOUNDED
IN 1916

LEST WE FORGET

G.P.O. BOX 303
CANBERRA
A.C.T. 2601
PH: (02) 6248 7199
FAX: (02) 6247 7637



RSL Policy

This supports the promotion of the national security benefits of maintaining viable Australian defence industries and defence research establishments. We contend that the Australian Defence Industry must be nurtured and encouraged as an essential part of the nation's defence capability, to support the Australian economy and to provide jobs for Australians. We also contend that research into key aspects of defence with the potential to advance technology and hence provide the ADF with a war fighting advantage when sent in harm's way is vital. Such research has the additional advantage of providing Australian defence planners with up to date advice about world's best practice in the realm of defence and security preparedness.

A Fully Funded feasible 10 year Australian Defence Capability Plan

It is virtually certain investors will neither fund the establishment of a major Australian defence industry nor continue to financially support an existing privately owned Australian defence industry without certainty that the defence equipment produced will be acquired for and put into service by the ADF.

The same premise can be confidently advanced for smaller or niche Australian defence industries albeit there may be exceptions where collaborative arrangements with defence industries in allied or friendly countries may result in production of parts for defence equipment for other nations armed forces but not for the ADF.

It is the RSL's contention based on this premise that an Australian defence industry capable of producing items of substantial value for the defence export market cannot exist without there first being in place a fully funded feasible 10 year Australian Defence Capability Plan.

We note that this fundamental was cited in the foreword to the 2006 to 2016 Defence Capability Plan released by the then Australian Minister for Defence, the Honourable Dr Brendan Nelson where he stated "It is important that Defence keep industry abreast of its requirement over the coming decade. This will allow Australian Industry to align its planning and development to meet Defence's needs into the future..."

It was unfortunate that the 2013 Defence White Paper released by the then Australian Minister for Defence the Honourable Stephen Smith did not provide a substantive Australian Defence Capability Plan for the decade 2013 to 2023. Because of this shortcoming the then Opposition stated that if elected to Government they would restore a 10 year Defence Capability Plan that was feasible, funded and commercially viable to give more certainty to local industry. The RSL welcomed this statement and urge that this vital document be produced and made available to the Australian Defence Industry as a matter of high priority.

Prior to the 2013 federal election the RSL put forward an assessment of the Defence policies of both the Australian major political parties. In this we noted that the then Government conducted a major industry skilling study focused on the capacity and capability required to ensure a successful Future Submarine Project. While this was a welcome part of developing a Defence Capability Plan its scope was too narrow. It failed

to consider the capacity and capability needed to ensure a viable future successful Australian warship construction and maintenance industry with the technical competence and skilled workforce needed in the fabrication of submarines, surface warships and naval support vessels which together must form an essential part of any long term Australian Defence Capability Plan given the nation's maritime strategy.

The RSL has been consistent in urging Australian Governments to adopt a long term capability plan for naval shipbuilding. In a formal submission to a Committee of the Commonwealth Parliament in 2006 and in testimony before that Committee the RSL stressed this need. We pointed out the job creation and national economic benefits of maintaining and sustaining such an industry including the advantage of potentially increasing the nation's defence equipment exports. We pointed out then, as we again point out, that the existence of such an industry allows the growth of smaller part producing industries such as pump manufacturers and that the associated benefits are of particular economic, social and security benefit to the nation.

We urge the Government to make public at the earliest opportunity a fully funded feasible 10 Defence Capability Plan and we suggest that the Parliament after rigorous scrutiny and any resultant amendment supports this plan.

The Australian Defence Industry is a Strategic Asset

In making this assertion the RSL acknowledges that for the foreseeable future the nation's defence industries cannot produce all that is needed to maintain and sustain a fully combat capable ADF able to operate effectively in high intensity high capability warfare. We also acknowledge that the nation must continue to rely on purchases of some high level capability platforms and equipment from allied and friendly countries and that it would be prudent for Australia to continue to plan for the defence of the nation within alliance relationships.

None of these acknowledgements in any way detracts from the premise that the nation's defence industries collectively form a strategic asset. Defence industries producing items central to the security of our communications, electronic warfare and cryptographic capabilities and the research laboratories developing such equipments and information technology systems underpin Australia's sovereignty as an independent nation. Other defence industries such as those producing parts for aircraft manufactured overseas are no less strategic assets as they ensure Australia remains involved in leading edge aviation technologies and that our defence industry laboratories remain connected to world's best practice.

The ability to manufacture, repair and maintain complex defence equipments is as vital a part of a credible defence posture today as it has been in the past. Supply of replacement parts for operational equipment deployed by the ADF in time of war may make the difference between the achievement of success or failure. It may also impact on the number of casualties suffered in battle. Moreover there have been instances in the past and there could be instances in the future when a foreign supplier of defence equipment declines to continue supply due to disagreements about foreign policies.

It is for these reasons that the RSL contends the Australian Parliament should acknowledge that Australia's defence industries are strategic assets; and that this important distinction should always be weighed in the balance when making the finely balanced decisions as to whether to purchase equipment for the ADF overseas because of perceived lower cost or whether to opt for local production. In this context it is worth observing that the long term cost of maintaining and sustaining defence equipment purchased overseas seems rarely to be taken fully into account when opting for lowest cost overseas purchases.

The RSL believes there should be a publicly released assurance for each so called cheaper price overseas purchase of major defence items e.g. naval support ships, that the through life support and maintenance costs including the supply of parts sourced from overseas is either also cheaper or at about the same cost that the Australian Defence Industry could provide.

It is well established business practice to offset any reduction in profit from sale at a so called cheap price by marking up the cost of repair and replacement parts for long life items. Given that the average operational life of naval ships is in excess of 20 years this provides overseas defence equipment suppliers with a long term prospect of recouping any financial loss they may have to make to gain a sale.

Another very significant economic/cost factor to be taken into account when opting for so called cheap overseas defence purchases is the economic benefit to Australia of having viable defence support industries and the jobs these would support over many years.

Then there is the strategic benefit of maintaining Australian defence support industries because they are capable of providing defence exports.

These matters all form part of the strategic asset equation.

A pragmatic balance between Australian and Overseas Supply

The RSL contends that the nation will be ill served by a too comfortable long term relationship between dominant Australian defence industries and the customer – the Australian Government and ultimately the ADF. The ideal Australian defence industry will be one that is innovative, provides value for money to the customer, manages its affairs with the aim of achieving world's best practice and seeks, within security constraints to achieve long term defence equipment export markets in allied and friendly countries.

In its 2012/2013 Trade and Assistance Review, the Productivity Commission commented on the impact of Government on the nation's defence industries through its assistance programmes. The Commission noted that "defence industry assistance comes in a number of forms including cost premiums for local purchasing preferences as well as budgetary support for skilling, research and exporting."

The Commission went on to note that "the current Australian Industry Capability program potentially leverages work for local suppliers by including in tender

requirements a definition that, for tenders to represent value for money, tenderers must describe how their proposed approach will enhance domestic defence industry capabilities."

The RSL supports the continuance of defence industry assistance for local producers not least because this practice is followed in other countries. Many nations actively support and promote their defence export industries and there can never be any certainty as to the extent to which a so-called or so perceived "cheap" purchase option from a foreign supplier has been underwritten by the Government of the producing country. As has been earlier noted it is likely that such "cheap" purchase options are based on the prospect that over time the supply of replacement parts, modifications, capability improvements and essential technical advice will more than offset the perceived "loss" by setting a "cheap" purchase price.

Given all the factors which must be considered when making a decision about whether to purchase defence equipment from an Australian based supplier or whether to purchase from a foreign supplier there is unlikely to ever be a decision equation able to be used for each acquisition. Yet in one particular defence industry, that of naval ship construction, maintenance, modification and repair there are particular aspects which lend support to the contention that with rare exceptions, the totality of this industry is worth a premium of keeping it Australian based. The very long service life of warships is a key reason for advancing this proposition.

Nor should the Australian Government underestimate the importance of nurturing and supporting local manufacture of aircraft parts and systems as part of alliance production agreements. Indeed in the context of this inquiry it is vital that Australia retains the skills and continues to develop the technologies to allow the nation to be judged capable of participating in part in the ongoing production of state of the art combat aircraft.

There is also a need to maintain and sustain Australian defence industries capable of producing combat vehicles, weapons and ammunition for the Australian Army – and of leveraging off this the supply of some of these items as defence exports to allied and friendly countries.

Sovereignty aspects of Australian defence industry production

The RSL maintains that a few select segments of Australian defence industry production must be retained and sustained regardless of the premium so as to ensure that the sovereign security of the nation is protected. This is limited to those few defence industries and research laboratories producing very high security classification equipments and intellectual property for use by our intelligence agencies.

Sovereignty is also an intangible but important consideration when deciding whether to maintain and sustain defence industries crucial to the nation's war fighting ability. Prudent defence support planning must always take account of the possibility of a reduction or cessation of overseas sourced war fighting equipment in time of war.

Rear Admiral Ken Doolan AO RAN (Retd)
National President
The Returned & Services League of Australia
10 July 2014