



**Supacat Pty Ltd**  
ACN 121 032 451  
198 Lorimer St  
Port Melbourne 3207  
Victoria, Australia  
T: +61 3 9908 3255

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Committee Secretary  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
PO Box 6021  
Parliament House  
Canberra ACT 2600

A Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into Government support for Australian Defence industry exports

### **The Potential Benefits of Government Support to Industry in Defence Export**

This submission is provided for the consideration of the Committee and focuses on the support required by industry to generate increased Australian Defence exports.

#### ***Supacat***

Supacat opened its first Australian office in January 2012 and has grown rapidly within Australia on the back of a number of Australian defence contracts. Supacat's Australian offices are responsible for the marketing and support of our products throughout the Asia Pacific.

Supacat is an innovative engineering company specialising in vehicles and complementary machinery. It is a product developer with a broad customer base, providing products and services in the defence, renewables, marine, oil and gas, and mining sectors. In the defence sector, Supacat products are in operation in countries such as Australia, UK, Malaysia and Denmark. The company is strongly export focussed with export sales to new countries actively being pursued.

Supacat also exports engineering services directly to a range of customers within Australia, Asia and Europe.



### **Defence Export Approach by UK/USA**

Over the past 20 years, Supacat has exported from its UK office to Europe, North America and the Asia Pacific. During this time Supacat has had considerable interaction with the Defence & Security Organisation (DSO) and UK Trade and Investment (UKTI) which are the British Government agencies tasked with supporting defence exports from the UK. The DSO was originally known as the Defence Export Sales Office and was a unit within the Ministry of Defence. In April 2008, despite industry fears of a dilution of its defence focus, the unit was transferred to UKTI. Supacat's recent experience is, that having found its feet within UKTI, the organisation is again performing a valuable role in assisting industry to developing export business. DSO's mission statement describes its role as "**Helping UK companies to export**"<sup>1</sup>.

Supacat has had a number of successful interactions with the DSO. A growing joint venture for the development of a new military vehicle with an Indian company resulted directly from a DSO sponsored business case, which in turn was identified through DSO market research. There has also been strong support during the development of our Australian operations and the UKTI contacts within the UK embassy have been active in promoting Supacat within Australia and the region.

In my experience, the way in which the DSO goes about its business is in stark contrast to that of the United States Defense Security Cooperation Agency (DSCA), which acts as a government to government contracting agency and which directly manages (and restricts) the export of US product through its Foreign Military Sales program, largely leaving the marketing of products to the companies themselves. This difference is highlighted by the traditional appointment of the head of the DSO of an industry executive, where the current structure has a former BP executive as the head of the DSO supported by a serving two star officer. By contrast the DSCA is headed by a serving three star officer, supported by a civilian Department of Defence deputy director.

### **Australia Defence Exports**

Having been involved with the Team Australia marketing efforts within Defence in the early 2000's as a senior manager with GKN Aerospace and having had considerable success with the JSF program, I have seen at first hand the benefit of government sponsorship of its defence industry. The support of the Australian government provides an instant level of credibility and implied support. The participation of defence staff and in particular, uniformed staff, provides credibility to the product.

At that time we had, as a nation, some distinct advantages at the Tier 1 level. Experienced resource (from a recently defunct prime aerospace base), the ability to attract skilled labour from overseas, well trained and flexible

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<sup>1</sup> UK Trade and Investment Defence and Security Organisation: *helping UK companies to export*

graduates and a relatively low currency valuation meant that at GKN we were able to grow a work force of 250 engineers exporting engineering services. I understand that the Global Supply Chain program was the follow on from these early successes and although I have no direct experience of this program, it appears a sensible approach to follow.

The table at right provides an understanding of Australia's current position with regard to defence exports and imports. It is clear, that relative to our defence spend we are both poor exporters and excellent importers.

Export Rank	Country	Export	Import	Total Mil Spend	Export % of Mil Spend	Import % of Mil Spend
		2008-2012	2008-2012	2008-2012		
1	USA	70,461	8,719	3,450,726	2.0%	0.3%
2	Russia	61,220	1,406	381,446	16.0%	0.4%
3	Germany	17,259	3,452	243,029	7.1%	1.4%
4	France	13,993	3,452	326,037	4.3%	1.1%
5	China	11,244	13,020	675,867	1.7%	1.9%
6	UK	8,695	4,402	310,400	2.8%	1.4%
7	Spain	7,023	2,386	78,556	8.9%	3.0%
8	Italy	5,497	1,587	193,420	2.8%	0.8%
9	Ukraine	5,371	4,402	310,400	1.7%	1.4%
10	Israel	4,688	2,352	77,826	6.0%	3.0%
11	Netherlands	4,651	1,561	58,715	7.9%	2.7%
12	Sweden	4,524	988	32,026	14.1%	3.1%
13	Switzerland	2,492	988	24,991	10.0%	4.0%
14	Canada	2,158	2,185	113,249	1.9%	1.9%
15	Norway	1,298	3,689	35,524	3.7%	10.4%
16	South Korea	1,275	11,357	150,915	0.8%	7.5%
17	South Africa	1,204	1,942	22,789	5.3%	8.5%
18	Uzbekistan	1,091	8,719	Data not available		
19	Belgium	1,042	938	28,872	3.6%	3.2%
20	Belarus	849	938	3,590	23.7%	26.1%
21	Brazil	666	2,480	177,632	0.4%	1.4%
22	Australia	632	9,060	130,667	0.5%	6.9%
23	Poland	564	1,944	45,924	1.2%	4.2%
24	Turkey	411	6,727	85,966	0.5%	7.8%
25	Finland	383	3,452	18,664	2.1%	18.5%

Source: SIPRI Arms Transfers Database | All values USD '000,000 @ 2011 values

Each country's relationship between its defence forces and defence industry are different and reflect the different histories and cultures of those countries. Countries approach to their defence industries range from the USA with a "Our defense industrial base ... as a national strategic asset"<sup>2</sup> approach to the French / German / UK approach of "defence sales underpin long-term strategic partnerships"<sup>3</sup> to the Australian industrial approach of "ensure that the Australian Defence Force (ADF) receives the materiel, systems and support it requires on a value for money basis"<sup>4</sup>.

### Future Approach

There are a number of reasons to actively support the growth of Defence Exports by Australian companies.

- As Australia's focus turns more closely to the region and the withdrawal from operations in the Middle East continues, our focus on ASEAN could include not just a military alignment but a projection of soft power by utilising the Australian defence industry in the provision of both products and services to the region.
- Australia is, from a simple economic point of view, underweight in defence exports. A simple target of reaching parity with our Western European counterparts would require a five to tenfold increase in exports.
- The economic reality, since the days that Team Australia was created, has changed. Our economic strength, relative to the rest of the world, makes our roles as Tier 1 and 2 manufacturers and exporters of services far more difficult. The growth of national competitors, such as India and China, into those roles has significantly weakened our position at Tier 1 and 2. Australia needs to be able to compete at a prime contractor level.

<sup>2</sup> Deputy Defense Secretary William J. Lynn III address at Defense and Aerospace Conference, New York, May 11, 2011

<sup>3</sup> Select Committee on Soft Power and the UK's Influence – First Report - Persuasion and Power in the Modern World

<sup>4</sup> Aim of the Defence and Industry Policy Statement (DIPS) 2010. <http://www.defence.gov.au/dmo/id/aic/>, July 2014.

There is considerable economic and diplomatic value in supporting Australian companies who can sell products and services into the region (and further afar) at a prime/OEM level. However, this requires government-to-government interaction and the existence of a strong, successful and sales-orientated defence export agency would be influential in making this happen. Australia already has products and services that are exportable, obvious examples being land vehicles, ship integration and PIC capabilities.

The support that these companies require is in facilitating sales rather than facilitating administration. The greatest benefit is to be gained through introductions, market knowledge, knowledge of programs and acting as a conduit for that information to Australian industry. The benefit of a government defence export agency is that it brings the credibility of the Australian government who are active users of the products and services. The strongest sales agents are military users who can recommend products and services to their counterparts in friendly forces.

Apart from directly supporting Australian companies selling their own products and services to the global market, a pro-active defence export agency may well encourage global companies to leverage their Australian offices to lead the marketing and selling into the Asia Pacific region of products and services that are active in Australia.

The current relevant agencies are currently represented through the Defence Export Control Office (DECO) which administers export control and the Defence Export Unit / Australian Military Sales Office (DEU/AMSO). The DEU/AMSO being the most relevant to the topic explored in this submission.

### ***Recommendations***

The following recommendations are offered regarding the DEU/AMSO.

- The DEU/AMSO be set a target of increasing Australian defence exports to reach parity with our Western European counterparts relative to our gross military spend.
- The DEU/AMSO adopt an approach similar to the DSO, by focusing on the facilitation of sales through activities such as introductions, market knowledge, knowledge of programs and acting as a conduit for that information to Australian industry.
- The DEU/AMSO exploit existing industry capabilities at the prime/OEM level as well as Tier 1 & 2 levels.
- The DEU/AMSO utilise Defence's most powerful sales agents, being the existing uniformed users, alongside local military attaches and Austrade in generating opportunities.

Michael Halloran  
Managing Director  
Supacat Pty Ltd