



Australian Government
Department of Defence

DEFENCE **EXPORT** **STRATEGY**

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DEFENCE EXPORT STRATEGY



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Ministers' Foreword

We are pleased to release the first Australian Government Defence Export Strategy.

A strong, resilient and internationally competitive Australian defence industry is essential to our national security. As we implement the largest renewal of Australia's defence capability since the Second World War, we are building the defence industry we need for the future. The capability we are growing and nurturing within our defence industry to design, build, integrate, sustain, and support our defence capability will also underpin our export success.

While we are making a \$200 billion investment in our defence capability over the next decade, the Government recognises that Australian industry cannot sustain itself on the needs of the Australian Defence Force alone. New markets and opportunities to diversify are required to help unlock the full potential of Australian industry to grow, innovate, and support Defence's future needs. Exports will provide our defence industry with greater certainty of future investment and support high-end manufacturing jobs for Australians for generations to come.

Australian industry continues to enjoy considerable success overseas. The Government believes that, over time, Australia can become a major defence exporter. Our Strategic Goal over the next decade to 2028 is to **achieve greater export success to build a stronger, more sustainable and more globally competitive Australian defence industry to support Australia's Defence capability needs**. In support of this Strategic Goal, our ambition is to achieve the following five Objectives by 2028:

- ▶ strengthen the partnership between the Australian Government and industry to pursue defence export opportunities;
 - ▶ sustain Australia's defence industrial capabilities across peaks and troughs in domestic demand;
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- ▶ enable greater innovation and productivity in Australia's defence industry to deliver world-leading Defence capabilities;
- ▶ maintain the capability edge of the Australian Defence Force and leverage Defence capability development for export opportunities; and
- ▶ grow Australia's defence industry to become a top ten global defence exporter.

The Defence Export Strategy is our plan for how we will realise this ambitious vision. The Government is committed to partnering with Australian industry to pursue and secure export opportunities. The Strategy recognises that the Australian Government's support for exports must be balanced within our broader national interests. We will continue to ensure that our export efforts are consistent with maintaining the Australian Defence Force's warfighting advantage, including in how we manage sensitive Australian technologies.

The Strategy provides \$20 million in additional annual funding from 2018–19 to support Australia's defence exports. Our integrated approach includes increased investment in existing export support programs as well as new initiatives in Australia and a greater presence overseas to pursue defence export opportunities. At the same time, we will take a more systematic approach to identifying and facilitating defence export opportunities from early stage innovation through to capability acquisition, in-service management, and disposal. Through the establishment of a new Australian Defence Export Office, we will provide a focal point across the Australian Government for coordinating and delivering the Strategy, partnering with the Centre for Defence Industry Capability.

Together with our strengthened Australian Industry Capability Program, the Centre for Defence Industry Capability, Defence's new Innovation System and the upcoming Defence Industrial Capability Plan, the Defence Export Strategy represents the next step in the Government's approach to transforming Australian defence industry into the high-tech, agile and cutting-edge industry we need to assure our future defence and national security.

We look forward to working together to deliver the Defence Export Strategy.



The Hon Christopher Pyne MP
Minister for Defence Industry



Senator the Hon Marise Payne
Minister for Defence

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F-35A Lightning II

► Chapter 1 – A new approach to exporting defence capability

Achieving a stronger and more resilient Australian defence industry

- 1.1. Australian defence industry is essential to the operations of the Australian Defence Force (ADF) today and to the development of the force for tomorrow. Australia's defence industry draws on capabilities from sectors such as advanced manufacturing, renewable energy, mining, electronics, medical, space, information and communication technology, and cyber security. Export successes in the defence industry have the potential to be an economic force-multiplier, generating opportunities in adjacent sectors in the Australian economy. Working together, the Australian Government and defence industry can develop export opportunities to deliver strategic advantage and economic prosperity for Australia.
- 1.2. The Government is investing \$200 billion over the next decade in a more potent, agile, and capable ADF, supported by a stronger, more resilient, and innovative defence industry. The Government's investment in Defence capability and proactive defence industry policies will deliver significant opportunities for Australian industry. Australia's defence industry in 2028 will be much larger, more diversified, and more capable of supporting the ADF than today. The capability that the Government is building within Australia's defence industry to support the ADF will provide a strong foundation to grow Australian defence exports. In turn, defence exports can help ensure the sustainability and resilience of Australia's industrial base to meet Australia's Defence capability needs, and broader national economic goals.

- 1.3. Australia's defence industry is already achieving export success. From platforms such as Thales Australia's Bushmaster Protected Mobility Vehicle, to advanced technologies such as the CEAFAR Active Electronically Scanned Array, the Nulka active missile decoy, and REDWING counter improvised explosive devices, to Small to Medium Enterprises (SMEs) in the supply chain of the F-35 Joint Strike Fighter program, Australian industry has the proven ability to develop world-leading capabilities that not only support the ADF, but are sought after globally.
 - 1.4. Major defence exporting nations, such as the United States, the United Kingdom, France, Germany, and Italy are at the forefront of advanced manufacturing, innovation, and productivity. Their industries also have the strong support of government, enabling them to secure global success more frequently. The Government intends to develop Australia's defence export potential to enable Australian industry to grow, innovate, and enhance Australia's Defence capability. This will require a comprehensive approach which capitalises on the Government's investment in Defence capability and draws upon all of the levers available across government and industry.
 - 1.5. Global opportunities also carry global responsibilities. Defence exports affect Australia's national interests and can contribute to supporting security and stability, both regionally and globally. As a responsible global actor, Australia is committed to fulfilling its international obligations and maintaining a robust defence export controls system to ensure Australia continues to export responsibly.
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Purpose of the Defence Export Strategy

- 1.6. The Defence Export Strategy (the Strategy) is part of the Government's defence industry policy to deliver the Defence capability necessary to achieve the strategy set out in the *2016 Defence White Paper*. The *2016 Defence Industry Policy Statement* laid out the Government's plan to reset the Defence-industry relationship and establish Australian defence industry as a Fundamental Input to Capability.

Australian defence industry consists of businesses with an Australian Business Number who are providing or have the capacity to provide defence-specific or dual-use goods or services in a supply chain that leads to the Australian Department of Defence or an international Defence force.¹

Australian defence exports are any defence-specific or dual-use goods or services exported by Australian defence industry, including as part of a supply chain, that are intended for a defence or national security end-user.

- 1.7. The *2016 Defence Industry Policy Statement* recognised that enabling better access to global markets for Australian defence industry not only makes economic sense—it makes strategic sense in building the capability, skills, and resilience of industry to fulfil its role of supporting Defence capability. The Strategy builds on the *2016 Defence Industry Policy Statement* by setting out a comprehensive system to plan, guide, and measure defence export outcomes.

¹ Australian defence industry includes New Zealand entities consistent with the Australia-New Zealand Closer Economic Relations Agreement. However, Australian defence exports are limited to exports connected with Australian businesses.

- 1.8. The Strategy will complement the forthcoming Defence Industrial Capability Plan. The Defence Industrial Capability Plan will describe the Government's roadmap to grow Australia's defence industrial base over the next decade. The Defence Industrial Capability Plan will also define sovereignty in the defence industry context, and introduce an initial list of Sovereign Industrial Capability Priorities.
 - 1.9. Exports will be a key element of the Defence Industrial Capability Plan's vision for a sovereign Australian defence industry. The Defence Export Strategy provides export-specific policies and initiatives to implement the Defence Industrial Capability Plan and support the Sovereign Industrial Capability Priorities.
 - 1.10. Through the *2016 Integrated Investment Program*, the Government plans to invest \$200 billion over the next decade in a more potent, agile and capable ADF. Through the Australian Industry Capability Program, the Government is maximising opportunities for competitive Australian industry to support the delivery of Defence's major capital equipment and to develop the long-term industrial capability to meet Defence's needs. The *2016 Integrated Investment Program* and the Australian Industry Capability Program will play a key role in developing the export potential of Australia's defence industry.
 - 1.11. The modernisation of Australia's Defence capability will be accompanied by increased demand for Australian workers with the trade, technical and science and technology skills to supply and support the ADF. The Government is helping to grow the defence industry workforce through a number of initiatives, including establishing a Naval Shipbuilding College and developing a long-term Defence Industry Skilling and Science, Technology, Engineering and Mathematics (STEM) Strategy. These initiatives will ensure Australian defence industry has a workforce with the right skills to meet future capability requirements and help build the export potential of Australian defence industry.
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- 1.12. The Strategy is also aligned with the *2017 Foreign Policy White Paper*. The Strategy recognises that the Government can do much more in ensuring Australia’s defence export posture is not only successful, but sustains Australia’s industrial capabilities and supports its global interests and obligations. The policies and initiatives set out in the Strategy provide the framework for collaboration between Australian defence industry and all levels of government to enable better access to global markets and sustained growth in exports over the next decade.

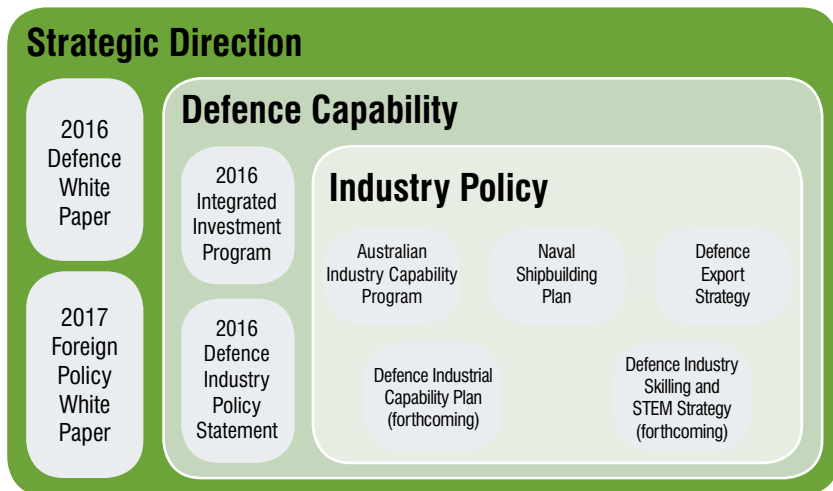


Figure 1: The defence industry policy agenda

- 1.13. As part of the Government’s vision for Australian defence industry to 2028, the Strategic Goal for defence exports is to: *Achieve greater export success to build a stronger, more sustainable and more globally competitive Australian defence industry to support Australia’s Defence capability needs.*

- 1.14. In support of this Strategic Goal, the Government has set five Objectives for the development of defence exports by 2028:
- ▶ strengthen the partnership between the Australian Government and industry to pursue defence export opportunities;
 - ▶ sustain Australia's defence industrial capabilities across peaks and troughs in domestic demand;
 - ▶ enable greater innovation and productivity in Australia's defence industry to deliver world-leading Defence capabilities;
 - ▶ maintain the capability edge of the ADF and leverage Defence capability development for export opportunities; and
 - ▶ grow Australia's defence industry to become a top ten global defence exporter.
- 1.15. The Government recognises that becoming a top ten global defence exporter will be challenging and ultimately depends upon the actions of industry. This target is a clear signal of the Government's ambition and its willingness to work with Australia's defence industry to strive for new levels of success.
- 1.16. The Government understands that the approach to defence exports must be methodical, holistic and supported by the necessary resources. The Strategy provides a clear path to establish an export system that strikes the right balance between Australia's foreign and strategic policy interests, Defence's capability needs, and industry growth.
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1.17. The Strategy is structured in four parts:

▶ **A strategic approach to defence exports**

Defence exports affect Australia's broad national interests in terms of strategic interests, Defence capability, foreign policy and economic prosperity. Chapter 2 articulates a coordinated and transparent approach to balancing these complex considerations in order to maximise export opportunities and mitigate risks.

▶ **Understanding the global defence market**

Export success depends on matching global demand with competitive Australian industry capability. Chapter 3 outlines the global defence market landscape, assesses Australia's defence export performance, and identifies future opportunities.

▶ **Establishing the new defence export system**

Defence exports must be industry led, but the Government recognises that it has an important role to play supporting Australian defence industry to achieve success internationally. Chapter 4 outlines a new defence export system to provide end-to-end support through the export process. At the centre of the defence export system is a dedicated Australian Defence Export Office. Chapter 4 details the initiatives the Government will deliver to help achieve the Strategic Goal and Objectives of the Strategy.

▶ **Implementing defence export success**

Building an export oriented defence industry will not happen overnight; there needs to be sustained and concerted effort to make this vision a reality. Chapter 5 sets out how the Government will measure and review success of the Strategy.

Establishing the new defence export system

- 1.18. The policies and initiatives in the Strategy work collectively to establish a new defence export system. The Strategy brings together all of the levers available to government and industry to provide end-to-end support for defence exports, from building export readiness, to identifying export opportunities, and ultimately realising export outcomes. The initiatives which will drive change under the Strategy are detailed in Chapter 4 across four streams:
- ▶ **Enabling export success:** setting up strengthened organisational structures and effective coordination mechanisms that will support defence exports, and ensure linkages with Defence's robust export regulatory functions.
 - ▶ **Building export readiness:** expanding support to help capable Australian businesses become export ready and ensuring that Defence is postured to maximise the export potential of Defence capability.
 - ▶ **Identifying export opportunities:** implementing a strategic approach to identifying and targeting export opportunities.
 - ▶ **Realising export outcomes:** boosting investment in people and programs to help open doors for Australian industry overseas.
- 1.19. At the centre of this integrated system, the Government will establish a new Australian Defence Export Office within the Department of Defence in the first quarter of 2018. The Office will provide an enduring advocacy, market intelligence, and Government-to-Government sales capability. The Office will also provide a focal point for Australian defence exports and coordinate international engagement. The Office will be supported by the Australian Defence Export Advocate who will undertake senior-level advocacy and stakeholder engagement to support defence exports.
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- 1.20. The Strategy directs expertise and resources from across the Australian Government to support Australian defence exports. The Centre for Defence Industry Capability will continue to be the front door for industry to Defence and provide business advisory services and grants to help Australian businesses better position themselves for export opportunities. Austrade will further enable Australian defence industry to access global markets by identifying export opportunities and supporting businesses overseas. The Export Finance and Insurance Corporation (Efic) will assist Australian defence industry to access financing solutions for their exports. The Australian Defence Export Office will work closely with Australian Government agencies, industry, and State and Territory governments to deliver the Strategic Goal and Objectives set out in the Strategy.
- 1.21. In addition to establishment of the Australian Defence Export Office and Australian Defence Export Advocate, the key initiatives to be delivered under the Strategy include:
- ▶ Developing a strong defence market intelligence capability and implementing strategic multi-year campaigns for priority markets and capabilities, including expanded trade shows and targeted trade missions, supported by an additional \$6.3 million per annum from 2018–19;
 - ▶ Sustaining and expanding the Global Supply Chain program with an additional \$3.2 million per annum from 2018–19 to help more Australian SMEs to access the supply chains of global primes;
 - ▶ Supporting Australian SMEs to seek new opportunities, including an additional \$4.1 million per annum from 2018–19 for grants to help build the capability of SMEs to compete internationally;
 - ▶ Establishing a dedicated mechanism for Efic to refer applications for defence export finance worth up to \$3.8 billion to be written on the National Interest Account;

- ▶ Establishing a Memorandum of Understanding between the Australian Defence Export Office and Austrade to deliver enhanced and integrated support for defence exports;
 - ▶ Establishing local industry experts in key markets to provide advice and support for Australian defence exports;
 - ▶ Prioritising high-level advocacy for Australian defence exports by the Australian Government;
 - ▶ Leveraging Defence capability, innovation, and people to support Australian defence exports;
 - ▶ Protecting Australia's sensitive technology and intellectual property from cyber and other security threats; and
 - ▶ Establishing a Defence Export Forum to bring together stakeholders and coordinate export advocacy efforts.
- 1.22. This holistic approach will equip government and industry to effectively navigate the global defence market throughout the export process and across the spectrum of industry opportunities. Achieving greater defence export success will be a shared undertaking between government and industry; government will create an environment to improve industry access to a great range of export opportunities, but it is up to industry to take the commercial initiative to develop the opportunities, make the investment decision, and pursue export success.
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Bushmaster Protected Mobility Vehicle.

► Chapter 2 – A strategic approach to defence exports

Defence export controls

- 2.1. It is essential to have an efficient and rigorous export controls framework that allows Australian industry to export responsibly, while remaining competitive. The Australian Government takes a case-by-case approach to assessing the export and transfer of military and dual-use goods and technology and strives to provide prompt decisions to applicants. The Australian Government will continue to ensure that defence exports do not prejudice Australia's security, defence or international relations and are consistent with Australia's international obligations and commitments.

Defence export strategic framework

- 2.2. Defence exports touch Australia's national interests across a number of complex national security and economic policy areas, including Australia's strategic interests, Defence capability, foreign policy, and economic prosperity.
- 2.3. While these interests are generally mutually supportive, there will be instances where they pull in different directions. Setting out a clear strategic framework for defence exports will ensure that industry understands the Government's approach to implementation of the Strategy.

Strategic Interests

- 2.4. Defence exports have the potential to cause serious harm if they fall into the wrong hands or are used for the wrong purpose. Australia's export controls system ensures that the trade of military and dual-use goods and technology is consistent with Australia's national interests and international obligations. Maintaining the capability edge of the ADF is a key priority and the protection of the sensitive technologies that underpin the ADF's advantage is essential.
 - 2.5. Australia is a strong supporter of international efforts to prevent the proliferation of conventional weapons and goods and services which could contribute to terrorist activities or weapons of mass destruction programs. Australia is also an active member of international arms controls treaties and multilateral export control regimes.
 - 2.6. Defence exports must also be consistent with Australia's role in promoting security and stability, both regionally and globally. Australia is firmly committed to the ongoing promotion and protection of human rights. This commitment reflects national values that are deeply embedded in Australian society and underpin the way we engage with the international community.
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Defence Capability

- 2.7. Australian industry is a Fundamental Input to Capability. Exports can help build the defence industrial base needed to deliver future capability, including the Sovereign Industrial Capability Priorities to be announced in the Defence Industrial Capability Plan. Exports support a more sustainable and competitive Australian defence industrial base by levelling out peaks and troughs in Defence demand and generating economies of scale. This will ultimately reduce the cost of capability acquisition and sustainment for Defence.
- 2.8. Exports expose Australian industry to new benchmarks, technologies and processes which drive innovation and productivity and help to build industry capability. Exports also provide opportunities to enhance ADF interoperability with international partners and to build the defence capability of Australia's neighbours.
- 2.9. The Government's \$200 billion investment in modernising Australia's Defence capability over the next decade will create export opportunities for new and enhanced capabilities developed by Australian industry. Defence support for defence exports will be calibrated to its Defence capability and industry capability priorities. Defence has no role in assisting Australian industry to reduce their international offset obligations in realising export opportunities.

Case Study Ferra Engineering – An Australian SME moving up the value chain

Ferra specialises in the design, manufacture and test of defence and aerospace sub-assemblies, and now delivers products for air, land and sea. Since shifting from automotive parts to the aerospace market in 2002, Ferra has grown to become a globally integrated business supplying a number of prime companies, with facilities in Australia, India, the United Kingdom and the United States.

Securing work on the F-35 Joint Strike Fighter program has been central to Ferra's success. Ferra now produces around 100 components for the program, including being the sole source supplier of Alternate Mission Equipment Weapon Adapters for the worldwide fleet of F-35 Lightning II aircraft. Ferra has also won work through the Global Supply Chain program, including Thales' tactical navigation radar system for submarines, and the Joint Direct Attack Munition Extended Range Wing Kit (JDAM ER) for Boeing.

Headquartered in Brisbane, exports account for around 85 per cent of Ferra's production in Australia. Ferra has grown its staff by approximately 20 per cent over the past five years, with 55 jobs currently located in Australia. Ferra's Australian-based supply chain now includes approximately 30 businesses, supporting growth across the Australian defence industry.

Foreign Policy

- 2.10. Australian defence exports make a tangible contribution to the security of other countries and are a highly valued form of cooperation, which can enhance Australia's international relationships. However, care is required to ensure that the pursuit of defence exports is consistent with Australia's broader interests in the relationship and does not compromise Australia's relations with third party countries.
- 2.11. Australia promotes international peace and security through implementation of sanctions imposed by the United Nations Security Council. Australia also imposes autonomous sanctions regimes to support Australian foreign policy objectives. It is also important that defence exports do not undermine international security. Australia is committed to international non-proliferation, disarmament and arms control regimes, including the Arms Trade Treaty, the United Nations Programme of Action on Small and Light Weapons, the United Nations Conventional Arms Register, the Wassenaar Arrangement, the Nuclear Suppliers Group, the Missile Technology Control Regime and the Australia Group.

Arms Trade Treaty

Australia ratified the Arms Trade Treaty in June 2014. The key obligations in relation to exports are:

- ▶ Article 6 prohibits a number of conventional arms exports linked to United Nations and other international obligations.
- ▶ Article 7 requires an assessment to be undertaken of possible negative consequences in relation to human rights, terrorism, peace and security, and transnational organised crime. If the assessment identifies that there is an overriding risk of any of the negative consequences identified in Article 7, Australia is obliged to reject the export application.

Australia rigorously implements its Arms Trade Treaty obligations, which are an important part of the assessment process for defence export applications.

Economic Prosperity

- 2.12. Exports provide opportunities for competitive Australian businesses to tap into new markets and grow their business. As these businesses grow, they generate new and sustained jobs for Australians and demand within their supply chains, providing economic benefit to their communities and the broader Australian economy.
- 2.13. As more Australian defence exports enter the market, global appreciation for the capabilities of Australian industry grows and foreign firms seek to invest directly into the Australian industrial base. The diversified nature of many global primes will also create opportunities for Australian industry in sectors adjacent to defence, such as mining and infrastructure.
- 2.14. The global defence market is highly competitive and can be difficult to navigate, especially for smaller businesses. Exports can also present challenges such as protecting intellectual property and meeting international standards. While there is a role for government in enabling Australian industry to access export opportunities, it is ultimately industry that must strive for export success.

Innovation in Defence Industry

Innovation is critical to maintaining the ADF's capability edge and is central to the Government's vision for the nation. Innovations within Australian industry that support Defence capability can be carried over into the broader Australian economy, driving a competitive and sustainable Australian industrial base and increasing potential for defence exports. This approach to innovation in the defence sector complements the Government's broader *National Innovation and Science Agenda*.

The *2016 Defence Industry Policy Statement* set out Defence's new approach to innovation:

- ▶ The Next Generation Technologies Fund is a forward looking program that will invest around \$730 million over a decade focusing on research in emerging and future technologies for the "future Defence force after next".
- ▶ The Defence Innovation Hub will invest around \$640 million over a decade in maturing and further developing technologies that have moved from the early science stages into the engineering and development stages of the innovation process.

Over the long-term, this integrated drive for innovation will have the potential to offer game-changing capabilities that may be adopted by Defence, and also provide Australian industry with the basis for new export opportunities in both defence and commercial markets.

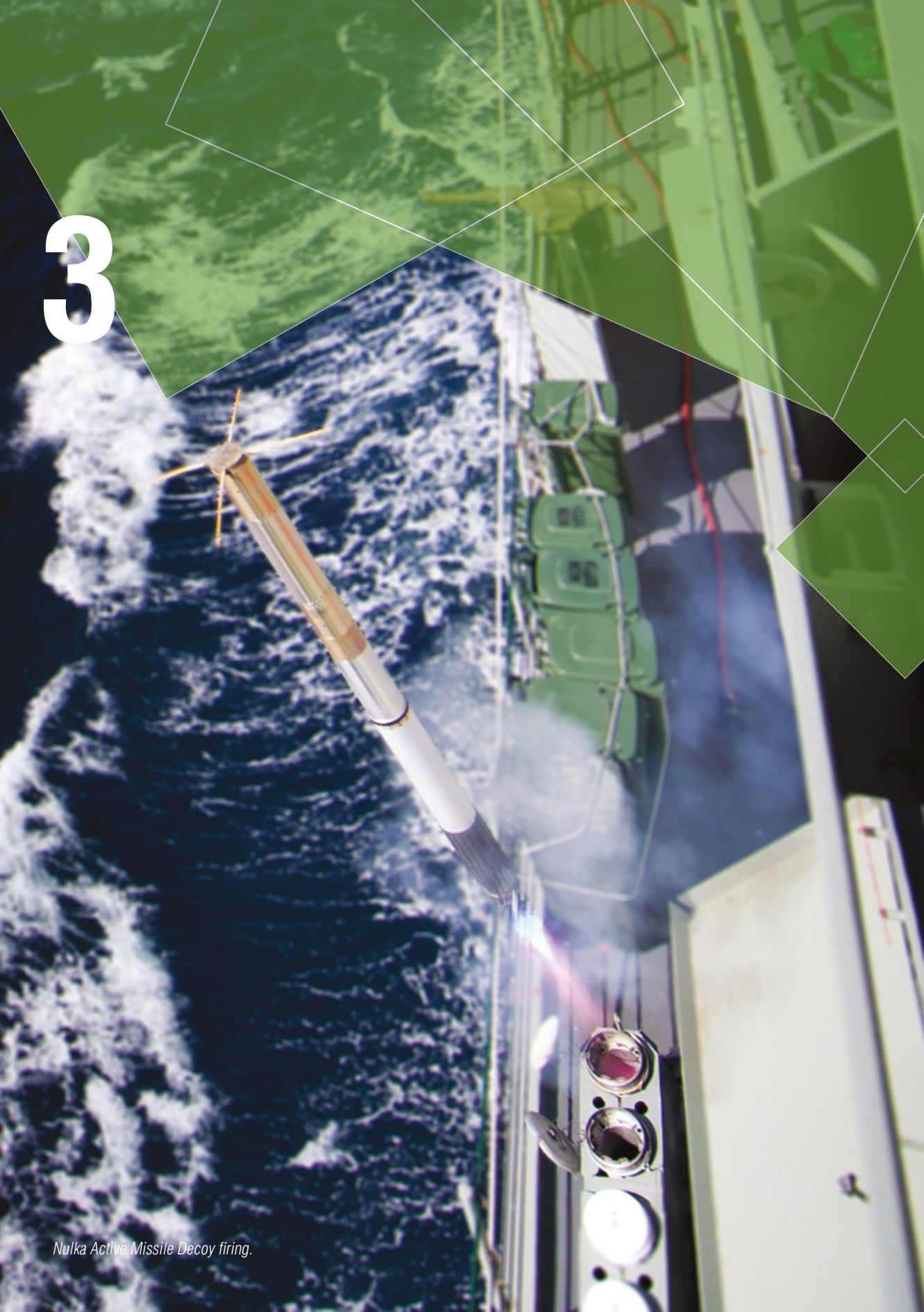
For more information on Defence innovation visit the Defence Innovation Portal at www.business.gov.au/centre-for-defence-industry-capability/defence-innovation-portal

Defence export principles

2.15. There is no formula that defines how a particular defence export will impact Australia's national interests and each export opportunity must be considered on a case-by-case basis. However, there are a number of common principles that Australian industry and government can apply to reduce uncertainty and support export success:

- ▶ The pursuit of defence exports is a joint endeavour between Australian industry and government. While exports must be industry led, government can provide support.
- ▶ Australian defence exports will be driven by the commercial considerations of industry. Australian Government support will be guided by the strategic framework in Chapter 2, the priority markets identified in Chapter 3, and the defence export system outlined in Chapter 4 of the Strategy.
- ▶ Australia's export controls system ensures that defence exports are consistent with Australia's national interests and international obligations and commitments.
- ▶ Coordination across Australian Government agencies and with State and Territory governments ensures that defence exports are aligned with broader policies and priorities for maximum impact.
- ▶ Consultation and cooperation between the Australian Government and industry leverages their respective resources to support defence export success.

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Nulka Active Missile Decoy firing.

► Chapter 3 – Understanding the global defence market

Global defence markets

- 3.1. Global defence expenditure has experienced a gradual recovery since 2014 following a contraction in the wake of the Global Financial Crisis. While the global economy remains fragile, economic and fiscal conditions have improved and will likely enable further increases in defence expenditure. Annual growth in global defence spending is expected to be sustained at rates of around two per cent between 2017 and 2026.²
- 3.2. North America continues to dominate the global defence market. However, robust growth in the Asia-Pacific and Middle East regions over the past decade saw their share of global defence spending increase significantly to 26 per cent and 11 per cent respectively in 2016. While personnel costs are expected to continue to account for the largest share of global defence expenditure, procurement spending is expected to gradually rise as a proportion of the total as investment in technology increases.
- 3.3. The defence export market is competitive and complex. Overseas procurement processes can be protracted and non-transparent, and integrity risks remain a challenge in some markets. Many countries also implement offset programs that mandate local content when awarding large contracts. Australia views offset programs as protectionist measures that hinder the competitiveness of local industry and which can present potential barriers to export markets for Australian industry.

² Research undertaken by Jane's (IHS Markit) commissioned by the Department of Defence.

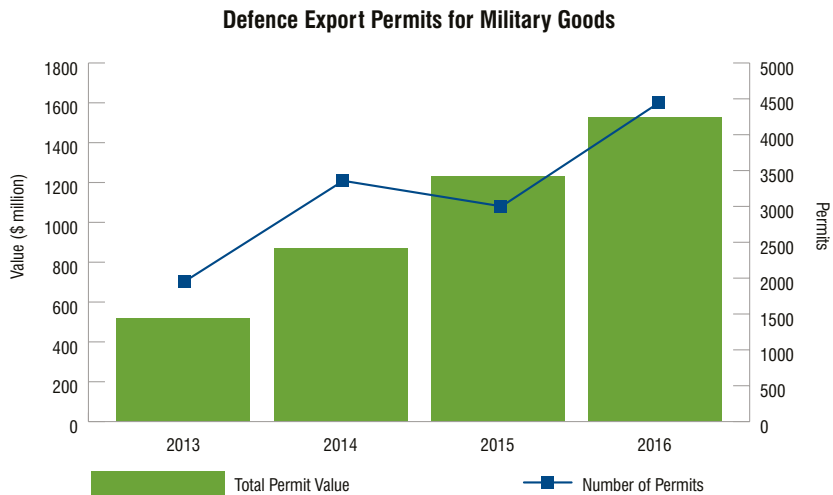
- 3.4. While Australia strongly supports the responsible trade of military and dual-use goods, services and technology, the complex regulatory regimes of other countries can present a challenge for Australian defence industry seeking to export. For example, the United States International Traffic in Arms Regulations can prevent or delay exported Australian sub-systems that are incorporated in United States weapon systems from being exported to third party countries.
- 3.5. Australia also places a high value on protecting its sensitive technologies and intellectual property. While the intellectual property regimes in Australia and other countries provide important protections, they can also raise complex legal, commercial and security questions for defence exporters.

Australia's defence exports today

- 3.6. The Australian defence industry is dominated by a small number of global primes, supported by a few sub-primes, and a wide base of SMEs. There are many great examples of export success across the spectrum of Australia's defence industry. However, a strong information baseline has not previously been established to comprehensively quantify Australia's defence exports. While there are several Australian Government data sources relating to defence exports, each of these reflects a particular regulatory or program function. The initiatives set out in Chapter 4 of this Strategy will provide a means to consistently measure Australian defence export performance in the future.
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Overall Australian Defence Exports

3.7. In 2016, Defence issued export permits for military goods valued at approximately \$1.5 billion.³ There has been consistent growth in export permits for military goods, with the value of permits issued increasing by an average 44 per cent annually over the past three years. While not every permit issued results in an actual export, it gives an indication of the increasing export awareness of Australia’s defence industrial base.



3 The value of the exports has been an optional field for exporters to complete when applying for an export permit. These figures reflect the yearly totals of values that were provided in export applications. This data also includes military-grade items that were exported for non-military end uses (e.g. military-grade laser range finders for mining applications) and items that were sent overseas for repair and subsequently returned to Australia.

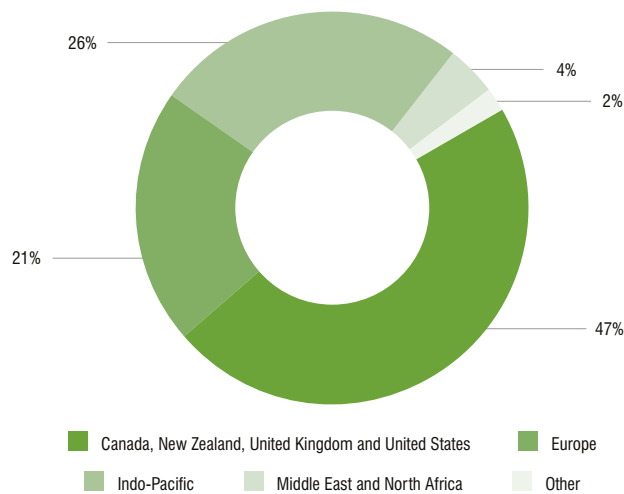
- 3.8. An analysis of around 2,700 businesses in Australia's defence industrial base, undertaken to support the development of the Defence Industrial Capability Plan, revealed that those businesses reported a total of \$7.65 billion dollars of exports in 2013–14.⁴ It is not possible to identify how much of this was defence related. Survey data about Australian businesses' volume of work directed towards Defence domestically suggests that the defence export component is likely to often be modest.⁵ Nonetheless, it is a powerful demonstration of the extent to which Australia's defence industrial base is looking outward and exporting already.
- 3.9. These indicators suggest that Australia's defence industry is currently achieving in the order of \$1.5 billion to \$2.5 billion in defence exports a year, acknowledging that large export contracts can significantly affect the total from year-to-year.
- 3.10. Australia is currently ranked 20th amongst the world's top defence exporters, according to the Stockholm International Peace Research Institute (SIPRI). However, this measure covers only "major weapons" and does not capture the inputs of technology and components produced by much of Australia's defence industrial base.

4 Research undertaken by the Australian Bureau of Statistics commissioned by the Department of Defence.

5 Analysis of information collected from the Defence Industrial Capability Survey conducted over December 2016 to February 2017.

3.11. Among the top 30 destinations for military good export permits issued by Defence between 2013 and 2016 by value, nearly half were for the United States, the United Kingdom, Canada and New Zealand. The Indo-Pacific region was Australia’s second largest destination market, with over a quarter of the value of the permits.

Export Destinations by Region 2013–2016*



*Based on top 30 destinations for military good export permits by value.

The Defence Primes

3.12. The major platform and system level capabilities delivered by prime companies have not generally formed a large part of Australia’s defence export profile. However, a number of significant export successes in recent years suggest that Australian defence industry is positioned to target more of these opportunities in the future.

- 3.13. Thales Australia has been a major export success story while supporting Australia's Defence needs. Over the past ten years, Thales has exported around \$1.6 billion of submarine sonars, air traffic control systems and vehicles. The battle proven Bushmaster Protected Mobility Vehicle is now operated by seven countries. Thales is also looking to leverage this strength into new export opportunities with the Hawkei Protected Mobility Vehicle. The Bushmaster and the Hawkei, both produced in Bendigo, will be leading contenders for a number of protected mobility vehicle programs around the world.
- 3.14. Austal is an Australian Stock Exchange listed global shipbuilder. Austal successfully exports both Australian manufactured defence vessels and Australian designs and engineering innovations to navies around the world.

Sub-primes and SMEs

- 3.15. Supporting Australia's prime companies are a number of sub-primes. Sub-primes have traditionally exhibited strong capabilities in system integration, software development and program management and supporting specialist engineering and manufacturing skills. Several Australian sub-primes are suppliers and integrators of parent company equipment and some are subsidiaries of large service industries engaged in infrastructure design and construction, or consulting services.
 - 3.16. The sub-prime segment of the Australian defence industrial base has enjoyed success exporting technology and sub-systems to support larger platforms and systems. CEA Technologies' CEAFAR Active Electronically Scanned Array is a world-leading technology that is currently in use by the Royal Australian Navy, and will soon be used by the Royal Australian Air Force and Australian Army. CEA is building on this success by exporting systems into programs with Australia's close partners.
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- 3.17. Supporting the primes and sub-primes are thousands of SMEs spread across Australia. Many of these SMEs are either supplying directly to foreign Defence forces or to global prime companies for integration into their platforms and equipment.

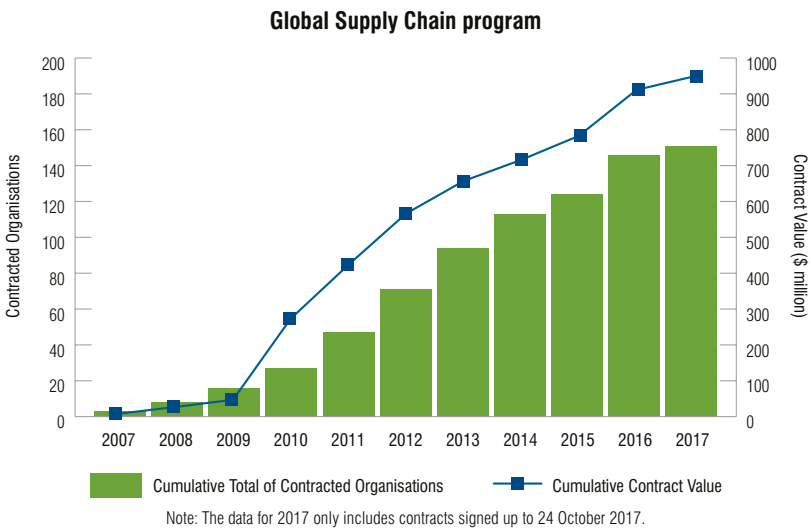
Exporting Services

The services sector is a critical element of Australia's defence industry. Services support Defence capability in a wide range of areas, including maintenance, repair and overhaul services, base support and logistics support services, health and education services, professional advisory services and many more. Services are also a major Australian export, valued at \$71 billion and accounting for over a fifth of Australia's total exports in 2016.⁶ Supporting service exports is central to the Strategic Goal and Objectives of the Strategy.

- 3.18. Export permit data indicates that between 2013 and 2016, the top five categories of approved permits for military exports by value were: electronic equipment; military technology; military parts and components; target acquisition, range finding, surveillance or tracking systems; and military software.

⁶ Source DFAT publication *Composition of Trade Australia 2016*.

3.19. The Global Supply Chain program has attracted international attention for its ability to leverage opportunities for SMEs in the supply chains of the global primes in both military and civil markets. The program requires participating primes to identify and award contracts to competitive SMEs and to provide firms with mentoring, advocacy and training. As of October 2017, almost \$950 million of contracts had been awarded to 151 Australian businesses since the Global Supply Chain program was first trialled in 2007. The program is based on the commercial needs of the prime companies and assists competitive Australian businesses to grow and become long-term strategic suppliers.



- 3.20. Australia's participation in cooperative programs such as the F-35 Joint Strike Fighter has opened-up supply chain and sustainment opportunities for Australian industry. As at December 2016, over 50 Australian firms had directly shared in more than \$800 million in production contracts adding an estimated 2,400 jobs to the Australian economy. Australia has been competitively selected to provide maintenance, repair, overhaul and upgrade for F-35 Lightning II components in our region. Australia has also been assigned the role of Asia-Pacific Regional Warehouse by the United States Government, which BAE Systems Australia estimates will be worth \$300 million.
- 3.21. The Team Defence Australia initiative has provided Australian defence industry with international exposure through tradeshow and targeted trade missions. Businesses participating in Team Defence Australia activities have had success through direct sales, developing global networks and engaging key decision-makers. While it can take time for these export opportunities to mature, participants in Team Defence Australia events between 2011 and 2016 attributed over \$140 million of potential exports to their involvement in the initiative.

Case Study EM Solutions – Seamless supply chain integration

EM Solutions is a supplier of satellite communications components and has become an integral part of the Thales supply chain.

EM Solutions was originally identified by Thales through the Global Supply Chain program. In 2012, EM Solutions was selected to provide key Ka band components for a satellite terminal being developed by Thales in France. Following this initial success, EM Solutions has continued to supply Thales with Ka band RF subsystems for a range of products for global customers.

EM Solutions' ability to make timely modifications to their commercial off-the-shelf products to suit Thales' specific customer requirements has been a key asset. In 2016, Thales and EM Solutions signed a framework agreement to streamline the process of ordering components. The relationship between EM Solutions and Thales has continued to evolve, and in 2017 EM Solutions started supplying Ka band RF subsystems to support a major commercial airborne connectivity project.

EM Solutions is also exporting its own specialist on-the-move communications terminals to a variety of prime contractors in markets in Asia, Europe, and the United States.

Government-to-Government sales and gifting

- 3.22. The Australian Military Sales Office within the Department of Defence manages Australian sovereign capability and military sales programs. The Australian Military Sales Office's functions include Government-to-Government arrangements for the transfer of surplus ADF equipment and the purchase of sensitive Australian defence-related technology. The Australian Military Sales Office also undertakes gifting of materiel to other countries.
- 3.23. These arrangements not only support Australian defence industry to export leading edge capability solutions, but make a direct contribution to ADF capability. Under the REDWING Program, the Australian Military Sales Office facilitated the sale of life-saving force protection systems to counter improvised explosive device threats to the Afghanistan defence and security forces. Over \$57 million in exports have already been achieved for Australian industry and demonstrate the ability of Australian industry to meet and exceed the challenges of high volume, time critical manufacturing.
- 3.24. The transfer of surplus ADF equipment, whether gifted or sold, also creates opportunities for Australian industry in refurbishment and future sustainment. For example, the transfer of five C-130H Hercules aircraft to the Indonesian armed forces resulted in a contract worth \$52.7 million for Airbus Group Australia Pacific Limited to refurbish the aircraft and transfer a C-130H simulator and large quantity of spares.
- 3.25. The Australian Military Sales Office's specialised role means that it is only involved in a relatively small number of defence exports, however, these are often high-value, multi-year transactions. The Indo-Pacific region represents over a third of the projects and inquiries handled by the Australian Military Sales Office, with Canada, New Zealand, the United States and the United Kingdom accounting for just over a quarter, and the Middle East and Africa region a fifth.

- 3.26. In February 2017, the Australian Military Sales Office released the Australian Military Sales Equipment Catalogue. The Catalogue provides information on ADF surplus equipment and Australian defence industry solutions across the air, land and sea domains for sale to foreign government customers. The Catalogue is expanding as a tool for showcasing potential export capabilities and options.

Export Trends

- 3.27. While there is no single statistic that captures the totality of Australian defence exports, the available sources support three general observations about Australia's current defence exports:
- ▶ Australian defence industry is already undertaking significant export activity, both for military and civil markets. The main destinations have been the United States, the United Kingdom, Canada and New Zealand, and Australia's neighbours in the Indo-Pacific region.
 - ▶ Most Australian defence exports are technologies, components and specialised products produced by SMEs, but Australian primes are positioned to target more platform or system level opportunities in the future.
 - ▶ Defence can open doors for competitive Australian defence companies to export through its relationships with the primes, participation in cooperative programs, support for trade shows, and Government-to-Government transfers.
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Case Study Thomas Global – Building innovative exports through ADF capability

Thomas Global is an industry leader in the design, production and support of innovative electronic systems solutions for aerospace and defence applications.

A combination of work for Defence and export opportunities has created a virtuous cycle for Thomas Global that has enabled it to expand, and develop innovative products and a skilled workforce. Defence contracts on F/A-18 Hornet, Seahawk Helicopter and Collins Submarine projects during the 1980s and 1990s laid the foundations for Thomas Global to build a successful business in avionics and military vehicle electro-optical systems.

The company now exports sophisticated visual technology to airlines, defence contractors and armed forces around the world. This has enabled the company to expand into a new facility in California to further develop export opportunities in the United States. Thomas Global also continues to support ADF capability, recently subcontracting to Thales on the successful delivery of nine upgraded Crew Procedural Trainer turrets for the ADF's Australian Light Armoured Vehicle.

Priority defence markets

- 3.28. The pursuit of defence exports is a commercial decision for Australian defence industry to make based on its own assessment of the opportunities and risks. The Australian Government is committed to supporting industry to achieve its export ambitions, but needs to prioritise its assistance where it can be most effective. In this context, the Australian Government has identified a number of priority markets for defence exports based on the strategic framework set out in Chapter 2, namely: strategic interests, Defence capability, foreign policy and economic prosperity. All defence exports to priority markets remain subject to the requirements of Australia's defence export controls system and are assessed on a case-by-case basis.
- 3.29. The pursuit of export opportunities is ultimately a commercial decision and these priority markets may not be appropriate for all Australian defence industry. The identification of priority markets does not prevent Australian industry from pursuing export opportunities outside of these markets. Nor is Australian Government assistance strictly limited to exports to these priority markets. However, the policies and initiatives set out in Chapter 4 of the Strategy to establish the new defence export system will be primarily directed towards supporting defence exports to these priority markets.
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The United States, the United Kingdom, Canada and New Zealand

- 3.30. These four countries represent Australia's highest defence export market priority. Not only can Australia's close defence relationships with these countries facilitate access for Australian defence industry, but enhanced defence exports will further strengthen those relationships by supporting enhanced defence capability and interoperability with these key partners. The Nulka active missile decoy round, developed and built in collaboration with the United States and used by the navies of Australia, Canada and the United States is one example of how defence exports can contribute to the capability of both the ADF and Australian defence industry.
- 3.31. The United States dominates the global defence market, including almost half of global spending on procurement and research and development in 2017. Access to the most advanced technology and equipment from the United States is central to maintaining the ADF's potency, with around 60 per cent of Australia's acquisition spending on equipment from the United States.⁷ The United Kingdom has the world's fourth largest defence budget as at 2017, and a mature, broad-based domestic defence industry. Australian defence industry has already demonstrated success in these markets, including through the supply chains of prime companies, and an increasing number of Australian defence companies are establishing a dedicated presence in the United States and the United Kingdom to realise available opportunities.

⁷ Source 2016 Defence White Paper, p. 122.

- 3.32. Competition from the sophisticated domestic defence industrial bases in these countries will make exports challenging. Australian industry will most likely achieve exports to these markets as part of the global supply chains of prime companies or in niche technologies or innovative solutions that complement the industrial capabilities of the other countries. Australia's inclusion in the definition of the United States' National Technology and Industrial Base, alongside Canada and the United Kingdom, provides an opportunity for these countries to integrate areas of their defence industries and build complementarity.

Case Study Birdon – Helping Australian SMEs set up overseas

Birdon, a family-owned marine engineering business, provides a diverse range of services including shipbuilding and repair, dredging, engineering and contracting, and asset disposal.

Following an extremely competitive tender process, Birdon was awarded a contract for the construction of up to 374 of its Series II Bridge Erection Boats for the United States Army, with a potential contract value of US\$261 million. This was the culmination of four years of design, tender submission, and prototype trials, based on Birdon's home-grown design originally delivered to the Australian Army.

Birdon needed to establish a new manufacturing facility in the United States to deliver this contract. Whilst Birdon's bank was supportive, they were confined geographically to dealing with Australian territories. Birdon approached Efic for support. Efic's guarantee helped fund the start-up operations to support the manufacture and delivery of the Bridge Erection Boats for the United States Army.

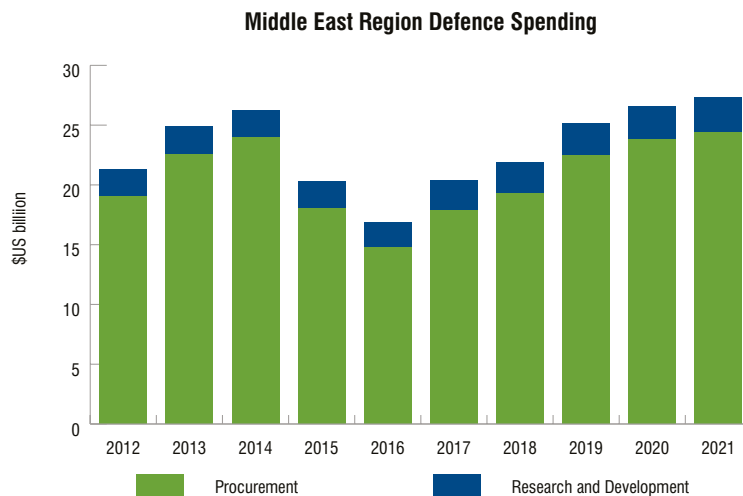
The Indo-Pacific Region

- 3.33. The Indo-Pacific region is a high priority market for Australian defence exports. Australia has strong strategic interests in the security and stability of its immediate region, which is home to some of the most rapidly developing economies. As the Indo-Pacific region grows in economic and strategic weight, Australian defence exports can contribute to building the capability of the region to respond to shared challenges.
- 3.34. Australia has the potential to become the regional defence industry hub for global primes over the next decade. Leveraging the Australian Government's investment in ADF capability, Australia is positioned to provide sustainment and support services across the region. For example, BAE Systems Australia has been notionally assigned to operate the Asia-Pacific Regional Warehouse for the F-35 Joint Strike Fighter program from Royal Australian Air Force Base Williamtown.
- 3.35. Japan and the Republic of Korea are strong economic, political and strategic partners for Australia. Both Japan and the Republic of Korea have sophisticated defence industrial bases and are members of the four main export control regimes. While competition from domestic industry and global primes make direct Australian exports challenging, there is potential for Australian industry to become involved in developing high-end capabilities. There are emerging opportunities for Australian industry to collaborate on Japanese defence projects, either through research and development or participation as a sub-contractor, and there are opportunities for Australian SMEs to enter the supply chains of the Korean defence industry.

- 3.36. Australia's economic and security interests are deeply linked with South East Asia. Australia is continuing to broaden its defence cooperation across the region and increased industry engagement through defence exports will add another dimension to these relationships.
 - 3.37. Over the next 20 years, as their economies continue to grow, South East Asian countries will continue the natural process of military modernisation currently underway, albeit at differing paces across the region. This will present export opportunities for Australian defence industry. However, there are a range of market challenges across the region, including: protracted procurement processes, indigenous industry development and offset policies, transparency and integrity risks, and improving levels of regulation of exports.
 - 3.38. India is a major regional power and an important economic and security partner for Australia. India is the world's third largest importer of military equipment and is modernising its armed forces. While India is focused on developing its own defence industry, the modernisation demands outstrip domestic supply, which may present opportunities for Australian defence industry. However, India is a challenging market to operate in, with complex procurement processes and offset requirements. A long-term engagement plan is important for Australian businesses seeking to enter and operate in the Indian market.
 - 3.39. Australia is committed to further strengthening the capacities of Pacific Island Countries so they can meet their security needs and act in support of shared interests. While the defence budgets of Pacific Island Countries are limited, Australia's investment in practical assistance, such as the Pacific Maritime Security Program, will continue to provide opportunities for Australian defence exports.
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The Middle East Region

- 3.40. The Middle East is a priority market for defence exports. Regional defence spending is projected to grow as countries seek to expand and modernise their forces, although the rate of growth will be dependent on energy prices. There are a range of export opportunities for Australian defence industry, including at the platform level, which can help build the capability of regional partners to support Australia's strategic interests in the stability and security of the region. Israel has an advanced and innovative defence industry that also presents opportunities for Australian defence industry to collaborate on the development of advanced capabilities.
- 3.41. However, a number of countries in the Middle East region operate substantial offset policies and variable procurement strategies, which may make securing exports more difficult. Conflicts in the Middle East are significant sources of global insecurity and Australia's defence export controls system will continue to ensure that defence exports do not prejudice Australia's security, defence or international relations and are consistent with Australia's international obligations and commitments.



Europe

- 3.42. The size and sophistication of the European defence market and Australia's interests in enhanced cooperation with European partners and the North Atlantic Treaty Organization position Europe as a priority market for defence exports. However, Europe is a challenging market for Australian defence industry, with high barriers to entry and significant domestic competition.
- 3.43. The presence of European primes in Australia could be better leveraged to develop stronger collaborative programs with their home headquarters. The Future Submarine being developed by France's Naval Group is an area where export opportunities for Australian industry in global supply chains could be generated through involvement with the program.

Case Study Liferaft Systems Australia – Leading in defence and commercial markets

Liferaft Systems Australia specialises in the design and manufacture of high quality Marine Evacuation Systems and large capacity liferafts.

Liferaft Systems has a global customer base, and like much of Australian defence industry, is targeting export opportunities in both defence and commercial markets. Liferaft Systems' Marine Evacuation Systems have been installed on vessels of all types and sizes, including passenger ferries, military vessels, large private yachts and special purpose ships.

Liferaft Systems' defence customers include France, the Netherlands, New Zealand, the United Kingdom, and the United States. Liferaft Systems recently deployed two Marine Evacuation Systems and three self-righting link liferafts on the United Kingdom's new Queen Elizabeth class aircraft carrier, the HMS Queen Elizabeth. This is one of the largest vessels to be fitted with a Marine Evacuation System. Liferaft Systems have also recently secured a contract with BAE Systems for the supply of Marine Evacuation Systems on the United Kingdom's Type 26 Global Combat Ship.

Leveraging capability development into export opportunities

- 3.44. Australian defence industry has a wide variety of immediate and longer-term export opportunities. Some of these opportunities are about building on current exports to grow more success; others are about leveraging Australian capability development into new export opportunities. The *2016 Integrated Investment Program* allocates \$200 billion over the next decade for investment in new and enhanced defence capability and will play a key role in further developing Australian defence industry strength for export potential.
- 3.45. The LAND 121 Phase 4 acquisition of Thales Australia's Hawkei is an example of where Defence procurement could lead to greater export success for Australia's defence industry. Defence has supported Thales' pursuit of export opportunities in both left and right-hand-drive light protected vehicle markets, including through the release of intellectual property, export controls permission, vehicle loans, and engagement with other nations. Countries looking to modernise their defence capability, including Poland, New Zealand and the Netherlands, have expressed strong interest in the light protected vehicle. Thales has identified 22 Australian SMEs that are Tier One suppliers of major sub-systems and components for the Hawkei, sustaining around 210 jobs in Thales Australia's workforce in Bendigo, around 35 additional jobs as part of the support contract and approximately an additional 180 jobs created as part of Thales' supply chain to support production. The Hawkei's export potential may provide Australian SMEs access to export opportunities in global supply chains.

The Naval Shipbuilding Plan

The *Naval Shipbuilding Plan* outlines the Government's vision for the Australian naval shipbuilding enterprise and the significant investment required in coming decades. The Government is laying the foundations for an Australia-wide naval shipbuilding enterprise, ending the boom-bust cycle that has afflicted the Australian naval shipbuilding and sustainment industry.

The Government will invest:

- ▶ around \$90 billion in new naval ships and submarines;
- ▶ more than \$1 billion in modern shipyard infrastructure; and
- ▶ more than \$25 million in workforce growth and skilling initiatives.

This investment will provide opportunities for Australian defence industry to integrate into global supply chains. The development of innovative technologies and continuous shipbuilding capability will also provide Australian defence industry with the certainty and enhanced capability to target a range of direct export opportunities such as sub-systems, components, sustainment services, or even whole platforms.

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Team Defence Australia stand at the 2017 Association of the United States Army Annual Meeting and Exposition.

▶ Chapter 4 – Establishing the new defence export system

The defence export system

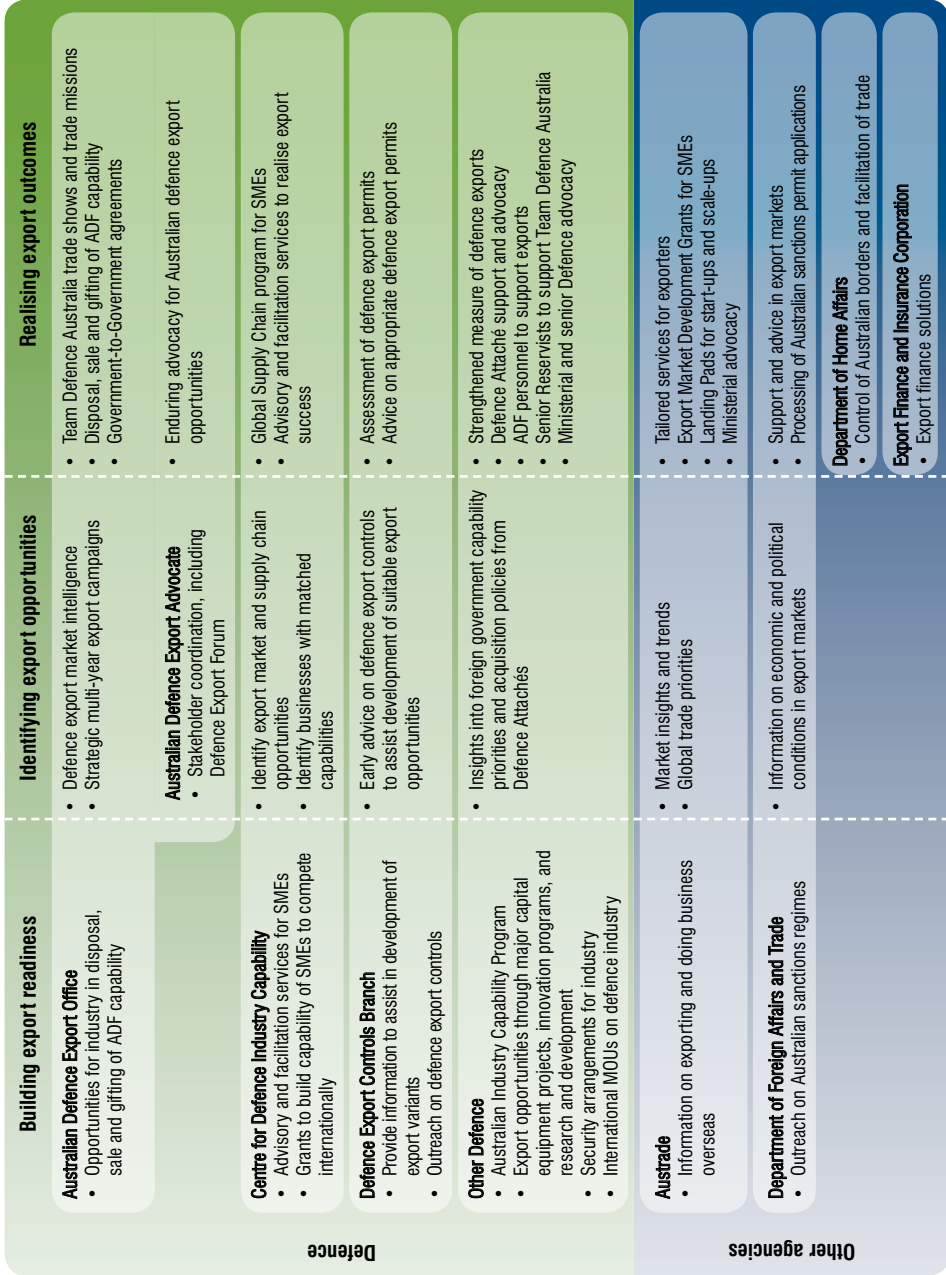
- 4.1. Growing, developing and sustaining a more export oriented Australian defence industry will be a long-term endeavour. The *2016 Defence Industry Policy Statement* was the first step; resetting the relationship between Defence and industry and recognising industry as a Fundamental Input to Capability. The Defence Export Strategy significantly advances this work by providing the situational analysis, policy guidance and practical tools and resources to convert export potential into export success.
- 4.2. The Strategy provides \$20 million in additional annual funding from 2018–19 to support Australia’s defence exports. This reflects the Strategic Goal to achieve greater export success to build a stronger, more sustainable and globally competitive Australian defence industry to support Australia’s Defence capability needs. The Strategy establishes an integrated defence export system that brings together all of the levers available to government and industry under four streams:
 - ▶ **Enabling export success**
 - ▶ **Building export readiness**
 - ▶ **Identifying export opportunities**
 - ▶ **Realising export outcomes**

- 4.3. The different segments of Australia's industrial base will require differentiated assistance to maximise their export potential. Australian businesses at the beginning of the export journey may benefit from business advice on becoming export ready from the Centre for Defence Industry Capability. For SMEs offering components and technologies, the global supply chains of prime companies will often be a good avenue to export. As SMEs move up the value chain, they may seek support to market their capability directly to end-users, including participation in trade missions, access to market intelligence, and in-country facilitation. Australian primes and sub-primes offering platform and system level exports as part of complex tender processes may seek continuing campaign support and advocacy at the highest levels of government and from Defence. The new defence export system will provide a range of services and support to assist the full spectrum of Australia's defence industry.

Enabling export success

- 4.4. The centrepiece of the new defence export system is the establishment of the **Australian Defence Export Office within the Department of Defence in the first quarter of 2018**. The Australian Defence Export Office will be part of the Defence Industry Policy Division and consolidate and grow existing export support functions, providing a focal point for defence exports. The Australian Defence Export Office will be accountable for delivering the initiatives set out in this Strategy. It will have a dedicated workforce of around 20 staff, doubling the workforce currently assigned to defence industry export functions. Establishing the Australian Defence Export Office within the Department of Defence will enable the organisation to most effectively leverage broader Defence capabilities.
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Figure 2: New defence export system



- 4.5. The Australian Defence Export Office will be supported by the **Australian Defence Export Advocate**. The Advocate will be a senior-level external appointment into the Department of Defence with dual responsibilities for undertaking enduring advocacy on behalf of Australian defence industry and developing and delivering strategic export campaigns. This role will complement the high profile promotional work undertaken by Team Defence Australia senior ADF Reservists. The Advocate will also be included as a member of the Centre for Defence Industry Capability Advisory Board, recognising the synergies between Australian industry development and export success.
 - 4.6. The Australian Defence Export Office will be the lynchpin of whole-of-government efforts to support the export success of Australian defence industry. The Australian Defence Export Office will work hand in hand with the Centre for Defence Industry Capability. The Centre is the front door to Defence for Australian industry and will continue to provide advice and facilitation services to build the capability of Australian industry, with a strong focus on supporting SMEs to export as part of their broader growth strategy. Where Australian industry is seeking to market its capability overseas, the Australian Defence Export Office will help to realise success internationally.
 - 4.7. To reflect this delineation of responsibilities, the **Team Defence Australia initiative will transfer from the Centre for Defence Industry Capability to the Australian Defence Export Office**. The Global Supply Chain program will remain within the Centre for Defence Industry Capability, recognising its critical role in building the capability of Australian companies supporting Defence to be export ready and realise global supply chain success. The Centre for Defence Industry Capability will support the Team Defence Australia initiative by helping SMEs to get the most out of trade missions and leveraging relationships with prime companies in the Global Supply Chain program.
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- 4.8. The **Australian Military Sales Office will also be integrated into the Australian Defence Export Office**. The functions of the Australian Military Sales Office will continue to support Australian industry and military sales through marketing and Government-to-Government arrangements, with impact enhanced by connecting with the broader resources of the Australian Defence Export Office under the Strategy.
- 4.9. The Australian Defence Export Office will also collaborate with other relevant agencies including Austrade, the Department of Foreign Affairs and Trade, and Efic. The **Australian Defence Export Office and Austrade will establish a Memorandum of Understanding to formalise cooperation between the organisations**, including:
- ▶ supporting Australian Defence Export Office activities, including trade missions and the Team Defence Australia initiative;
 - ▶ supporting major Defence capital equipment projects;
 - ▶ sourcing commercial opportunities for Australian defence industry;
 - ▶ identifying capabilities from non-defence sectors, including cyber-security and civil security, which could support Defence capability; and
 - ▶ supporting global primes and their suppliers to invest in Australia and establish operations which will allow them to support key Defence capability programs.

Austrade will support Australian defence industry through its international network, with specific markets to be identified in the Memorandum of Understanding. The Memorandum of Understanding will address funding and resource models and workflows between Defence and Austrade to support these activities.

Austrade

Austrade's role is to advance Australia's international trade and education, investment, and tourism interests by providing information, advice and services. Austrade has a network of 81 offices in 48 countries.

Austrade provides information and advice to assist Australian companies reduce the time, cost and risk of exporting. Austrade offers a range of general information about exporting and doing business in international markets through Austrade's website, seminars and events or Austrade staff.

Austrade also assists exporters to execute strategies in target markets. As every company is different, Austrade can tailor its services to meet specific business needs according to the relevant stage of the export journey, with a focus on market entry and expansion.

Austrade also provides guidance to foreign companies seeking to invest into Australia.

For more information on Austrade's services visit www.austrade.gov.au

- 4.10. The Department of Foreign Affairs and Trade manages Australia's overall international engagement and is committed to delivering strong support for Australian business. The Department has over 100 posts across the world and offices in each Australian State and Territory capital. The Department of Foreign Affairs and Trade will work with the Australian Defence Export Office and complement the network of Defence Attachés and Austrade offices to provide advice and support to help Australian defence industry access export markets. The Department of Foreign Affairs and Trade will continue to administer Australia's sanctions regimes and provide foreign policy advice regarding defence export permit applications.
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- 4.11. **A Defence Export Forum will be established** as part of the Defence-State and Territory Government Industry Advisory and Engagement Forum. The Defence Export Forum will be chaired by the Australian Defence Export Advocate with representation from Commonwealth agencies, State and Territory governments, and industry peak bodies. The Defence Export Forum will provide input to the development of export campaigns, coordinate export advocacy efforts across all levels of government and minimise duplication of resources.
- 4.12. To maintain the integrity and independence of Australia's export control system, Defence Exports Controls Branch will remain separate from the Australian Defence Export Office in the Department of Defence. However, Defence Export Controls Branch will have a key role advising the Australian Defence Export Office on potential sensitivities for defence exports. This will ensure that the Australian Defence Export Office's activities are aligned with Australia's export control policy.
- 4.13. To enhance the transparency of Australia's defence export control principles and approach, Defence Export Controls Branch will **conduct ongoing outreach to Australian industry** to provide information and advice on export controls that can inform industry investment and business development decisions. As defence exports grow, Defence will **enhance its public reporting of defence export approvals and denials**. This will provide the Australian public with increased visibility of equipment and technology exports that have been assessed to be consistent with Australia's national interests and international obligations.

Australian Trusted Trader Initiative and a Single Window for International Trade

The Australian Trusted Trader initiative is a voluntary trade facilitation program. It recognises businesses with a secure supply chain and compliant trade practices, rewarding accredited businesses with a range of trade facilitation benefits. This includes access to Authorised Economic Operator programmes, through Mutual Recognition Arrangements, in Canada, Hong Kong, New Zealand, and the Republic of Korea. These arrangements help Australian businesses to receive faster processing at export market destinations, and to promote their products to overseas markets. Australian defence industry can access these benefits by becoming accredited Trusted Traders. For more information on Australian Trusted Trader visit

<http://www.homeaffairs.gov.au/Busi/cargo-support-trade-and-goods/australian-trusted-trader>

The Australian Government is also exploring options for a Single Window for International Trade. This seeks to deliver seamless, digital, automated and transparent trade. The ongoing improvements to modernise Australia's border processes will support Australian defence exports by improving industry competitiveness and strengthening trade links with key trading partners.

Building export readiness

- 4.14. The Australian Industry Capability Program is critical to maximising Australian industry involvement in Defence major capital equipment projects and driving the long-term development of an internationally competitive Australian defence industry. The Australian Industry Capability Program requires tenderers to develop Australian Industry Capability Plans for all Defence major capital equipment projects of \$20 million and above. The Australian Industry Capability Program has been strengthened to require tenderers to explicitly address:
- ▶ the tenderer's strategy for maximising Australian industry involvement in the project and enduring Australian industry capability benefit beyond the work period;
 - ▶ maximised inclusion and evidence of having positively engaged Australian SMEs and Indigenous Business Enterprises;
 - ▶ proposed investment in innovation, and collaborative research and development efforts in Australia;
 - ▶ establishing, transitioning or enhancing skills, knowledge, systems, technology and infrastructure within Australian industry; and
 - ▶ identification and promotion of Australian defence export opportunities and as a contributor to global supply chains.
- 4.15. Defence will strengthen consideration of potential export opportunities arising from the investment in Australian industry as part of the Australian Industry Capability Program and in line with the objectives of the Defence Industrial Capability Plan, including seeking greater opportunities as part of **Foreign Military Sales and Cooperative Programs**. Not only will this provide additional opportunities for Australian industry to be involved in capability acquisition and sustainment, but it will contribute to the development of Australia's defence industrial base and enhanced industrial interoperability.

- 4.16. Defence will also **integrate earlier identification of export opportunities within its business practices, including for sensitive technologies**. The Australian Defence Export Office will work with relevant parts of Defence, across the Capability Life Cycle, with particular focus on the Defence Innovation Hub and Next Generation Technologies Fund, to ensure that the export potential of new capabilities is identified early and nurtured, with a view to developing possible export variants. Opportunities for Australian industry will also be identified as part of the sale and gifting of surplus ADF equipment, such as refurbishment and future sustainment. Defence and Austrade will also work together to strengthen linkages between the Defence Innovation Hub and Next Generation Technologies Fund and Austrade's Landing Pad and innovation programs.

Austrade Landing Pads

Austrade established the Landing Pads program under the Australian Government's National Innovation and Science Agenda. The Landing Pads program provides market-ready start-ups and scale-ups with potential for rapid growth a cost effective option to land and expand into major global innovations hubs around the world. Five Landing Pads have been established in San Francisco, Tel Aviv, Shanghai, Berlin and Singapore.

The Landing Pads provide access to:

- ▶ a 90-day residency in a co-working space;
- ▶ introductions to investors, mentor networks and strategic partners;
- ▶ access to a community that supports Australian entrepreneurs; and
- ▶ business advice to help grow your business.

For more information about the Landing Pads visit www.australiaunlimited.com/landing-pads

- 4.17. The management of sensitive technologies and intellectual property is critical to protecting the ADF's capability edge and Australian industry's investment in innovation. Defence will also consider strategies, including **strengthening Government-to-Government agreements**, to ensure indigenously developed sensitive technologies and intellectual property remain under Australian control, including where they are related to Sovereign Industrial Capability Priorities.
- 4.18. Australia's defence industry has an important role to play in Defence's international engagement. Defence already has arrangements to support defence materiel cooperation with key international partners. Defence will seek to develop **Memorandums of Understanding specifically addressing defence industry cooperation** to enhance industrial base engagement and to ensure it is integrated within the broader bilateral relationship. These instruments will establish formal frameworks for initiatives like ministerial or high-level dialogues on shared industry and innovation issues and practical cooperation on research and development in science and technology.
- 4.19. An important platform of Defence's international engagement is the Defence Cooperation Program, which builds the capacity of regional partners. **Defence will seek to identify industry opportunities early in Defence Cooperation Program initiatives**. For example, Australian industry has demonstrated expertise providing sustainment support and services to regional partners for the C-130H Hercules and F/A-18 Hornet aircraft. Similarly, assisting partners with better force design and capability lifecycle management can flow through into future opportunities for Australian industry. The Defence Cooperation Program will remain focused on building Australia's Defence relationships and improving the capacity of regional partners. This will create a more favourable operating environment for Australian industry, but it is not a mechanism to assist the pursuit of specific export opportunities.

- 4.20. Exporting offers a pathway to growth for Australian defence industry, but it also carries significant costs and risks that must be approached with careful planning. The Centre for Defence Industry Capability will continue to provide a range of business advisory services and facilitation services to help SMEs improve their business capabilities and help them take advantage of opportunities in the defence market. The Government will build on this success by **expanding the Centre for Defence Industry Capability's export-related advisory services to help Australian businesses better position themselves for export opportunities.**

Capability Improvement Grants

Capability Improvement Grants are available to reimburse Australian defence industry SMEs up to half the cost of engaging a consultant or expert, including undertaking training, to implement the recommendations made through the Centre for Defence Industry Capability advisory or facilitation services.

Grants of up to \$250,000 are available. The minimum grant amount is \$5,000. There is no limit to the number of grants a business can receive, but total funding is capped at \$250,000 per grantee in a three year period. The Centre for Defence Industry Capability will provide up to \$3 million in Capability Improvement Grants each year.

For more information on the Centre for Defence Industry Capability visit www.business.gov.au/centre-for-defence-industry-capability

- 4.21. Australian SMEs seeking new opportunities can face significant hurdles. To help SMEs grow their business, the Government will provide an **additional \$4.1 million to expand the Centre for Defence Industry Capability's grant offerings to help build the capability of SMEs to compete internationally.**
- 4.22. The contemporary security environment and cyber security threats present serious challenges to Australia's future defence export success. Australian defence industry that develops innovative solutions with export potential risk losing opportunities and if they cannot effectively protect their intellectual property and research and development information. The Centre for Defence Industry Capability is providing **services to priority Australian SMEs to help improve their cyber security.** This will ensure that SMEs are able to operate securely in global markets, including with key partners on sensitive technologies. The Defence Security and Vetting Service will continue to **develop security arrangements which best balance Defence and Australian industry export objectives.**

Identifying export opportunities

- 4.23. The success of Australia's defence exports will be underpinned by the ability to match Australian industry capabilities with global export demand. The Australian Defence Export Office will **develop a strong market intelligence capability**, drawing upon insights from industry, defence market databases and Australia's overseas networks. An intelligence led approach will help government and industry to better plan their future activities and prioritise resources.

- 4.24. In addition to identifying short-term export opportunities, the Australian Defence Export Office will work with Austrade and industry to develop **strategic multi-year campaigns for priority markets and capabilities supported by an additional \$6.3 million per annum from 2018–19**. The campaigns will be flexible tools that are tailored to the particular export opportunity. For example, campaigns could be developed to support exports of a particular platform or industry capability, target a particular export market or acquisition program, or drive Australian industry opportunities in a cooperative program. The campaigns will provide an actionable plan which matches the export opportunity with Australian industry capability, positions the export within the strategic framework set out in Chapter 2, addresses the specific market risks and challenges, and sets out future market initiatives. While the Australian Defence Export Office will be able to support a range of campaign activities, industry will need to commit energy and resources to build on the campaign framework to achieve export success.
- 4.25. As part of the Australian Defence Export Office's multi-year campaign approach, the **Team Defence Australia initiative will deliver an expanded program of trade shows complemented by a program of targeted trade missions**. These targeted missions will be matched to suitable international opportunities across the capability spectrum.
- 4.26. Export success depends on customers knowing Australian defence industry and the range of capabilities on offer. The Australian Defence Export Office will also **expand the Australian Military Sales Catalogue** to become a flagship publication for Australia's high-quality defence export capabilities.
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- 4.27. The Government will **provide the Global Supply Chain program with an additional \$3.2 million per annum from 2018–19 to sustain and expand the program**. The additional funding will support the inclusion of additional global primes and generate new opportunities in their international supply chains for competitive Australian SMEs. This will not only generate growth in defence exports, but contribute to the development of Australian industry capability.
- 4.28. Australia's defence industry and its operating environment are not static and understanding industry's evolving capabilities is fundamental to achieving export success. As part of the forthcoming Defence Industrial Capability Plan, **Defence will establish strengthened measures of Australian defence exports** as part of an annual survey to refresh key data metrics under the Plan. This information will be used to track Australia's defence export performance, better match Australian capability with export opportunities and identify barriers to entry for Australian industry.

Realising export outcomes

- 4.29. Global defence markets can be difficult to navigate at the local level. A dedicated overseas presence is critical to effectively understanding these markets and facilitating access. To expand Australia's footprint in key markets, the Government will **supplement the existing Defence and Austrade networks to support defence exports**. In addition to the defence industry and materiel positions in Australia's Embassy in Washington D.C. and High Commission in London, the Government will engage local industry experts to work alongside Australia's overseas personnel in priority markets. An initial priority will be additional staff in France to leverage industry cooperation on the Future Submarine Program.

- 4.30. Australia's Defence Attachés have a key role in advancing Australia's international engagement objectives. Supporting Australian defence industry is an important element of the Defence Attaché function, but it must always be balanced with other priorities. Providing Australia's overseas staff with the right skills and knowledge is essential to ensure they can effectively support Australian defence industry. The Australian Defence Export Office will work with other agencies to develop a **comprehensive defence export training package to assist Defence Attachés and other Australian Government representatives overseas**, including understanding Australian defence industry, supporting industry overseas, and balancing Australia's strategic interests.
- 4.31. Ministerial and senior official-level engagement with key decision makers can be a highly effective tool to promote Australian defence exports. The Australian Defence Export Office will work with the **Minister for Defence Industry, the Minister for Defence, the Minister for Trade, Tourism and Investment, and senior Defence officials to identify and prioritise high-level advocacy opportunities** as part of the campaign approach for key markets and capabilities. The Australian Defence Export Office will work with defence industry peak bodies to provide Australian industry with opportunities to contribute to the preparation for these engagements.
- 4.32. As end-users of Defence capability, serving ADF personnel have a unique understanding of the capability's performance under operational conditions. Where indigenous Australian Defence capabilities are being considered for export, Defence will consider **releasing ADF personnel to provide their perspective and practical operational experience in support of Australian defence industry**. Requests from Australian industry will be considered by the Australian Defence Export Office on a case-by-case basis and will be subject to the operational availability of relevant ADF personnel and appropriate funding arrangements with industry.
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- 4.33. Australian defence industry will also be able to access **additional assistance from Austrade and Efic**. Austrade's Export Market Development Grant scheme is a key Australian Government financial assistance program for aspiring and current exporters. The scheme encourages Australian SMEs to increase international marketing and promotion expenditure to achieve more sustainable international sales. It also provides businesses with an opportunity to enter and embed themselves in global value chains. Eligible exporters are reimbursed up to 50 per cent of eligible export promotion expenses above \$5,000, up to a maximum of \$150,000, provided total eligible expenses incurred amount to at least \$15,000.
- 4.34. Australia's defence industry can face difficulties in accessing private sector finance for exports. Efic is Australia's export credit agency. It is a specialist financier that delivers solutions for Australian businesses when their bank is not able to help. Efic has successfully provided financial support for Australian defence exports in the past. However, there are limits to Efic's ability to finance defence exports, for example where the financial commitment is too large for Efic's balance sheet. As such, the Government will establish a **dedicated mechanism for Efic to refer applications for defence export finance to be written on the National Interest Account**. Efic will refer up to \$3.8 billion worth of applications under the mechanism with decisions on financing subject to agreement by the Government. This will provide additional means to finance defence exports where Efic may otherwise be unable to assist and will help Australian defence industry to clinch export sales.

Export Finance and Insurance Corporation (Efic)

Efic has identified that a market gap exists for defence industry in search of private finance. Efic has formulated a strategy to engage with Australia's defence industry, from SMEs to prime companies. There are four main areas where Efic's financial support may be able to assist:

- ▶ Efic can help SMEs exporting through the global supply chain of prime companies. For example, SMEs may require finance for capital expenditure in plant and equipment to meet prime company requirements or working capital to deliver under the contract.
- ▶ Efic can assist with finance for overseas direct investment where Australian defence industry requires a physical presence in the overseas market of a buyer.
- ▶ Efic can issue advance payment, performance and warranty bonds on behalf of Australian defence industry, which is a common contractual obligation for defence contracts.
- ▶ Efic can provide finance to overseas defence contractors or foreign governments buying Australian defence exports.

Efic has the expertise required for the financial and technical evaluation, provision, and ongoing management of financing for Australian defence exports. Efic has extensive domestic and international experience, including in frontier and emerging markets. Efic has built a strong reputation for its capacity to evaluate complex projects and the assurance provided by Efic's involvement can often reinforce the merit of the project.

For more information on Efic's services visit www.efic.gov.au

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HMAS Parramatta at Henderson Shipyard fitted with a 'cupola' mast to house the CEA Phased Array Radar.

► Chapter 5 – Implementing defence export success

- 5.1. Implementing the policies and initiatives in the Strategy will provide the right balance of support to better equip Australian defence industry to compete in the global market. It will see a more sustainable industry that is better able to manage the peaks and troughs of domestic demand. It will contribute to an Australian defence industry that is innovative and delivers value for money in supporting Australia's defence capability. An export enabled Australian defence industry will deliver the best capability to the ADF, to allies and partners, and support Australia's international engagement priorities.

Long-term vision

- 5.2. Building a world-class, export oriented defence industry requires a strategic, long-term vision. Change will not happen overnight; there needs to be a steady and concerted effort to make this vision a reality. The growth in Australian defence industry capability, coupled with the policies and initiatives in the Strategy, are likely to take five to ten years to deliver substantial improvements. While this will be a long-term endeavour, the work must start today and there will be some current and short-term export opportunities that can be targeted as early priorities.

Implementation milestones

5.3. The initiatives set out in the Strategy will be implemented in two phases:

- ▶ Phase 1 will focus on setting up the institutional arrangements to support defence exports, including the Australian Defence Export Office, and providing advocacy for time critical export opportunities. There will be further work with stakeholders to put in place plans for strategic multi-year campaigns and detailed planning for the roll out of initiatives in Phase 2. Phase 1 will be implemented by the end of 2018.
- ▶ Phase 2 will focus on implementing initiatives that will raise the export potential of Australian defence industry over the medium to long-term and embed the whole-of-government support for defence exports. Phase 2 will be implemented by the end of 2019.

5.4. The key milestones to establish the new defence export system are:

Phase 1		
2018	First quarter	Stand-up the Australian Defence Export Office
		Appoint the Australian Defence Export Advocate
		Publish expanded Australian Military Sales Catalogue
	Apr	Establish Memorandum of Understanding between the Australian Defence Export Office and Austrade
	Jun	Convene the first Defence Export Forum meeting
	Jul	Establish guidelines for grants to build the capability of SMEs to compete internationally
	Dec	Establish additional positions overseas to support defence exports
Phase 2		
2019	Jan	Begin roll out of strategic multi-year export campaigns
	Jun	Strengthen consideration of export opportunities as part of Foreign Military Sales and Cooperative Programs
	Dec	Integrate earlier identification of export opportunities into Defence capability development processes

A collaborative approach

- 5.5. The Strategy will require enduring commitment and cooperation from government and industry to realise success. Effective lines of communication will be essential to fostering a collaborative approach. The Defence Export Forum outlined in Chapter 4 will provide a mechanism to coordinate the efforts of all stakeholders across the Australian Government, State and Territory governments, and industry.
- 5.6. The Australian Defence Export Office will coordinate implementation of the Strategy across the Australian Government, including: Austrade; the Centre for Defence Industry Capability; the Department of Defence; the Department of Home Affairs; the Department of Industry, Innovation and Science; the Department of Foreign Affairs and Trade; and Efic.
- 5.7. The Centre for Defence Industry Capability will remain the central point for industry to find the assistance it needs for doing business in the defence market, and to coordinate broader defence industry support from across the Australian Government and State and Territory governments. The Australian Defence Export Office and Centre for Defence Industry Capability will work closely on defence export and global supply chain initiatives to provide a seamless experience for industry. The Centre for Defence Industry Capability Advisory Board will continue to provide advice to the Government on supporting Australian defence exports and the development of sustainable defence industry capability in line with Australia's Defence priorities.

Case Study Axiom Precision Manufacturing – Australian manufacturing in transition

Axiom is a family-owned South Australian business established in 1979, specialising in tool making, moulding and precision manufacturing using computer numerical control and injection moulding.

Axiom made the move to diversify their business from automotive manufacturing to defence industry eight years ago. Axiom used the advisory services of the Centre for Defence Industry Capability to help develop its defence business and now employs 45 people. Working with BAE Systems through the F-35 Joint Strike Fighter program, the company attained the international quality system standard certification for the aerospace industry (AS9100).

Axiom is targeting exports as part of their five-year plan, using international opportunities to supplement their Australian work. Axiom recently won a significant contract with Boeing through the Global Supply Chain program. Axiom is investing in new apprentices to meet international demand and provide the business with the skills and experience to support its long-term growth.

Measuring and reviewing success

- 5.8. Measuring the impact of Australian defence exports is crucial to realising the Strategic Goal and Objectives of the Strategy. Growing defence exports is not an end in itself. Export success is a means to achieve outcomes for Australia's Defence capability.
- 5.9. A holistic approach is key to measuring and reviewing the success of the defence export system. The Australian Defence Export Office will work across all levels of government and industry to build a full picture of Australian defence industry exports and assess the effectiveness of the defence export system.
- 5.10. The Defence Industrial Capability Plan will incorporate measures to strengthen analysis of the Australian defence industry, including an annual defence industrial survey. This information will form a key input to the ongoing development of a baseline of Australian defence exports and will be supplemented by data and advice from other Australian Government sources, including:
 - ▶ Austrade will provide information on support for defence exports as outlined in the Memorandum of Understanding;
 - ▶ The Defence Export Controls Branch will provide data on export permit applications; and
 - ▶ The Centre for Defence Industry Capability will provide insights into the broader Australian defence industrial environment.
- 5.11. The sharing of information will be consistent with relevant legislation, including the *Privacy Act 1988*, and protection of commercial-in-confidence information.

- 5.12. This holistic measure of defence exports will be considered together with the defence industry baseline to be developed under the Defence Industrial Capability Plan to assess the impact of defence exports on Australia's defence industrial capabilities and progress in achieving the Strategic Goal and Objectives for defence exports set out in Chapter 1.
- 5.13. The Department of Defence will report on the implementation of the Strategy and activities of the Australian Defence Export Office as part of its annual performance reporting requirements.

Learning with industry

- 5.14. The Strategy sets a new direction for Australian defence exports. While extensive consultation and careful consideration have gone into development of the Strategy, it is a complex policy environment with many moving parts. To remain relevant, the Strategy will need to be responsive to changes in the defence export market and lessons learned during implementation of the initiatives. The collaborative approach outlined above will allow the Australian Defence Export Office to work with industry and other stakeholders to refine the policies and initiatives in the Strategy to ensure they are most effective.
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