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Defence Teaming Centre Inc
The defence industry association of South Australia
Relevant, Responsive and Reliable

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Dr Kathleen Dermody

Secretary, Foreign Affairs, Defence and Trade References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Dermody,

DEFENCE TEAMING CENTRE SUBMISSION TO THE SENATE INQUIRY INTO DEFENCE TRADE CONTROLS BILL 2011

The mission of the Defence Teaming Centre (DTC) is to support its members to develop, maintain and represent their capabilities in order to maximise opportunities in the defence and security related industry sectors. The DTC's vision is to be nationally and internationally recognised as a model industry body that is relevant, responsive and reliable to its membership.

The DTC is South Australia's defence industry association representing in excess of 250 companies which are Australian-based Prime contractors, Small and Medium Enterprises (SMEs) and Professional Service Providers (PSPs) that are directly or indirectly engaged (or could be engaged) in the supply, support and development of defence capabilities. The 250+ companies in our membership employ in excess of 17,000 employees.

To provide a whole-of-defence industry perspective to the inquiry, the DTC broadly canvassed its membership, seeking their feedback and input to the Inquiry.

After consultation with the DTC membership, we offer the following input to the Senate Inquiry

- In broad terms, the DTC supports efforts to simplify the ability to do business with companies in other countries. As Australia is a limited Defence purchaser, the ability to export is a major growth factor for Australian defence contractors. Several companies who work exclusively with American clients have said that the Australia-United States Defence Trade Cooperation Treaty will be a great positive for their companies. As the US is currently rebuilding its manufacturing base, any initiative that can help Australian companies access the US market is welcomed.
- It is the general experience of many members that American companies will not take the burden of exporting a controlled item to an Australian company if export permits are needed, so by removing this barrier Australian companies will increase their market access. Many companies highlighted that the treaty excludes some items integral to South Australian industry, so for some companies it remains to be seen where the benefit of becoming an "approved community" member lies.

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- The establishment of an "approved community," whilst good in theory, has some problems with regards to the significant investment needed to introduce an International Traffic in Arms Regulation (ITAR) control regime into a company. For companies doing business only with the US, it is acceptable, and even advantageous, to maintain ITAR controls at all times. Companies who must operate in multiple export environments will not be able to take advantage of the treaty, as the conflict between ITAR guidelines and the access needed by dual- or third country- nationals to the materiel is too great. The conflict between ITAR rules and access provisions for other control regimes will impact companies across the entire industry, including Prime contractors, Small and Medium Enterprises and ancillary service providers such as freight forwarders.
- A general sense from defence industry is that whilst membership in the approved community is voluntary, many larger companies will insist that their subcontractors are community members. This could lead to smaller companies having to institute access controls across the entire company for a small volume of work, which is expensive and difficult. The DTC feels that the Government should assist companies with this by providing training and grant funding to meet these requirements, especially in smaller businesses where the absence of employees due to training can be a significant burden.
- Several companies also questioned the lack of ability to re-export goods. As many companies are performing integration work as part of a supply chain, Defence articles from the US occasionally need to be re-exported to a third country. The treaty provisions do nothing to simplify this process, and with the expansion of the control regime to cover more articles this will lead to increased overheads for supply-chain focussed companies.
- The decision to place controls on non-tangible goods, whilst logical, will add a significant overhead to many members, especially those who deal with training, systems engineering and consultancy. This will mean that the cost and time needed to tender for overseas opportunities for these companies is likely to be too great. Unless the export approval process is significantly accelerated, this could lead to companies in this space losing significant market share. Concern was also expressed that the way that export applications are currently implemented is inadequate to cover the wide range of intangible that will now be covered, which will lead to delays in the approval process.

In summary, the conclusions that the DTC draws are:

- The Australia-US Defence Trade Control treaty removes some of the burdens that companies face, but due to the impost of security and nationality controls is likely to have limited operational effect.
- The cost of compliance with the ITAR regulations is a significant burden, and some of the regulatory compliance costs should be shared by the Government
- Smaller defence contractors are concerned about the 'flow-down' of requirements from larger Primes.

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- The new restrictions on non-tangible transfers will significantly impact the ability of many companies to compete
- The general export control system in Australia is seen as burdensome and time-consuming

Chris Burns, CSC
Chief Executive Officer
Defence Teaming Centre