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DEFENCE WHITE PAPER 2015 – PUBLIC CONSULTATION SUBMISSION.

Bruck Textiles is Australia’s largest manufacturer of woven fabrics and has been the major supplier of Combat and Non-Combat uniform fabrics for Australian Defence Force uniforms since the early 1970s.

Bruck Textiles believes that it is in a position of knowledge to be able to make comment on the following nominated key questions:

1. Are Defence policy settings current and accurate?
2. What Defence capabilities do we need now and in the future?
3. What should the relationship be between Defence and Defence Industry to support Defence’s mission?

The overriding message we want to send to Government in relation to the Australian Textile Industry is that the local industry has been and will be a valuable resource to the ADF in the areas of capability development, reliable supply of excellent quality products and a provider of urgent supply when the need arises due to urgent operational requirements.

However capability for supply to the ADF is under threat of extinction if the Commonwealth Procurement Guidelines are not altered to recognise the cost imposts that Australian manufacturers operate under, the benefits to the ADF of local supply of operational sensitive equipment and the need to retain capability and finance in Australia to invest in new technology development.

Under the current Federal Government financial strategy, cost savings seem to be ruling procurement decisions over the retention of existing strategic capability and the financial ability to develop new technology and capability. This might be considered foolhardy regardless of the financial modelling being used. However we believe that the policy is even more flawed when the financial assessment made at the tender evaluation stage, does not consider inequities in the cost to make in Australia compared to other countries, nor the positive financial flow on benefits to the Australian economy that comes from manufacturing in Australia.
1. ARE DEFENCE POLICY SETTINGS CURRENT & ACCURATE?

We assert that the current Commonwealth Procurement Guidelines are not current or accurate in the following areas:

- The guidelines discriminate against Australian manufacturers by not considering the legislated cost differential between manufacturing in Australia and manufacturing in other countries and allocate no value to the benefit obtained by the Australian economy from manufacturing goods in Australia.

The current Commonwealth Procurement Guidelines, under which DMO operates, do not allow for procurement tenders to state that a product must be made in Australia. For the Textile Industry, an exemption to that rule applies to the Australian Defence Force combat uniform, where a Ministerial Directive states that the fabric and the garment for the combat uniform shirt and trouser must be made in Australia.

The value-for-money equation used in Defence tender evaluations discriminates against Australian companies because it does not take into account the significantly higher cost of manufacture that Australian companies have due to Government legislation and workplace compliance.

The current Prime Minister and Defence Minister have stated recently in interviews that the Government is willing to pay a premium of a maximum of 20% for an Australian made product over an imported product.

So for a product made offshore that sells for $10, the Liberal Government is willing to pay $12.00 for an equivalent product made in Australia.

The flaw in this policy is that certainly in the Textiles industry at least, a product made in Asia that sells for $10 could cost $15 to make in Australia. Once a modest 15% margin is applied, the sell price is $17.60 and the premium is 76%.

Even though excess costs have been stripped from the Industry over the past 10 years with productivity levels being excellent, Australian companies cannot discount the Australian legislated costs that it must incur.
The costs that Australian companies have to bear that many of our competitors either do not incur or are much lower are:

- Higher minimum wage rates.
- On costs such as superannuation, sick leave, annual leave, maternity leave, long service leave.
- Higher energy, environmental and transportation costs.
- Workers compensation premiums.

Due to this cost disparity, in the majority of cases, it would be impossible for Australian companies to achieve a sell price that is 20% or less than products made in Asia. It would be possible if the legislated on-costs of manufacture in Australia were discounted from the sell price and viewed as being revenue or economic activity that is positive for the Australian economy. In most cases, Australian made products would then be within the 20% limit.

Increasing volume of production in Australia will also contribute to lower sell prices from Australian companies. It is manufacturing 101 that higher volumes will result in efficiency gains and lower per unit costs. Stripping volume from Australian companies, especially when the Australian market is relatively small, only results in higher per unit costs. Companies can reduce overhead to cover some of the cost increase, however there is a critical mass that is needed to operate a factory and volumes have decreased below the optimum number even for that reduced level of overhead.

- The guidelines have a limited focus on ensuring retention in Australia of the manufacture of certain combat operational equipment, despite a Priority Industry Capability rating and only then due to a Ministerial directive that is not formally in the procurement guidelines. Also, this leads to a complete lack of desire for a return on investment to the Commonwealth from Commonwealth dollars spent via R&D grants and funding to organisations such as DMTC.

When indications are from recent public statements that it is likely that the future Australian submarine will be made anywhere in the world except for Australia, it seems a little futile to be arguing for a policy that would dictate that all items worn by the Combat Soldier should be made in Australia. However to ensure the ongoing viability of the related Australian Industry, which brings with it security of supply and the financial capability to invest in new technology/capability development, that is exactly the policy that is required.
The Combat Clothing and Personal Protective Priority Industry Capability (PIC) is defined as:

“The ability to undertake ongoing development of the combat uniform, specifically multi-spectral and other signature reducing characteristics and enhancements to personal survivability such as ballistic, blast and flash protection.”

While the establishment of the combat uniform and personal survivability PIC is recognition of the strategic need for this capability to be retained in Australia, the majority of procurement decisions made by DMO over the past three years have not supported the PIC.

The reason for this is that DMO takes its direction from the Commonwealth Procurement Guidelines or Ministerial directives. The Ministerial directive in relation to the PIC has dictated a very narrow definition of what constitutes the “combat uniform”, which is the camouflage shirt and pant worn by the Army, Navy and Air Force.

Under current Procurement Policy, the production of the fabrics and the garments for the shirt and pants must be made in Australia. However there are no Australian content provisions for the remainder of the items of clothing and personal equipment that the Combat soldier uses. The assumed rationale for the current definition with regard to procurement policy is that these items are the base requirement for a uniform and therefore the capability and manufacture must remain in Australia. However the total direction for future development of combat clothing and equipment is integration of the soldier ensemble which includes all clothing plus helmet, anti-ballistic vest, webbing, pouches, packs, boots, rifle and communication systems.

Remember the PIC statement is ““The ability to undertake ongoing development of the combat uniform, specifically multi-spectral and other signature reducing characteristics and enhancements to personal survivability such as ballistic, blast and flash protection.”

So the focus, granted, is on “development” rather than “manufacture”. However it is commercial reality that a return on investment is required to provide the funds for future R&D projects. Part of the return required is derived from the currently defined “combat uniform” fabrics that are made in Australia. However because of significantly declined volumes required due to changes in operational needs, there are now very limited funds available to invest in R&D.
Therefore, to ensure the “ability to undertake ongoing development” remains in Australia, procurement policy needs to be mindful or connected in some way to the PIC retention. However the reality is that there is a complete disconnect. There are recent significant examples of this disconnect.

- The new Army General Purpose jacket was awarded to a fully imported garment. The decision was justified on the basis that the imported garment was better quality and better performing. There is substantial evidence available to support the position that the instruction from DMO in the tender briefings and tender documents was for a garment performing to a certain level. The Australian options met that level, however DMO or Army decided, after the tender had closed and was being evaluated, that they wanted a better performing garment.
- RFT No. DMOLSD/RFT0218/2011 Soldier Combat Ensemble (SCE) Load Carriage Elements as well as the Soft and Hard Body Armour elements have been awarded to Australian companies, however all products will be made offshore by non Australian companies even though Australian companies could supply Australian made product.
- For the protective elements of the same SCE tender, soft and hard body armour was awarded to an Australian company who will be sourcing all fabrics and hard armour plates offshore. The real “rub” with this decision is that the same week that the tender was announced, DMTC and ADA won an award for their development of a new hard armour plate technology. However ADA did not win the tender for supply and the hard armour plates chosen by DMO are older technology.

The hard armour plate tender decision is a significant example of a complete lack in the Government’s R&D strategy of any desire to achieve a return on investment. DMO is the major financial “investor” in DMTC and yet it seems their tender decision was based on the prices of the tenders submitted. However wouldn’t it be more financially wise to include in the tender evaluation consideration of the millions of dollars it has spent on developing a new plate technology in Australia?? What is the point of funding an organisation like DMTC if the technology developed is not going to be purchased by Australia?

While the “horse has bolted” to some extent with the above procurement decisions, for the future, one easy way to align the development and procurement policies is to broaden the definition of what constitutes the “combat uniform” to include all items of Combat clothing and personal equipment that are worn by and used
by the Australian Army, Navy and Air Force”. This extended definition would then
direct the procurement decisions by DMO towards Australian made products. This
would not restrict the level of competition in the tendering process as there are
multiple Australian manufacturing companies who can tender for the work.

The above propositions are not new and they have been lobbied to Federal and State
Governments for many years. However those same Governments have either
ignored it, given cursory consideration or have cited Free Trade Agreements or
WTO regulations as reasons why such a policy could not be implemented.

The FTA and WTO agreements do not however prohibit the Australian Government
from showing preference to Australian firms under any circumstances. An October
17, 2014 article written by Elizabeth Thurbon, Senior Lecturer in International
Relations / International Political Economy at UNSW Australia (published in “The
Conversation”) states:

“To understand whether Australian producers are finding it hard to sell to the
Australian government, we must rely on anecdotal evidence. Such evidence was
on strong display during a 2014 Senate investigation. That investigation found
Australian firms face major obstacles when trying to sell to the Australian
government. Significantly, it also found one of the main obstacles was
Australian bureaucrats’ belief that our existing trade agreements prohibit them
from showing preference to Australian firms under any circumstances.

This belief is unfounded. Australia’s trade agreements do outlaw some
procurement-linked development policies, like placing local content
requirements on foreign firms. Yet they leave plenty of legal scope for the
government to actively support small local firms with their purchasing power.

For example, both the AUSFTA and the Korea-Australia FTA explicitly exempt
small business promotion policies from the government procurement aspects of
their deals. And significantly, since signing these agreements with Australia, the
US and Korea have been stepping up their own strategic public purchasing
efforts in order to support their local firms.”

Furthermore, an international precedent exists to implement such a policy by
a potential legislative change. It is called the Berry Amendment.
The United States Congress originally passed the Berry Amendment in 1941 to promote the purchase of certain US goods. The amendment was included in subsequent Defence Appropriations Acts until it was made permanent in Fiscal Year 1994 by section 8005 of Public Law 103-139. It was subsequently codified as 10 U.S.C. 2533a in 2002 by section 832 of Public Law 107-107. On October 17, 2006, the President signed the National Defence Authorisation Act for Fiscal year 2007. As of November 16, 2006, the law restricts any funding appropriated or otherwise available to the United States Department of Defence from being used to buy the following end items, components or materials – for use by the United States military, unless they are wholly of United States origin:

- An article or item of food
- Any item of individual equipment manufactured from or containing such fibres, yarns, fabrics, materials or manufactured articles
- Clothing
- Cotton and other natural fibre products
- Hand or measuring tools
- Spun silky yarn for cartridge cloth
- Synthetic fabric or coated synthetic fabric (including all textile fibres and yarns that are for use in such fabrics)
- Tents, tarpaulins, or covers; and
- Woven silk or woven silk blends

The Berry Amendment has very few textile-related exceptions or restriction to its enforcement or implementation. For the most part, if the US Department of Defence is purchasing textiles clothing, fabrics, fibres and yarns, tents, tarpaulins, or covers, all processing/manufacturing must be completed in the USA and all of the material must be sourced domestically.

As this international precedent is set and has been recently further converted into act, Australian Government should take a similar approach to defence procurement as that of United States. Such an approach will offer significant value to the primary industry sector, advanced manufacturing sector, create jobs in rural and regional areas, benefit to Australian Innovation, Research and Development, testing and scientific facilities, value to training, education and future opportunity in enhancing skills and capabilities.
2. WHAT DEFENCE CAPABILITIES DO WE NEED NOW AND IN THE FUTURE?

For the textile industry, we believe the following is required to ensure security of supply to meet operational needs and self-sufficiency in the development of new/improved technology:

- Advanced manufacturing of woven and knitted fabrics with a focus on the capability to manufacture high performance technical fabrics, for a wide range of end use applications.
- Advanced Garment manufacturing with a focus on the capability to manufacture complex and technically challenging garments and products for a wide range of end use applications.
- Fabric and garment manufacturers who have the financial capability to invest in innovation, research and development to offer best products to the Australian Defence Forces.
- The Human Performance Department of DSTO, including technical expertise in Textile development, production and end use.

3. WHAT SHOULD THE RELATIONSHIP BE BETWEEN DEFENCE AND DEFENCE INDUSTRY TO SUPPORT DEFENCE’S MISSION?

The relationship needs to be open, informed and co-operative. Industry will be better able to meet Defence mission objectives if it is very well informed of what Defence requires.

While understanding the information disclosure needs to be within the boundaries of varying levels of security classification, the boundaries need to be as wide as possible to ensure that quality information is provided.

Defence also needs to be well informed on Industry capability and what is required to ensure retention of capability.

But this relationship cannot operate effectively, if at all, if the Government procurement policy does not support the retention in Australia of a manufacturing industry. The current Federal Government policy is certainly not providing that support to the level required. Without this support, and with ongoing decisions being made to buy offshore made products while Australian Industry is spending R&D dollars to develop applicable products/technology in Australia, then Australian Industry will contract to the point of no return.
Defence will continue to be able to buy/source what they want and need; it just will not be from Australian Industry. It will also not be able to buy/source, in more cases than not, in the time that Defence requires it. The Australian Textile Industry has on several occasions over the past 14 years, responded urgently and successfully to Operational demands from the ADF. Without an Australian Industry, this just will not be possible in the times required if sourcing from offshore companies.

In the absence of an Australian manufacturing industry, Australian based R&D will contract and possibly die. CSIRO and DSTO are certainly capable of filling the gap, but will they have the budgets to do that?

Defence needs to value its relationship with Australian Industry and until it truly understands what that value is, then the relationship will never achieve to its fullest.