

Parliament of the Commonwealth of Australia



Joint Standing Committee on
Foreign Affairs, Defence and Trade

DEPARTMENT OF THE SENATE
PAPER No. _____
DATE PRESENTED
10 OCT 1994
<i>Mary Evans</i>

THE IMPLICATIONS OF AUSTRALIAN DEFENCE EXPORTS

September 1994

Australian Government Publishing Service
Canberra



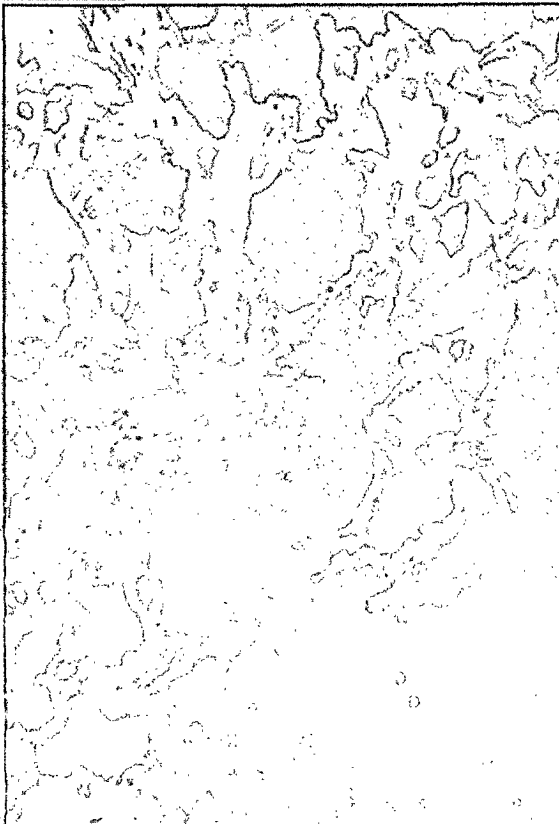
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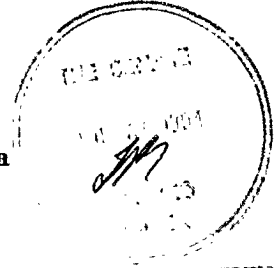
Implications of Australian

Defence Exports



Joint
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and Trade

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Mr L D T Ferguson MP, Mr G Gibson MP, Mr J V Langmore MP)

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Membership of the Committee

37th Parliament

Senator S Loosley (Chairman)

Hon M J R MacKellar, MP (Deputy Chairman to 18 February 1994)

Mr R G Halverson OBE MP (Deputy Chairman from 23 February 1994)

Senator M Beahan (to 1 February 1994)
Senator V W Bourne
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Senator C Chamarette (to 30 September 1993)
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Senator K J Denman (from 10 February 1994)
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Senator G J Jones
Senator D Margetts (from 30 September 1993)
Senator D MacGibbon (to 19 August 1993)
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Hon N Blewett MP (to 11 February 1994)
Mr G Campbell MP

Secretary: Ms J Towner (from May 1994)
Mr P Stephens (to May 1994)

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Mr R G Halverson MP (ex officio)
Hon R J Kelly MP (from 10 May 1994)
Hon M J R MacKellar MP (ex officio)
(to 18 February 1994)
Hon D W Simmons MP
Rt Hon I McC Sinclair MP

Terms of Reference

To investigate and report on the implications of Australian defence exports in all its forms, with particular reference to:

- . the definition of what goods and services constitute defence exports;
- . guidelines, constraints and conditions governing defence exports;
- . the role of existing programs in facilitating defence exports;
- . the implications for Australia's industrial base of defence exports and imports;
- . the effect of shifting patterns of demand upon traditional Australian defence markets;
- . the strategic, political, economic, international and human rights implications of defence exports; and
- . Australia's role in the development of an international regime of monitoring and reporting defence exports.

(Referred by the Minister for Trade on 8 September 1993)

Acronyms and Abbreviations

AAAI	Association of Australian Aerospace Industries
AABCC	Australian Anti-Bases Campaign Coalition
ACAAT	Australian Campaign Against Arms Trade
ACS	Australian Customs Service
ADA	Australian Defence Association
ADF	Australian Defence Force
ADI	Australian Defence Industries
AEEMA	Australian Electrical and Electronic Manufacturers' Association
AGs	Attorney-General's Department
Austrade	Australian Trade Commission
CAA	Community Aid Abroad
CD	Conference on Disarmament
COCOM	Coordinating Committee for Multilateral Strategic Export Controls
CTBT	Comprehensive Test Ban Treaty
CWC	Chemical Weapons Convention
DCP	Defence Cooperation Program
Defence	Department of Defence
DEP	Defence Export Program
DFAT	Department of Foreign Affairs and Trade
DIC	Defence Industry Committee
DIST ¹	Department of Industry, Science and Technology
DMCEC	Defence Materiel Cooperation and Exports Committee
EFIC	Export Finance and Insurance Corporation
EMDG	Export Market Development Grants Scheme
IAEA	International Atomic Energy Agency
IDCDMCE	Inter-Departmental Committee on Defence Materiel Cooperation and Exports
IP	Intellectual Property
ITES	International Trade Enhancement Scheme
MAPW	Medical Association for the Prevention of War
MTCR	Missile Technology Control Regime
MTIA	Metal Trades Industry Association, Defence Manufacturers' Council
NPT	Nuclear Non-Proliferation Treaty
NSG	Nuclear Suppliers Group
PNDQ	People for Nuclear Disarmament, Queensland
PM&C	Department of the Prime Minister and Cabinet

¹

During the course of the inquiry, on 25 March 1994, the Government's administrative arrangements were altered with the effect that the Department of Industry, Technology and Regional Development became the Department of Industry, Science and Technology. In this report, for ease of reading, the current name of the Department is used.

SIDCDE	Standing Inter-Departmental Committee on Defence Exports
SR93	<i>Strategic Review 1993</i>
Transfield	Transfield Shipbuilding Pty Ltd
UNAA	United Nations Association of Australia
WILPF	Women's International League for Peace and Freedom
WMD	weapons of mass destruction

List of Recommendations

The Committee recommends that:

1. the Department of Defence and the Department of Foreign Affairs and Trade, in cooperation with other agencies and industry, develop a comprehensive description of both defence industry and defence exports;
2. this description be used as the basis for data collection and collation activities by all relevant agencies;
3. the Department of Defence give a high priority to enhancing its collection and collation of defence export data; and
4. both matters of national and regional security be of primary consideration when decisions regarding defence exports are taken.
5. the *Australian controls on the export of defence and related goods* be reviewed every five years by the committees responsible for defence exports in consultation with representatives from defence industries and non-government organisations responsible for conflict resolution; and
6. the Auditor-General list:
 - (a) the operation of the guidelines,
 - (b) the defence export control process, and
 - (c) all defence export facilitation activities,
 for an early performance audit.
7. all applications for defence exports automatically be referred to the Department of Foreign Affairs and Trade for consideration;
8. an appropriate computer link be established between the Department of Foreign Affairs and Trade and the Department of Defence's computer system that processes the export applications; and
9. the Government provide the Department of Foreign Affairs and Trade with the additional resources necessary to achieve the linkage.
10. the Department of Defence's *Annual report: Exports of defence and related goods* be improved and expanded consistent with the

definitional recommendations previously made and it include information such as details of the export, its value and its country of destination, the number of licences and permits approved and denied, and for the next annual report only, the time taken to process each defence export application. The Minister for Defence should table the Annual report in Parliament within six months of the conclusion of the period under scrutiny.

11. the Minister for Industry, Science and Technology take immediate action to rectify the deficiencies in Australian Custom Service's performance in the defence exports control process as outlined by this Committee.
12. the Government develop the policy on the controls on the export of defence services and that policy be included in an expanded version of the next issue of *Australian controls on the export of defence and related goods*.
13. the Department of Defence make public its Implementation Program on the *Defence industry and policy report* and the six monthly progress reports on implementation and the Department direct its resources to make the Defence Export Program fully operational;
14. the Department of Defence give a priority to endorsing appropriate Australian defence products and services particularly those developed and used by the Department of Defence and the Australian Defence Force;
15. the integration of defence exports and procurement activities in Defence be completed within six months of the tabling of this report;
16. the Department of Defence consult with Austrade and DIST to establish what additional export facilitation services and activities it might need to develop to assist smaller and medium sized defence export businesses and then implement those facilities; and
17. any charging for services under the Defence Export Program remain on a cost recovery basis.
18. the Department of Defence, in consultation with other agencies and industry, establish an appropriate mechanism for coordinating industry input to the defence export facilitation process; and
19. Commonwealth and State agencies maintain close contact on defence facilitation activities and if necessary meet once a year to address more formally areas of overlap and coordination.

20. the Department of Defence, in association with other agencies and industry, identify performance information and standards needed to assess the success or otherwise of the defence export facilitation activities and implement systems immediately to collect the necessary data for future evaluation of the system.

Chapter One

Introduction

Background to the inquiry

1.1 The export of defence and related goods from Australia has always been a matter open to controversy and question. Essentially the debate is over the conflict between the economic benefits of defence exports and the moral and strategic concerns at trade in arms; ways of addressing those concerns; and the value or otherwise of defence self-reliance.

1.2 While Australia has never been a major player in the international defence exports market, these concerns are nevertheless significant.

1.3 In evidence to the Committee Mr Gary Brown¹ made the following statement which describes the basic problem:

Given the small size of the domestic market, significant exports of defence goods and services are obviously necessary if Australian industry is to be sustainable without Government financial support. But military equipment cannot be exported as freely as, say, cars or wheat. There are always problems for defence exporting countries, mostly to do with what is sold, and to whom. In Australia this concern led to the evolution of a complicated and cumbersome system for export approvals which discouraged many companies from making the attempt. For many years Australian defence exports languished and the export approval system was widely blamed.²

1.4 In 1988 in an effort to rectify that situation the Government substantially modified its defence export policy largely in line with the Cooksey Review³ on defence exports and industry. The report proposed a significant freeing up of the bureaucratic constraints coupled with the introduction of policies and

¹ Mr Gary Brown is a Defence Advisor, Parliamentary Research Service, Department of the Parliamentary Library, Canberra. In his submission to the Committee he stated that 'The views expressed are the author's and should not be attributed to any other person or organisation.' Evidence, p. S313.

² Evidence, p. S317.

³ Cooksey, Robert J. 1986. *Review of Australia's defence exports and defence industry: Report to the Minister for Defence*. Canberra, AGPS, 569p.

procedures to facilitate defence exports. It was hoped that while the success of individual firms might fluctuate, overall profits from these exports would boost the local industry base, thus enhancing defence self-reliance.⁴ Implementation of the key recommendations of the report were expected to lead to a doubling of defence exports to around \$500 million in three to five years.⁵

1.5 The outcomes of the policy were mixed. While the freeing up of the bureaucratic environment in which defence exports operate was welcome by industry and the role and image of defence industries positively recast, the predicted boost in exports was not achieved and a number of sales or near sales, such as trainer aircraft parts to Iraq in 1990 or the Mirage aircraft to Pakistan in 1990 proved politically embarrassing for Australia. A diplomatic controversy broke out with India over the Pakistan deal.

1.6 These events, along with the ending of the Cold War, the subsequent decline in demand for arms in Europe and North America paralleled by an increase in the supply of surplus defence equipment, and the greater national and international emphasis on preventing human rights abuses, have exerted pressure on the Government to review its attitude to defence exports.

1.7 The 1992 Price Report⁶ on defence policy and industry also looked at defence exports in detail. The report recommended continued monitoring of the export guidelines and approval procedures and the establishment of the Defence Export Program (DEP) to formalise the facilitation of exports by the Department of Defence (Defence).

1.8 The basic policy direction, however, remains unchanged. In March 1994 the Minister for Defence, Senator the Hon Robert Ray, reiterated the policy as follows:

It is the Government's aim to encourage the development of defence and related industry in Australia as part of the policy of defence self-reliance. The Government believes that industry access to international markets is important for the achievement of this aim. The Government thus encourages the export of defence and related goods but recognises that there needs (sic) to be appropriate controls over the export of such goods to protect and promote Australia's strategic and foreign policy interests.⁷

⁴ Evidence, p. S317.

⁵ Cooksey, Robert J, op. cit., p. 3.

⁶ *Defence policy and industry: Report to the Minister for Defence*. November 1992. Prepared under the direction of the Parliamentary Secretary to the Minister for Defence the Hon Roger Price MP. Canberra, AGPS, xi 43p.

⁷ *Australian controls on the export of defence and related goods: Guidelines for exporters*. March 1994. Canberra, Department of Defence, p. iii.

1.9 The emphasis is on an appropriate balance between export control and facilitation. The policies are kept under continuous review with changing economic and political realities.

1.10 Given the sensitivity of this matter it is a policy which will always be under close public scrutiny. This fact, together with the inevitable questioning of arms trade in the post-Cold War, led to the referral to the Joint Standing Committee on Foreign Affairs, Defence and Trade in late 1993 of a reference on the implications of Australia's defence exports.

1.11 In so doing, the Committee picked up issues which had been raised in an incomplete inquiry on controlling military transfers referred to the Senate Standing Committee on Foreign Affairs, Defence and Trade on 8 May 1991. The Senate Committee's inquiry looked into the adequacy with which Australia's policy and guidelines for controlling military transfers safeguard Australia's defence, security and international relations. The inquiry lapsed on the dissolution of the 36th Parliament.

Inquiry into defence exports

1.12 On 8 September 1993 the Minister for Trade, Senator the Hon Peter Cook, referred the reference into the implications of Australia's defence exports to this Committee for investigation and report. The terms of reference for the inquiry are set out at page 8.

1.13 At the outset of the inquiry the Committee recognised the wide ranging nature of previous work on defence industry and exports and the strong defence focus of much of that work. Consequently, the Committee has sought to maintain its focus on exports without straying too far into related defence industry issues. It looked at defence exports from whatever perspective is relevant, not just the defence perspective.

1.14 The inquiry has not been particularly easy for the Committee to investigate since Defence's procedures and strategies on defence exports are still evolving and being implemented in response to recommendations in the Price Report and in line with Defence policy in *Strategic Review 1993* (SR93)⁸. In June this year Defence believed it was only about half way through the implementation of a three year program. However, reporting on these issues now will allow the Committee's concerns to be taken into account when decisions are made on the implementation of the system.

1.15 An outline of the way in which the Committee conducted its inquiry is at Appendix 1.

⁸ *Strategic Review 1993*. December 1993. Canberra, Department of Defence, vi 78p.

Structure of the report

1.16 The remainder of the report is structured to reflect the major concerns arising from the inquiry. Chapter 2 looks at the definition of defence exports, changing patterns of Australia's defence exports and the policy; Chapter 3 examines the guidelines, conditions and constraints governing defence exports; Chapter 4 discusses the other side of the coin - export facilitation; Chapter 5 addresses additional matters relating to the implications of defence exports and Chapter 6 follows-up on Australia's international role in the process of arms control.

Chapter Two

Definition and policy

Defining defence exports

2.1 Despite substantial policy work on defence exports¹, the concept remains imprecise. In 1989 a former Minister for Defence, the Hon Kim Beazley, MP pointed out that 'The term...is normally used in a generic sense and does not have a commonly accepted legal or statutory meaning.'² Both the Cooksey Review and the Price Report recommended improved collection and collation of export related data. Limited progress has been made in this area by Defence.

2.2 The vagaries of this situation reflect a similar situation with the term 'defence industry'. Given previous work on this matter, particularly the Allen Report³ produced in conjunction with the Price Report, a discussion of the problems is not pursued here. However, it is important to note that recent work by the Metal Trades Industry Association, Defence Manufacturers' Council (MTIA) reveals that little progress has also been made in this area.⁴

2.3 There are two major approaches to defining a defence export. These are:

. end use/user based where the defence goods and services could have a military end use irrespective of the nature of the product; and

. the military (defence related) nature of the product, irrespective of whether the user is a military or civilian organisation.⁵

¹ See Cooksey, Robert J. 1986. *Review of Australia's defence exports and defence industry: Report to the Minister for Defence*. Canberra, AGPS, pp. 16 and 251-256; *Defence policy and industry: Report to the Minister for Defence*. November 1992. Prepared under the direction of the Parliamentary Secretary to the Minister for Defence the Hon Roger Price MP. Canberra, AGPS, p. 36; and Department of Defence, Exports and International Programs Branch. November 1992. *Export facilitation*. Canberra, Department of Defence, various pagings.

² Beazley, K C, the Hon. Minister for Defence. August 1989. *House of Representatives Hansard*, 15 August 1989. Canberra, AGPS, p. 68.

³ The Allen Consulting Group Pty Ltd. October 1992. *Defence & Australian industry: Description and economic analysis: Report to the Department of Defence*. Canberra, AGPS, pp. 1-9.

⁴ Evidence, pp. S346-S348.

⁵ Evidence, pp. S239-S240; and Department of Defence, Exports and International Programs Branch, op. cit., p. 1.

2.4 The Department of Foreign Affairs and Trade (DFAT) favours the end user approach and defines defence-related exports in trade terms as '...any good or service destined for any organisation, in any country, responsible for a national security function.'⁶ As such, defence-related exports are not restricted to lethal or associated materiel; a lethal good may not be defence-related, for example sporting weapons; and the definition embraces dual-use goods which are goods that are commercial in nature but can be used for military purposes or used to manufacture or design military equipment, or technology such as computer software.

2.5 Defence favours the second approach.⁷ It is that definition which forms the basis of the defence exports controls set out in Schedule 13 to Regulation 13B of the Customs (Prohibited Exports) Regulations. Goods listed in the schedule are referred to as 'defence and related goods' and are categorised, as of March 1994, as:

- 1 Significant Military Goods being goods designed or adapted for military purposes;
- 2 Other Military Goods including equipment, information and technology; and
- 3 Non-Military Lethal Goods - equipment that is inherently lethal, incapacitating or destructive such as sporting firearms and non-military ammunition and explosives.⁸

2.6 Technology with civil and military applications - dual-use technology - is subject to export controls under Regulation 13E of the same Regulations.⁹

2.7 There are other related controls under the Customs (Prohibited Exports) Regulations that may apply to goods proposed for export. These controls relate to particular types of goods and particularly sensitive destinations. For example Regulation 13CB, Schedule 14A restricts the export of law enforcement goods, aircraft and aircraft components for Libya and is administered by DFAT; Regulation 13D(1), Schedule 15 controls the export of compounds from which chemical weapons warfare agents can be produced and is administered by DFAT in association with Defence; and Regulation 11, Schedule 9 which addresses nuclear and related goods and is administered by the Department of Primary Industries and Energy.¹⁰ These controls require continuing scrutiny by the Parliament, its committees and other agencies.

⁶ Evidence, p. S268.

⁷ Evidence, pp. 6-7.

⁸ *Australian controls on the export of defence and related goods: Guidelines for exporters.* March 1994. Canberra, Department of Defence, p. 1.

⁹ *Australian controls on the export of technology with civil and military applications: A guide for exporters and importers.* September 1992. Canberra, Department of Defence, various pagings.

¹⁰ *Australian controls on the export of defence and related goods: Guidelines for exporters,* op. cit, pp. 1-2.

2.8 Defence acknowledges:

That is a fairly narrow definition but, nevertheless, it covers that range of activity that often requires a balance of interests...That is not to say that there is not a range of other things, ranging from food to socks, that are of direct relevance to other sectors and areas of the Australian economic and commercial community. It is just that they do not command priority in defence policy making in that area.¹¹

2.9 There are significant problems with what is included in the definition. These problems are clearly revealed in using the definition to estimate the value of defence exports. Most estimates of the value of defence exports are based on approved defence export applications. However, as Mr Gary Brown¹² and others have pointed out some of the approvals are for so called 'temporary' exports, for example returns of goods sent back to Australia for repair, or under warranty, or returns of items brought to Australia for demonstration purposes. As well, some deals for which approval is given do not go through to completion, so actual exports are less than approvals. Defence is now taking these factors into account in its estimates and the data on returns to manufacturers, returns to owners and temporary exports have been separated and more clearly defined.¹³

2.10 The defence export data currently collected includes items which Defence does not consider 'real' defence exports. Defence outlined these concerns at the first *Defence Export Outlook Conference* in 1993. It said defence exports include sporting firearms and ammunition having little to do with defence industry. Offset activities are also included. In addition, the figures cover the Defence Cooperation Program (DCP) which is not a defence export in the commercial sense since Defence Cooperation is government funded and related exports are not the result of an Australian marketing effort.¹⁴

2.11 The distortion of the figures as a result of these factors is shown by Table 2.1.

2.12 In addition, defence services are emerging as a defence export though up until now they have been largely ignored.¹⁵ Defence has defined services as '...Australian industry furnishing assistance (including training) in response to a defence-related requirement in the design, engineering, development, production,

¹¹ Evidence, p. 7.

¹² Evidence, p. S319.

¹³ See *Annual report: Exports of defence and related goods from Australia 1992-93.* August 1993. Canberra, Department of Defence, Industry Involvement and Contracting Division, Unpublished, p. 1.

¹⁴ Waller, Mike. April 1993. Chairman's address. *Defence export outlook conference 1993.* Sydney, 21-23 April 1993, Unpublished paper, p. 2.

¹⁵ Evidence, p. S250.

processing, manufacture, use, operation, overhaul, repair, maintenance, modification and reconstruction of defence goods. It does not refer to government-to-government activity undertaken for non-commercial reasons.¹⁶ This data is not adequately captured in the export definition and figures, so actual exports might be greater than the current official data suggests.

TABLE 2.1: DEFENCE EXPORT PERFORMANCE ANALYSED

Value of export approvals granted in 1991-92:		\$187million
Less (to nearest \$1m):		
. "temporary" exports (\$70m)	leaves:	\$117m
. approvals not acted on (\$27m)	"	\$90m
. sporting goods exports (\$30m)	"	\$60m
. offsets (\$28m)	"	\$32m
. DCP (\$15m)	"	\$17m "real"

Source Data: For export approval values see *Senate Estimates Committee B. Additional information. Vol.1 Department of Defence*. November 1992, pp. 140-141.

For the reduction of \$90 million to \$17 million see Waller, Mike. April 1993. Chairman's address. *Defence export outlook conference 1993*. Sydney, 21-23 April 1993, Unpublished paper, p. 2.

2.13 Further, findings from a study on service exports by the LEK Partnership suggests that the boundary between goods and services is becoming increasingly blurred as service industries produce and package their services more as a good and service contracts become an integral part of the purchase of a good.¹⁷

2.14 As the situation regarding what is a defence export is not static, it is essential that the definition be reviewed at regular intervals.

2.15 Mr Gary Brown also pointed out the importance of the need to overhaul this part of the system given Australia's international commitment to

¹⁶ Evidence, p. S239.

¹⁷ LEK Partnership *Intelligent Exports and the silent revolution in services*. (Australian Trade Commission 1994).

transparency in international arms trading evidenced by its support for the United Nations Conventional Arms Register.¹⁸

2.16 Given the variety of factors that impinge on the defence export process the development of an appropriate definition of defence exports should be undertaken as a cooperative task involving Defence, the Australian Trade Commission (Austrade), DFAT, Australian Customs Service (ACS), the Australian Bureau of Statistics and industry and their associations.

2.17 The Committee notes that the current working definition used by the Department of Defence for defence exports appears clear, however, the Committee recommends that:

1. the Department of Defence and the Department of Foreign Affairs and Trade, in cooperation with other agencies and industry, develop a comprehensive description of both defence industry and defence exports;
2. this description be used as the basis for data collection and collation activities by all relevant agencies;
3. the Department of Defence give a high priority to enhancing its collection and collation of defence export data; and
4. both matters of national and regional security be of primary consideration when decisions regarding defence exports are taken.

The security environment

2.18 Since the end of the Cold War the international security environment has significantly changed. The threat of devastation from the superpowers from the nuclear arms race has dramatically receded and the United States is substantially reducing its overseas military presence. This has provided the opportunity for governments to concentrate more on trade and domestic agendas. There has been a new emphasis on resolving previously intractable international disputes such as in the Middle East and Cambodia.

2.19 International relations, however, are much more fluid and new kinds of turbulence and disorder have emerged and are emerging. These include challenges to national sovereignties and the structures of states, the rise of artificially submerged ethnic groups often accompanied with violence, and the assertion of regional powers. DFAT has said '...the new international security environment is a relatively unstable one. In response many countries have sought to build up their

¹⁸ Evidence, p. S322.

military capabilities.¹⁹ Many countries are now in a better economic position to acquire military equipment and more weapons are available from traditional suppliers, such as the former Soviet Union, as well as new ones, such as South Africa.

2.20 Current security problems tend to be more diverse in nature, geographically dispersed, often driven by local hatreds and have little significance beyond their immediate areas. Many of them generate or are accompanied by other problems such as famine, massive human rights abuse and large scale refugee flows.²⁰ It is thought that increasing inequity is often an element in internal tensions.

2.21 The Minister for Foreign Affairs and Trade, Senator the Hon Gareth Evans, has stressed that:

It is now generally accepted that security is multi-dimensional in character: that in addition to military threats, the state's security can be menaced, for example, by threats to its economic well-being; political stability and social harmony; to the health of its citizens; or to its environment.²¹

2.22 Australia is at the forefront of those arguing the multi-dimensional nature of security and that the security of states within a region can be enhanced only if political, economic, military and other problems are approached cooperatively and seen as parts of a whole. It has also led the way in advocating that those issues be addressed through dialogue and building of trust and confidence. Australia has promoted these concepts throughout the Asia Pacific region.²²

2.23 Australia's security environment is one of the more stable in the world. DFAT reported many of the countries of the Asia Pacific region are modernising their armed forces, in much the same way as Australia did in the 1980s.²³ It pointed out that:

...This force modernisation is occurring as their national security priorities are changing, their economic wealth is increasing, and at a time when market conditions are favourable to purchasers. Most nations in the region are taking the opportunity, with arms purchases, to enhance their own productive capacities and to import technology, in part as a basis for further industrial stimulus.

¹⁹ Evidence, p. S262.
²⁰ Evans, Gareth, Senator the Hon. 1993. *Cooperating for peace: The global agenda for the 1990s and beyond*. St Leonards, Allen & Unwin, p. 5.
²¹ Evans, Gareth, Senator the Hon, *ibid.*, pp. 5-6.
²² Evidence, p. S262.
²³ Evidence, pp. S263 and S266.

Despite the trend, regional arms are not being acquired in competition. Expenditures are not exorbitant, and [the] quantities of equipment ordered are relatively small. Force modernisation plans throughout the region are basically geared to specific national needs and among Australian neighbours there is no interest in power projection capabilities...

A build-up of arms, nonetheless, is an issue that requires watching. Various factors could trigger an arms race, including anxieties about China's force modernisation and future strategic designs, or about the future presence and commitment of the US in the Asia Pacific, or about internal rivalry within ASEAN. The developing regional security dialogue process, supported by emerging multilateral security arrangements, can help contain those concerns.²⁴

Shifting patterns of demand for defence exports

2.24 Consistent with the changing security environment, the market for military goods and services is changing. Major powers in Europe and North America are cutting back defence expenditures and releasing surplus items for sale. World exports of major conventional weapons have been declining since the late 1980s as shown by Table 2.2.

TABLE 2.2: WORLD TRADE IN MAJOR CONVENTIONAL WEAPONS 1987-92 (Constant 1990 \$US million)

Year	Value	%Change
1987	45 870	na
1988	40 034	-12.7
1989	38 133	- 4.7
1990	29 972	-21.4
1991	24 470	-18.4
1992	18 405	-24.8

Source: Stockholm International Peace Research Institute. 1993. *SIPRI Yearbook 1993: World armaments and disarmament*. Oxford, Oxford University Press, p. 444; and *SIPRI Yearbook 1992*. p. 272.

²⁴ Evidence, p. S266.

2.25 In the period 1988-92 the leading exporters of major conventional weapons were the USA, USSR/Russia, France, Germany FR and China. USA exports of those weapons in 1992 were valued at \$8429 million (at constant 1990 \$US). During the same period the leading importers of major conventional weapons were India, Japan, Saudi Arabia, Afghanistan and Greece with Indian imports in 1992 of \$1197 million (at constant 1990 \$US).²⁵

2.26 On a global scale there has been an increase in the supply of equipment at the same time demand is falling, creating a 'buyers market'. Competition is fierce. Demand, however, remains strong in the Middle East and Asia.

2.27 The Defence Intelligence Organisation reported the following trends in regional defence spending:

...while there has been relatively modest growth in the absolute level of regional defence spending since 1987-88 ...[see Table 2.3]...most governments have achieved this with either declining or stable shares of GDP and Government Spending allocated to defence...[see Tables 2.4 and 2.5]...Real growth in defence spending has been achieved in this climate due to sustained, healthy rates of growth in GDP since 1986-87...[see Table 2.6]. Nevertheless, of the ASEAN countries, only Thailand and Singapore are now spending substantially more than the levels recorded in 1981. Over the period, real defence expenditure has also risen for Japan, China and India, but care should be taken with these estimates as they relate directly to official figures and do not include some off-budget funding for certain programs and Defence Research and Development. Chinese defence expenditure is particularly difficult to convert into a comparable statistic...²⁶

2.28 Defence suggests that:

Australian participation in regional procurement of defence goods and services could significantly advance Australian international and strategic interests. Changing ASEAN defence demand, a growing sense of ASEAN strategic community, and increasingly competitive Australian defence industries make such participation an increasingly realistic prospect.²⁷

²⁵ Stockholm International Peace Research Institute. 1993. *SIPRI Yearbook 1993: World armaments and disarmament*. Oxford, Oxford University Press, pp. 444-445.
²⁶ Evidence, p. S440.
²⁷ Evidence, p. S247.

TABLE 2.3: COMPARATIVE DEFENCE EXPENDITURE - SELECTED COUNTRIES 1981-94 (Constant 1990 \$US Million)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993e	1994f
<i>Indonesia</i>	1996	2022	1744	1755	1819	1874	1828	1504	1583	1636	1696	1759	1840	-
<i>Singapore</i>	1013	1045	956	1308	1483	1387	1409	1491	1617	1886	1894	2047	2282	2408
<i>Malaysia</i>	1479	1599	1400	1083	957	1022	863	879	1048	1124	1548	1538	1603	1684
<i>Thailand</i>	1578	1757	1762	1913	2198	2051	1978	1933	1979	2083	2300	2461	2676	2764
<i>Philippines</i>	767	709	683	461	470	694	700	851	960	959	919	686	644	628
<i>Papua New Guinea</i>	41	40	40	48	45	47	48	44	50	70	90	80	80	-
<i>Australia</i>	5516	5422	5671	5904	6069	6245	6220	6152	6182	6182	6182	6182	6182	6136
<i>New Zealand</i>	730	760	750	782	790	836	866	888	807	770	709	653	699	718
<i>India</i>	5690	6194	6738	7354	7505	9144	9883	10041	10219	9913	9233	9210	9391	9341
<i>China</i>	6845	6143	6100	5824	5738	5798	5617	5158	5485	6057	6535	6951	7378	8287
<i>Japan</i>	18983	19987	20976	21855	23009	24094	25340	26554	27613	28724	29623	30215	30501	30570
<i>United States</i>	226739	247979	270402	284027	302411	319008	319045	316869	318728	363794	288709	273057	262676	254128
<i>United Kingdom</i>	39902	42316	43905	44909	44325	44393	41737	40962	40363	41400	41129	37854	36784	36199
<i>Canada</i>	7429	8147	8639	9363	9771	10123	10053	10395	10236	10507	10705	10297	9794	8922

Notes

- 1 Sources: official defence budgets, and the IMF's Government Finance Statistics Yearbook and International Financial Statistics (US figures are Total Defence Outlays).
- 2 Years are Fiscal Years. The data used represents actual outcomes, outlays or outturns for defence spending in preference to defence budgets, where possible.
- 3 Conventional sign: '-' = not available; 'e' = estimate.
- 4 The figures in this table are presented in constant 1990 US dollars millions (at 1990 exchange rates).
- 5 Constant dollar estimates were derived using IMF and OECD GDP deflators for all countries except Australia and the US where Defence deflators were available.
- 6 Chinese figures are based on officially released estimates, converted to 1990 US\$. The resulting estimates are not particularly reliable due to unknown amounts of hidden and off-budget expenditure; unreliable price data in the centrally planned economy (to convert current to constant terms); and the artificial exchange rate used to convert yuan to US\$.
- 7 Australian estimates from 1990 to 1993 have been revised due to a change in the (1993-94) Budget classification of superannuation funding.
- 8 Due to a lack of reliable source data, DIO is unable to provide defence spending data for Brunei, the Indonesian countries and North Korea. We do not have the resources required to produce these figures for Pakistan, Burma, South Korea and Taiwan.

TABLE 2.4: DEFENCE EXPENDITURE AS A PERCENTAGE OF GDP - SELECTED COUNTRIES 1981-96

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993e	1994f	1995f	1996f
<i>Indonesia</i>	3.0	2.9	2.4	2.3	2.3	2.3	1.8	1.6	1.6	1.5	1.5	1.5	1.4	1.6	1.6	1.6
<i>Singapore</i>	5.1	4.9	4.2	5.3	6.1	5.6	5.2	4.9	4.9	5.3	5.0	5.1	5.2	5.1	5.5	5.5
<i>Malaysia</i>	5.8	5.9	4.9	3.5	3.1	3.3	2.6	2.5	2.7	2.6	3.3	3.0	2.9	2.9	3.0	3.1
<i>Thailand</i>	3.8	4.1	3.8	3.9	4.3	3.8	3.4	2.9	2.7	2.6	2.6	2.6	2.6	2.5	2.6	2.6
<i>Philippines</i>	2.0	1.8	1.7	1.2	1.4	1.9	1.8	2.1	2.2	2.2	2.1	1.5	1.3	1.4	1.4	1.4
<i>Papua New Guinea</i>	1.4	1.4	1.3	1.5	1.4	1.4	1.3	1.3	1.5	2.2	2.6	2.0	1.8	"	"	"
<i>Australia</i>	2.5	2.6	2.8	2.8	2.8	2.8	2.7	2.5	2.3	2.1	2.2	2.3	2.4	2.3	2.1	2.1
<i>New Zealand</i>	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.1	1.9	1.8	1.7	1.5	1.6	1.6	1.6	1.6
<i>India</i>	3.1	3.2	3.3	3.5	3.3	3.9	4.0	3.7	3.5	3.3	3.0	2.9	2.8	2.9	2.9	2.9
<i>China</i>	3.5	3.4	3.0	2.6	2.2	2.1	1.9	1.5	1.6	1.6	1.6	1.5	1.4	1.4	1.5	1.5
<i>Japan</i>	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
<i>United States</i>	5.3	5.9	6.3	6.2	6.4	6.5	6.3	6.0	5.9	5.5	5.2	4.8	4.5	4.2	3.9	3.6
<i>United Kingdom</i>	5.3	5.5	5.5	5.6	5.3	5.1	4.6	4.3	4.1	4.2	4.3	4.0	3.8	3.6	3.3	"
<i>Canada</i>	1.7	1.9	1.9	2.0	2.0	2.0	1.9	1.8	1.8	1.8	1.9	1.8	1.7	1.5	"	"
<i>Netherlands</i>	3.1	3.1	3.1	3.1	3.0	2.9	2.9	2.8	2.7	2.7	2.5	2.5	"	"	"	"
<i>Sweden</i>	3.2	3.3	3.3	3.1	3.0	2.9	2.9	2.9	2.7	2.7	2.8	2.7	"	"	"	"
<i>Germany</i>	2.9	2.9	2.9	2.8	2.8	2.7	2.7	2.5	2.5	2.4	2.0	1.9	"	"	"	"
<i>France</i>	3.1	3.1	3.2	2.7	2.8	2.7	2.6	2.9	2.7	2.9	2.9	2.8	3.0	3.1	"	"

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Notes:

1. Figures for China and Japan are a percentage of GNP.
2. Years are Fiscal Years; - = not available; e = estimate; f = forecast.
3. Most GDP figures for 1993 are estimates. Beyond 1993, all figures are forecasts.
4. Sources: official defence budgets; and the IMF's Government Finance Statistics Yearbook and International Financial Statistics
5. US figures are based on Defence Outlays, not Defense Budget Authorities; Chinese figures are official estimates; and Indian estimates were reviewed by DIO in 1993.

Source: Defence Intelligence Organisation. June 1994. Evidence, p. S448.

TABLE 2.5: DEFENCE EXPENDITURE AS A PERCENTAGE OF GOVERNMENT SPENDING - SELECTED COUNTRIES 1981-94

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993e	1994f
<i>Indonesia</i>	12.1	13.6	11.6	12.3	10.8	9.3	8.4	8.1	8.2	8.0	6.7	6.7	6.8	"
<i>Singapore</i>	21.9	23.1	18.5	20.1	22.3	18.8	14.4	21.0	21.2	23.5	23.9	25.0	25.0	"
<i>Malaysia</i>	13.7	13.8	13.4	10.8	9.5	8.4	8.2	8.3	9.0	8.5	11.4	10.8	11.6	11.5
<i>Thailand</i>	20.1	19.8	19.4	19.8	20.2	19.0	18.7	18.6	17.8	17.3	17.1	15.0	14.1	13.7
<i>Philippines</i>	14.2	13.6	13.6	12.0	11.9	14.1	11.6	13.0	12.4	10.8	10.8	7.6	6.4	6.1
<i>Papua New Guinea</i>	4.0	4.1	4.0	4.7	4.4	4.3	4.4	4.3	4.4	6.1	7.7	6.1	"	"
<i>Australia</i>	9.6	9.8	9.5	9.2	9.2	9.4	9.5	9.3	9.4	9.0	8.8	8.5	8.9	8.5
<i>New Zealand</i>	5.0	4.9	4.6	4.6	4.6	4.7	5.1	5.2	4.6	4.4	4.2	4.0	4.2	4.2
<i>India</i>	23.7	23.7	23.7	22.8	20.3	22.0	22.4	19.3	17.8	16.5	16.3	16.1	16.6	17.5
<i>China</i>	15.1	15.3	13.7	11.7	10.4	8.6	8.6	8.1	8.3	8.4	8.5	8.4	8.1	9.7
<i>Japan</i>	5.0	5.1	5.2	5.4	5.6	5.8	5.9	6.0	5.8	6.3	6.2	6.3	6.4	6.4
<i>United States</i>	23.2	24.8	26.0	26.7	26.7	27.6	28.1	27.3	26.5	23.8	22.4	20.7	19.3	18.5
<i>United Kingdom</i>	11.4	11.8	11.9	11.9	11.6	11.5	10.7	10.6	10.3	10.5	10.1	9.2	8.4	8.1
<i>Canada</i>	7.8	7.9	7.9	7.9	8.0	8.3	8.1	8.4	8.1	8.2	8.2	7.9	7.5	6.7
<i>Netherlands</i>	5.6	5.4	5.3	5.3	5.3	5.2	5.0	5.1	5.0	5.1	4.8	"	"	"
<i>Sweden</i>	7.3	7.3	6.9	6.7	6.5	6.5	6.6	6.8	6.5	6.4	6.3	"	"	"
<i>Germany</i>	9.2	9.1	9.3	9.0	9.0	8.9	9.7	8.3	8.3	8.1	6.1	"	"	"
<i>France</i>	7.3	7.2	7.3	6.1	6.3	6.2	6.0	6.6	6.3	6.8	6.6	"	"	"

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- Notes:
1. Sources: official defence budgets; and the IMF's 1993 Government Finance Statistics Yearbook and International Financial Statistics Yearbook.
 2. Years are Fiscal Years.
 3. Conventional sign: - = not available; e = estimate.
 4. Chinese estimates are based on official government figures which do not include significant hidden and off-budget funding.

Source: Defence Intelligence Organisation. June 1994. Evidence, p. S449.

TABLE 2.6: GROWTH IN REAL GDP - SELECTED COUNTRIES 1981-96 (Constant 1990 \$US Billion)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993e	1994f	1995f	1996f
Indonesia	67.1	68.6	71.6	76.6	78.4	83.0	87.1	92.1	99.0	106.9	114.0	119.9	127.8	134.2	140.9	148.0
Singapore	19.4	20.7	22.4	24.3	23.9	24.3	26.6	29.6	32.3	35.0	37.3	39.5	43.1	46.3	49.3	52.5
Malaysia	25.6	27.1	28.8	31.0	30.7	31.0	32.7	35.6	38.9	42.8	46.4	50.5	54.7	59.1	63.9	69.0
Thailand	41.2	42.8	45.9	49.2	50.9	53.4	58.4	66.2	74.1	81.6	88.3	95.0	102.4	110.1	118.9	128.4
Philippines	39.9	40.0	40.7	37.0	34.3	36.5	38.3	40.7	43.1	44.1	44.0	44.0	49.6	50.5	51.6	52.6
Papua New Guinea	2.9	3.0	3.1	3.0	3.2	3.3	3.4	3.5	3.3	3.2	3.5	4.0	4.6
Australia	223.9	222.7	224.7	241.5	252.9	257.3	269.2	279.3	290.1	294.5	291.6	297.4	300.9	309.8	323.8	336.7
New Zealand	37.2	38.2	39.9	42.0	41.6	42.9	42.6	43.1	42.7	42.8	41.9	43.0	44.3	45.8	47.2	48.6
India	184.0	191.0	205.2	212.7	224.7	235.5	246.6	271.2	289.0	303.3	305.4	320.9	338.4	357.0	373.1	389.9
China	166.1	180.9	200.0	228.2	256.4	279.3	302.8	332.9	349.5	369.9	406.8	451.6	536.0	610.4	659.3	712.0
Japan	2025.3	2092.0	2148.5	2241.7	2358.5	2419.7	2525.2	2682.2	2811.6	2952.3	3069.6	3107.3	3091.9	3107.2	3178.2	3241.8
United States	4241.8	4208.9	4293.4	4582.0	4749.3	4914.4	5024.3	5225.0	5381.5	5460.0	5476.5	5576.0	5730.3	5900.2	6071.9	6231.2
United Kingdom	755.1	765.0	794.1	806.6	836.6	874.1	916.6	956.7	976.8	982.2	960.5	953.9	973.0	1001.2	1030.2	..
Canada	447.6	433.2	447.0	474.9	497.7	514.1	536.2	562.2	575.4	572.3	562.6	567.9	582.1	603.7	628.4	..

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Notes:

1. Figures for China and Japan are for GNP.
2. Years are Fiscal Years; ..=not available; e=estimate; f=forecast.
3. Most GDP figures for 1993 are estimates. Beyond 1993 the figures available are forecasts.
4. Sources: official budgets; OECD Economic Outlook; and the IMF's International Financial Statistics.
5. Chinese figures are official estimates. DIO does not maintain GDP estimates for Taiwan, the Koreans, Vietnam or Brunei.

Source: Defence Intelligence Organisation. June 1994. Evidence, p. S446.

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2.29 However, the size of the ASEAN market is not much larger than Australian defence spending, as shown by Table 2.3. Consequently, Australia is pursuing a range of markets for exporting defence goods and services. These are discussed in more detail in Chapter 4.

Value and nature of defence exports

2.30 Australia's defence related industry is characterised by a comparatively modest domestic market, significant levels of foreign ownership, comparatively high levels of build-to-print manufacturing and modest levels of research and development investment.²⁸ Australia's largest defence dependent manufacturer is Australian Defence Industries (ADI) and in 1992-93 its revenue was \$464 million.

2.31 Despite the deficiencies in the Australian defence export data outlined above and the distortion this leads to, there is a general consensus on the following broad aspects of the value and nature of Australia's defence exports. Defence provided the following most up-to-date data.²⁹

2.32 Australia is a relatively small defence exporter. The total value of Australian exports of defence and related goods in 1992-93 was \$36.8 million.³⁰

2.33 This represents a very minor component of Australian exports. Defence exports represent less than one per cent of Australian exports of elaborately transformed manufactures, which in turn represented about 14 per cent of Australia's exports of goods.

2.34 Table 2.7 shows the value of defence exports from 1983 to 1993. The trend in the growth of export sales over time was distorted by the sales of 'big ticket' items and changes in the definition of defence exports.

2.35 Major customers for Australian defence exports for 1992-93 are shown by Figure 2.1. However, the trend is obscured by a single large order for two patrol boats to Hong Kong, whereas exports to this market were insignificant in previous years. DFAT stated that Australia has no traditional markets for defence-related goods and services. While North America and Europe may have predominated in the past there are few direct exports since exports to those countries have mainly been the result of offset obligations.³¹ Over the past few years the value of exports to ASEAN nations has been increasing, but remains less than 10 per cent of the total.

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29
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Department of Defence, Exports and International Programs Branch, op. cit., p. 3-10. Evidence, pp. S241-S248.

This figure does not include values for Returns to Manufacturers, Returns to Owners and Temporary Exports. Including the latter three categories, the total value of defence exports for 1992-93 was \$46.3 million. Annual report: Exports of defence and related goods from Australia 1992-93, op. cit., p. 1.

31

Evidence, p. S278.

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2.36 To date the main sources of Australian defence exports have been the munitions, aerospace, electronics and shipbuilding industries. The major products exported in 1991-92, the only year for which data in this form is currently available, are shown by Figure 2.2.

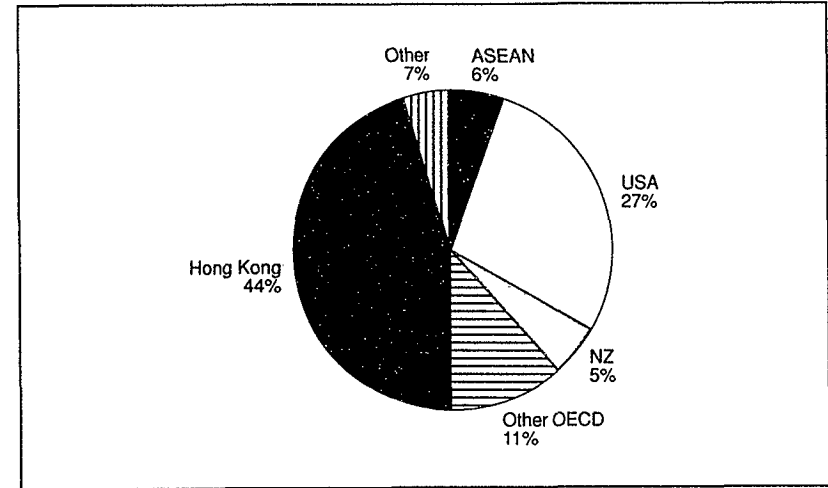
TABLE 2.7: VALUE OF EXPORTS OF DEFENCE AND RELATED GOODS 1983-93 (\$ million of that year)

Financial Year	Approvals for Permits & Licences	Actual Exports	'Other' Actual Exports ¹	Total Actual Exports
1983-84	16.9 ²			- ³
1984-85	4.7 ²			- ³
1985-86	40.4 ²			- ³
1986-87	42.5 ²			- ³
1987-88	14.6 ²			- ³
1988-89	45.4 ²			- ³
1989-90		122.4 ⁴	n/a	
1990-91		129.4 ⁴	n/a	
1991-92		69.2 ⁵	21.6 ⁵	90.8
1992-93		36.9 ⁵	9.4 ⁵	46.3

- Notes:**
- 'Other' Permits cover Returns to Manufacturers for repair/warranty, Returns to Owners after repair in Australia and Temporary Exports as defined in the source publication.
 - This includes approved values relating to 'Other' permits and licences.
 - Statistics on actual exports are not available for these years.
 - Values represent verifications of approvals in that financial year. The verifications are based on returns from exporters or on Customs 'EXIT' data. As permits are usually valid for 12 months, the actual export can take place up to a year after the approval, that is, possibly in the following financial year.
 - The actual values represent exports occurring in that financial year, irrespective of the year of approval.

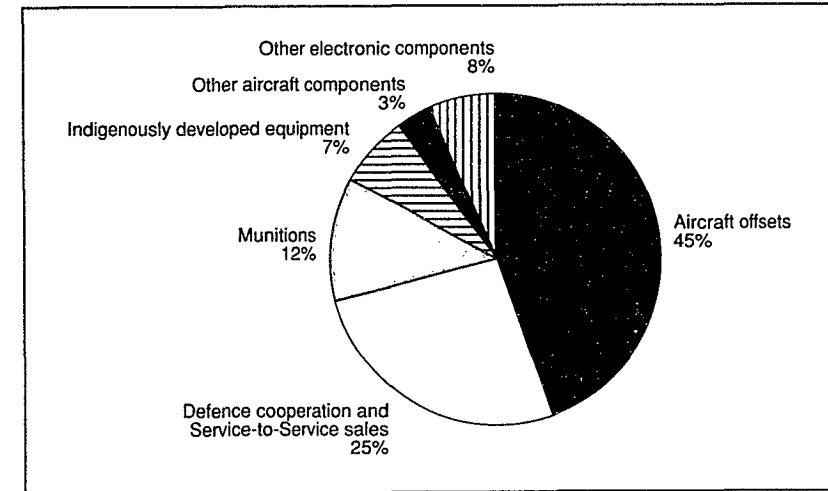
Source: Annual report: *Exports of defence and related goods from Australia 1992-93*. August 1993. Canberra, Department of Defence, Industry Involvement and Contracting Division, p. 19.

FIGURE 2.1: CUSTOMERS FOR AUSTRALIAN DEFENCE EXPORTS 1992-93



Source: Evidence, p. S242.

FIGURE 2.2: EXPORTS OF DEFENCE GOODS - MAJOR PRODUCTS 1991-92



Source: Evidence, p. S243.

2.37 The commercial significance of defence exports is not high. They accounted for less than five per cent of the turnover of even those industries dominated by the Defence customer, that is, shipbuilding and repair; aerospace; ordnance; electronics, information technology and communications; and land vehicles. With the exception of the aerospace industry in which defence exports were significant for some business units, there are very few large firms in Australia where exports of defence goods accounted for a significant share of their sales. However, defence exports are important for some specialised small firms or for specialised business units within larger firms.

2.38 Against this pattern of exports, the Australian Defence Force (ADF) imported about \$1.5 billion of defence equipment in 1992-93.

2.39 For a significant period of time the more sophisticated items of defence equipment have been purchased from overseas and Australia's independence to export is constrained by the need to get the consent of another country to export the technology. For example, for Australia to export the Collins class submarines or similar ones it has to get the permission of the Swedish and a similar situation exists with Austria and the Steyr rifle.

2.40 Despite this situation there does seem to be potential to build on the existing capabilities and since the late 1980s Australia's policy on defence exports has been developed to achieve this.

2.41 Australia's defence industries' sales will depend on their international competitiveness and focusing on particular markets.

The policy

2.42 Australia has a long history of policy on the export of military goods dating back to federation mainly through the *Customs Act 1901*.³²

2.43 Since the release of the Defence policy guidelines for industry³³ in 1984, Defence has maintained its emphasis on the need for defence industry policy to be consistent with broader Defence policy and corresponding strategic requirements.

³² See Quinn, Peter. March/April 1994. Australia's defence and related export controls and exports into Southeast Asia. *Australian Defence Force Journal*, No. 105, pp. 45-50; and Woodman, Stewart. November 1993. Exploding myths: Defence policy for industry beyond the Price Review. Draft paper presented to *Australia's defence industry: Needs and opportunities*, Australian Defence Force Studies Centre Conference. Canberra, Australian Defence Force Academy, November 1993, 21p.

³³ Defence policy for Australian industry. Ministerial statement 3 June 1984 by the Minister for Defence, the Hon Gordon Scholes MP, and the Minister for Defence Support, the Hon Brian Howe MP. *Commonwealth Record*, AGPS, pp. 965-966.

2.44 The current defence exports policy stems from 1988 when the Government redirected its policy to encourage the export of defence and related goods within a framework of responsible and realistic export controls. The policy was developed largely in response to the findings of the Cooksey Review and the 1987 White Paper³⁴ on defence which emphasised self-reliance in Australia's defence position.

2.45 As previously outlined, in 1992 the Price Report also looked at defence exports in detail. The report signalled the Government's ongoing commitment to the role of Australian industry's support of Australia's defence which could only be achieved by moving to a partnership between Australian industry and Defence.³⁵

2.46 The Government accepted all of the recommendations of the Price Report and they are being progressively implemented. This requires the cooperation of both Australian industry and Defence. Of the almost eighty recommendations, twenty specifically related to defence exports policy. It is the broad thrust of those recommendations which is the basis of the current defence exports policy.

2.47 The major policy changes were the creation of the DEP; greater coordination of export activities in Defence; greater transparency and openness of Defence's dealings with industry; more sharing of information with industry; enhanced export facilitation; the development of a strategy for export activities; enhancement of regional trade in defence-related goods and services; and monitoring the export guidelines. These activities will be elaborated on in the next two chapters.

2.48 Defence has the major role in coordinating the export activities. This is achieved through the Exports and International Programs Branch.

2.49 In the early 1990s the Government emphasised the importance of South East Asia for Australia's economic and political future. Thus a thrust in the initial work in promoting exports has been on the ASEAN nations as well as to North America and Europe/United Kingdom.

2.50 This view was reinforced in December 1993 in SR93 when the Government emphasised the need for industry and exports policy to focus on increased engagement in the region as well as the maintenance of Australia's alliance relationships and a commitment to ensuring international peace and security. SR93 is seen as the beginning of the process of adapting Australia's strategic and defence policies to the challenges of the still emerging post-Cold War world.

³⁴ *The defence of Australia 1987*. March 1987. Presented to Parliament by the Minister for Defence the Hon Kim C Beazley MP. Canberra, AGPS, x 112p.

³⁵ Price, Roger, op. cit., p. i.

2.51 DFAT stresses that 'Defence exports policy should be consistent both with Australia's national security and foreign and trade policy objectives.³⁶ While Defence is taking these wider issues into account there are benefits in more consistently and explicitly demonstrating this and the extent to which it affects regional security.

2.52 In May this year the Government announced it would '...strengthen the integration of trade and industry policy and activity to reflect its determination to achieve greater export orientation across Australian industry.'³⁷

2.53 Despite the Dibb Report on strategic priorities³⁸, produced as part of the Price Report, Dr Stewart Woodman of the Strategic and Defence Studies Centre, Australian National University³⁹ and others are concerned that there is a lack of strategic direction in defence industry and exports policy. However, with SR93, the release of the draft Defence Exports Strategy Statement⁴⁰ in March 1994 and the forthcoming Defence White Paper later this year, this criticism is beginning to be addressed. Even with that work, there is substantial ongoing effort needed in this area.

2.54 Community Aid Abroad (CAA) says compared with other countries Australia's defence export controls are considered fairly strict, though not strict enough from CAA's viewpoint.⁴¹ DFAT advised that:

It is a widespread international practice to place controls on military exports. There is, however, a trend towards giving greater weight to commercial considerations while at the same time maintaining the integrity of the controls.⁴²

2.55 On the facilitation side several countries, like Australia, have set up coordinating bodies for defence exports. In Canada this body is the Aerospace and Defence Programs Division of the International Bureau located in the Department of External Affairs and International Trade, the United Kingdom has the British Defence Export Services Organisation in the Ministry of Defence, and in the USA the Centre for Defence Trade in the US State Department performs the function. In all cases there are a number of other agencies involved, with the departments of defence in each country playing an important role.

³⁶ Evidence, p. S265.

³⁷ *Working nation: Policies and programs*. May 1994. Presented by the Prime Minister, the Hon P J Keating MP. Canberra, AGPS, p. 79.

³⁸ Dibb, Paul. November 1992. *The strategic priorities for Australian defence industry*. Report to the Department of Defence. Canberra, AGPS, 81p.

³⁹ Woodman, Stewart, op. cit., p. 7.

⁴⁰ *Draft of the defence export strategy statement*. March 1994. Department of Defence, Unpublished, 11p.

⁴¹ Evidence, p. S307.

⁴² Evidence, p. S272.

2.56 Compared with Australia many countries are reported to provide much greater incentives in the form of soft concessional loans and other devices to potential customers to buy their military products and are less cautious than Australia about who they sell to and for what purpose. While the MTIA says such loans can provide crippling competition for Australian defence businesses⁴³ the Government believes it is important for Australia to maintain a responsible defence exports stance.

2.57 Defence believes the benefits of defence exports, or the rationale for those exports, are threefold: they enhance Australia's strategic interests through regional engagement, promote defence self-reliance and there are commercial advantages to both the ADF and industry.⁴⁴

2.58 The non-government organisations concerned with conflict resolution such as the United Nations Association of Australia (UNAA), the Women's International League for Peace and Freedom (WILPF), the Australian Anti-Bases Campaign Coalition (AABCC) and the People for Nuclear Disarmament, Queensland (PNDQ) take a different point of view. Their views range from a total ban on defence exports, to seeking a reversal of the exports policy to tightening it up in a number of areas.

2.59 The UNAA believes new ways of dealing with the global response to crisis should be sought. It recommends Australia take a lead in the development of conflict resolving skills, particularly in the United Nations, it applauds the ADF's establishment of a Peacekeeping Centre, but considers Australia should not participate at an official level in arms trade fairs and should not include arms transfers as part of the overseas aid program.⁴⁵

2.60 Many of the non-government organisations, in particular the Medical Association for the Prevention of War (MAPW) are concerned about the costs of defence expenditure on arms and the fact that such build-ups divert valuable resources from constructive projects.⁴⁶ The MAPW believes that '...in developing countries, such resource diversion interferes with the satisfaction of even the most basic of human needs (clean water, food, shelter etc)...'⁴⁷

2.61 The Secure Australia Project stresses the need to reassess the whole concept of Australian security, rather than trying to offset the costs of defence self-reliance by enhanced exports of arms.⁴⁸ This view is shared by the War Resisters League, Australia.⁴⁹ A broader view of security is emphasised by several organisations including the Australian Campaign Against Arms Trade (ACAAT)

⁴³ Evidence, p. S210.

⁴⁴ Evidence, p. S236.

⁴⁵ Evidence, pp. S31-S35.

⁴⁶ Evidence, pp. S89 and S95-S96.

⁴⁷ Evidence, p. S96.

⁴⁸ Evidence, p. S135.

⁴⁹ Evidence, p. S131.

which believes the focus should be on cooperative security and reassurance, and not promote a deterrence attitude.⁵⁰

2.62 A number of organisations including the UNAA, the UTS Students Association, the WILPF, the AABCC and the PNDQ recommend the Government develop a workable conversion policy whereby civilian uses are found for the tools and output of defence production.⁵¹

Conclusion

2.63 The Government has taken a responsible approach to its defence exports policy by matching a facilitation program with a comprehensive set of guidelines and controls on defence exports. It is difficult to achieve a balance between these two factors. The Government has seriously attempted to achieve such a balance and the rest of the report addresses how this is done.

⁵⁰ Evidence, p. S85.

⁵¹ Evidence, pp. S25, S35, S65, S112-S115, S142-S143 and S158-S167.

Chapter Three

Guidelines, constraints and conditions governing defence exports

3.1 Each year there are about 1000 to 1500 applications submitted for exporting defence and related goods (see Table 3.1). Of those about five per cent are considered sensitive. Failure of the system to detect sensitive applications appears to be small but where it has occurred it has been significant and politically embarrassing.

3.2 Australia has a well established system of controls on defence exports. Those controls do not preclude the export of defence and related goods, rather, they mean that an exporter requires Government approval via a permit or licence to export the goods. The controls are implemented through the Customs Act and the Customs (Prohibited Exports) Regulations. Few applications are rejected as shown by Table 3.1.¹

3.3 As outlined in Chapter 2 such controls have been applied since 1901. The complicated and cumbersome system of export approvals that had developed over the years was overhauled in 1988 in response to the Cooksey Review. In 1989 the Government issued a set of guidelines for exporters entitled *Australian controls on the export of defence and related goods*² which publicly outlined for the first time the criteria used in assessing defence export applications and the process. To make recommendations on the applications the Standing Inter-Departmental Committee on Defence Exports (SIDCDE) was established (see paragraphs 3.21-3.30).

3.4 Compared with the pre-1989 situation the guidelines reversed the 'onus-of-proof' so that instead of the exporter having to show why they should be permitted to export defence and related goods, the bureaucracy had to show why an export should be stopped; authority for export approval was concentrated in Defence with DFAT restricted to an advisory role; and procedures were streamlined so that a response to an export application had to be provided in 21 days.

¹ In the period 1 July 1991 to 6 December 1993 only six permits or licences were denied under Regulations 11, 13B, 13C, 13CB and 13D of the Customs (Prohibited Exports) Regulations under the *Customs Act 1901*. *Senate Hansard*, 28 February 1994, Canberra, AGPS, p. 1141.

² *Australian controls on the export of defence and related goods: Guidelines for exporters*. March 1994. Canberra, Department of Defence, v 14p appendices various pagings.

3.5 Since then the guidelines have been refined and reissued in March 1992 and March 1994. On both occasions some procedures have been restructured but the basic policy principles established in 1989 essentially have remained the same.

**TABLE 3.1: DEFENCE EXPORT APPROVALS AND DENIALS
1983-84 TO 1993-94**

Year	Approvals for Export	Approvals in Principle AIP	Denials for Export	Denials of AIP requests
1983-84	193	*	*	*
1984-85	303	*	*	*
1985-86	298	*	*	*
1986-87	246	*	*	*
1987-88	289	*	*	*
1988-89	346	*	*	*
1989-90	1488	49	5	7
1990-91	1892	31	3	9
1991-92	1679	147	3	2
1992-93	1066	278	2	20
1993-94	1490	219	2	1

Notes:

- 1 * No comparable statistics available.
- 2 The methodology for accounting for defence exports has changed several times over the period and therefore directly comparable statistics are not available for the whole period.
- 3 Denial data refers to formal denials by the Minister.
- 4 In addition, many other applications are cancelled or withdrawn following advice from the Department to the applicant that export approval would be unlikely to be granted. Cases in this category are estimated at around 100 per year over the last three years.

Source: Department of Defence. Evidence, p. S467.

3.6 The 1994 version of the guidelines is considered clearer, more informative and more user friendly. More emphasis is placed on incentives for exporting and there is a little more flexibility, if necessary, to deal with difficult policy considerations.

3.7 The new guidelines specifically include economic policy in appraisal of export applications. The factors considered by the Government in deciding whether a proposed export should be approved have been extended to take into account: the implications [of the proposed sale] for global and regional stability; potential economic, industrial, employment and technological benefits; the implications of denying an export on Australia's strategic and regional relations and for our commercial credibility; and the potential for alternative supply from countries friendly to Australia and with acceptable values.³

3.8 The current guidelines are a significant improvement on past efforts. Defence's Exports and International Programs Branch has devoted much of its effort over the past year and a half to getting these guidelines right. Following their publication members of SIDCDE have held seminars in locations around the country to explain the new arrangements to industry and other government agencies involved.

3.9 Work on export controls is undertaken by the Strategic Trade Policy and Operations Section with an annual staff allocation of about 12.5 at a cost of about \$582 000⁴ and an expected staffing in 1994-95 of about 14 at a cost of about \$600 000 and with an expected operating budget of about \$216 000.⁵

3.10 Although many of the submissions received by the Committee predate the publication of the March 1994 guidelines, some general concerns and several specific matters raised have not been addressed in the current guidelines. Proponents for change to the guidelines can be divided into two broad categories, those focusing on the need for more control and those seeking more relaxed controls. The major proponents of the second group tend to be the defence industries and their associations. A discussion of the major criticisms follows.

Review of the guidelines

Criteria for considering applications

3.11 Mr Gary Brown suggests that the '...guidelines should not be written with encouragement of exports as their only objective; [rather] they should reflect the wide range of national security interests which can be engaged by the export of items used by military organisations.'⁶

³ *Australian controls on the export of defence and related goods: Guidelines for exporters*, op. cit., p. 3.

⁴ Evidence, pp. 24 and S355.

⁵ *Defence Export Controls anticipated 1994-95 expenditure*. July 1994. Department of Defence, Unpublished, p. 3.

⁶ Evidence, p. S315.

3.12 Dr Graeme Cheeseman, Department of Politics, Australian Defence Force Academy, suggests that although the guidelines are more forthcoming than its predecessor on what constitutes Australia's strategic and foreign policy interests and how a particular export may adversely affect our military capability, they remain vague in these areas.⁷

3.13 The UNAA would like the guidelines reviewed annually with special reference to the human rights record of neighbouring countries and for DFAT to have primary responsibility for such a review.⁸ CAA recommends that Australia should not export military or related goods to governments that seriously violate their citizens' rights irrespective of whether or not those goods will be used directly against those citizens.⁹

3.14 Some industry groups are concerned about constant policy changes and suggest that detailed policies in relation to particular products, destinations, etc. need to be in place before a request for exports is submitted, not developed after such a request is received.¹⁰ The Australian Defence Association (ADA) has described this as '...the constant threat of moving goalposts...'¹¹

3.15 There is general acceptance that the guidelines need to be reviewed regularly to ensure that they keep pace with changing international, strategic, foreign policy, human rights and now economic circumstances. Previous reviews have occurred about every two years.

Conclusion

3.16 The new guidelines take account of a wide range of national and regional security interests. The application of the guidelines should be monitored.

3.17 **The Committee recommends:**

5. **the Australian controls on the export of defence and related goods be reviewed every five years by the committees responsible for defence exports in consultation with representatives from defence industries and non-government organisations responsible for conflict resolution; and**

7 Cheeseman, Graeme. May 1994. Australia revises its defence export control policies. *Pacific Research*. 7(2), p. 36-37.
8 Evidence, pp. S35-S36.
9 Evidence, p. S308.
10 Evidence, pp. S16 and S125.
11 Evidence, p. S16.

6. **the Auditor-General list:**

- (a) **the operation of the guidelines,**
- (b) **the defence export control process,¹² and**
- (c) **all defence export facilitation activities,¹³ for an early performance audit.**

Goods subject to control

3.18 Several groups still query the scope of the goods subject to control. This is not surprising given there has been no resolution of the definition of defence exports. The ACAAT, Amnesty International and PNDQ are concerned that the guidelines only apply to commercial sales and not to operations under the DCP and all other government-to-government transfers of defence and related equipment and expertise.¹⁴ Defence confirmed that:

...in assessing proposed transfers of controlled goods under Defence Cooperation, the government's guidelines on defence exports are invoked. That is, an export licence is applied for and the proposed transaction subjected to the same processes as apply to other applications for defence exports.¹⁵

In other words, the transfer of defence equipment to regional countries as part of our Defence Cooperation Program is subject to the government's guidelines on defence exports.¹⁶

3.19 Amnesty International would also like the current schedules to include law enforcement equipment such as handcuffs, truncheons, electronic bugging devices and riot control equipment. Such equipment, while embargoed for sale to Libya, is not restricted in any way at present.¹⁷ Whereas, the MTIA requests the Government not control the unnecessary items such as goods traded with friendly and allied nations.¹⁸

Conclusion

3.20 The issue of the scope of goods included in the guidelines should be resolved when the Committee's recommendation on defining defence exports is

12 See paras 3.48-3.68
13 See paras 5.21-5.47
14 Evidence, pp. S44, S91 and S115.
15 Evidence, p. S473.
16 Evidence, p. S491.
17 Evidence, pp. S42-S44.
18 Evidence, pp. 141-144 and S207.

implemented and the Committee draws the evidence of Amnesty International in particular to those conducting the review.

Standing Inter-Departmental Committee on Defence Exports (SIDCDE)

3.21 The procedure for considering applications is that those involving non-sensitive destinations are generally approved quickly (within 21 days) within Defence. Applications that are complex or that seek to export to sensitive destinations are referred to the SIDCDE for a decision within 45 days. The 45 day option was included in the 1994 version of the guidelines for the first time. If the matter is not resolved in that time frame it is referred to the Minister for Defence for a decision.

3.22 SIDCDE was set up to advise the Minister for Defence on policy issues as well as to make recommendations on sensitive applications. It is chaired by Defence with representatives of DFAT, the Department of Industry, Science and Technology (DIST), the Attorney-General's Department (AGs), Australian Customs Service (ACS), Austrade and the Department of the Prime Minister and Cabinet (PM&C). The numbers of defence applications considered by SIDCDE are shown in Table 3.2.

TABLE 3.2: NUMBER OF EXPORT APPLICATIONS CONSIDERED BY SIDCDE 1989-90 TO 1993-94

1989-90	60
1990-91	81
1991-92	117
1992-93	162
1993-94	107

Source: Department of Defence. Evidence p. S467

3.23 Some people outside the bureaucracy see SIDCDE, and the whole defence exports process, dominated by Defence.¹⁹ MAPW suggests that this puts Defence very much in a conflict of interest situation.²⁰ As a result of the policy changes in 1988 authority for export approvals was concentrated in Defence with DFAT restricted to an advisory role. These groups believe they would be more confident that the wide range of foreign policy, human rights and international

¹⁹ Evidence, pp. S67 and S102.

²⁰ Evidence, p. 383.

considerations were taken into account in approving applications if DFAT saw all applications. Amnesty International suggested SIDCDE should have more involvement from people with human rights expertise.²¹

3.24 Defence reported that it would have no difficulty with such an arrangement.²²

3.25 Mr Gary Brown took DFAT's involvement a step further recommending:

That the control regime be conjointly administered by DFAT and the Defence Department, with approval from both Departments required. The Defence Department, however, should remain the "shopfront" organisation with which export applicants deal.²³

3.26 But, DFAT responded that it:

...supports the present arrangements for the administration of defence export applications and considers that they function effectively and efficiently. DFAT does not believe that it is necessary for its earlier or further involvement in the administrative process...²⁴

3.27 Reasons given by DFAT for this decision were: it is a key member of SIDCDE; it already automatically sees all sensitive applications; it has been instrumental in setting up the guidelines and the associated approval process; like all members of SIDCDE it has the right to request any or all applications be examined by SIDCDE; the vast majority of applications (that is, 95 per cent of a total of about 2500 since the beginning of the 1992-93 financial year) are for countries that do not fall into the sensitive destination category; and there would be a very marginal return for the additional staff and technological resources required.²⁵

3.28 On the other hand some groups such as ADA see the whole clearance process as bureaucratic and believe DFAT's approach is very cautious, though ADA stresses that it is up to Government to decide who should make decisions on defence exports.²⁶

²¹ Evidence, p. S43.

²² Evidence, pp. 487-488.

²³ Evidence, p. S316.

²⁴ Evidence, p. S372.

²⁵ Evidence, pp. S372-S373.

²⁶ Evidence, p. 408; and O'Connor, Michael. April 1994. Australian exports struggle: Bureaucracy, peace activists pose obstacles. *Defense News*. April 18-24 1994. p. 28. (Mr O'Connor is Executive Director of the Australian Defence Association).

Conclusion

3.29 The Committee appreciates the concerns that the defence export process appears to be dominated by Defence, even though a closer examination of the process reveals DFAT's involvement. While DFAT does '...not believe it necessary to institute an extra check or filter on the process...' ²⁷, the Committee sees benefit from DFAT automatically seeing all applications. To achieve this efficiently and effectively, a link between Defence's export control computer system and that of DFAT is required.

3.30 The Committee recommends:

7. all applications for defence exports automatically be referred to the Department of Foreign Affairs and Trade for consideration;
8. an appropriate computer link be established between the Department of Foreign Affairs and Trade and the Department of Defence's computer system that processes the export applications; and
9. the Government provide the Department of Foreign Affairs and Trade with the additional resources necessary to achieve the linkage.

Two new committees

3.31 In March 1994 the Minister for Defence, Senator the Hon Robert Ray, and his ministerial colleagues agreed to the formation of two new senior level committees to address broader policy issues raised by export proposals, possibilities for defence materiel cooperation or exports of major significance or sensitivity. These committees will operate at an early stage when export and cooperation proposals are emerging. Advice will be provided to Government on the sort of approach it should take to particular proposals before they come to the point of becoming a specific project. Both control issues and marketing arrangements will be considered. The need for the committees arose out of experience with the Transfield Malaysian patrol boat project. ²⁸

3.32 The Defence Materiel Cooperation and Exports Committee (DMCEC) is to ensure timely and effective Defence consideration of proposals. Representation will be at a First Assistant Secretary/two star level from the following divisions and areas of Defence: Industry Involvement and Contracting; Development; Logistics; Force Development and Analysis; International Policy; Science Policy; and the

²⁷ Evidence, p. S373.

²⁸ Evidence, pp. 459, S465 and S469.

Defence Intelligence Organisation. Other areas of Defence will be invited to participate depending on the subject matter being considered.

3.33 The Inter-Departmental Committee on Defence Materiel Cooperation and Exports (IDCDMCE) will ensure timely interdepartmental consideration of national issues associated with proposals. The Committee will coordinate the action necessary by Commonwealth, State and other agencies. Representatives will be from Defence International Policy, DFAT, DIST, PM&C, AGs and the Department of Finance all at the First Assistant Secretary level. Additional agencies will be invited to participate depending on the subject matters under consideration.

3.34 Both committees will be chaired by Defence with companies associated with particular proposals to be invited to brief the committee as appropriate. Defence advised that:

Matters examined by either or both committees since...
[their formation] are:

- . the cumulative policy implications of proposed sales of small arms, webbing, inflatable boats, training ranges, gunner sights and ammunition;
- . potential sales of the NULKA anti-ship missile decoy system;
- . potential sales of submarines, associated systems and project management skills;
- . and potential sales of offshore patrol vessels. ²⁹

3.35 These committees are unlikely to suffer from the same time pressures and criticisms experienced by SIDCDE because the proposals under consideration are still in the formulation stage. The criticism of Defence domination may arise. Criticisms may come from companies who believe other companies are getting particular attention. Also of concern is the extent to which proposals from smaller export businesses will be considered. In relation to proposals being considered by the IDCDMCE, proposals which may require a significant action by State Governments will need to be handled sensitively.

Conclusion

3.36 The Committee supports the establishment of the Defence Materiel Cooperation and Exports Committee and the Inter-Departmental Committee on Defence Materiel Cooperation and Exports in principle, but obviously the need and value of those committees can only be tested after they have been in operation for

²⁹ Evidence, p. S465.

some time. The effectiveness of the committees should be monitored and will be reviewed as part of future audits of the defence exports process.

Processing time

3.37 Many individual exporters and several of the industry associations believe the processing time for applications is still too long and remains bureaucratic with approval required on a case-by-case basis.³⁰ This is despite the fact that there is an approval-in-principle process in place which is a preliminary approval that indicates the likely outcome of a future application to export goods to a particular destination. As well, export licences can now be granted for all categories of defence and related goods. Defence reported that the average turn-around time for an application is about four days or a little less.³¹

3.38 ADA proposes a system of 'blanket' approvals for defence exports based upon countries which are important to Australia's security not products.³² The Association of Australian Aerospace Industries (AAAI) wants greater use made of both 'blanket' and 'forward' approvals so that Australian-based companies can react to market opportunities quicker.³³

3.39 On the other hand, Mr Gary Brown suggests there are risks in too much emphasis on 'fast tracking' as currently practiced. He warns that too much haste may result in something being exported which should not be or is exported on the basis of a forged or altered End-User document which is not detected. He also believes '... that the haste may undermine important controls and checks which guard against the corruption of officials in the chain which monitors exports from application to shipping.'³⁴

Conclusion

3.40 Defence industries will always seek to fast track the export control process and their opponents will always take a more cautious line. The two stage time frame of 21 days and 45 days for 'normal' and 'complex' applications respectively, seems a reasonable compromise. The effectiveness and adequacy of the timeframe could be judged by publishing details of the processing time of each application in the next *Annual report: Export of defence and related goods from Australia* and assessing this information. This should be done only for the next annual report for evaluation purposes. With the additional flexibility of the present guidelines the Committee is not prepared to recommend greater use of blanket and forward approvals.

³⁰ Evidence, p. S16.

³¹ Evidence, p. 25.

³² Evidence, pp. 403 and S16.

³³ Evidence, p. S125.

³⁴ Evidence, pp. S315 and S324-S325.

End-Use documentation

3.41 The need for End-Use documentation is a particularly contentious issue for defence industries. The AAAI says it understands '...that requiring an exporter to obtain End-Use Certificates is proving to be a disincentive to exporting.'³⁵ The current guidelines allow in certain circumstances an International Import Certificate or other document to be accepted in lieu of an End-Use and Non-Transfer Certificate. It also waives the requirement for End-User Certificates or International Import Certificates under certain circumstances such as goods produced in Australia and sent to associated, parent or subsidiary companies in countries which have similar stringent export controls as Australia and goods sent as gifts under Australian Defence Cooperation arrangements. 'Amnesty International believes end user certification should be required in all transfers of defence related equipment and expertise.'³⁶

Conclusion

3.42 Despite difficulties in policing End-Use documentation it does provide a deterrent to abuse and the Committee supports the continuation of the current practice. At the Defence Procurement '94 Conference, Defence echoed similar sentiments to industry.

Revocation of a permit or licence to export

3.43 The guidelines specify that the Minister for Defence may withdraw a permit or licence to export goods to a particular destination based on consideration of Australia's national interest. Despite this general statement Amnesty International recommends that the guidelines be strengthened to specify that human rights infringements be grounds for revoking permits and licences.³⁷

Conclusion

3.44 As the guidelines explicitly state that goods will not be permitted to be exported to governments that seriously violate their citizens' rights, exports should not reach such destinations.

Accountability

3.45 Several groups, including CAA, ACAAT, PNDQ and the ADA are concerned that there is not full and regular reporting to Parliament of all defence

³⁵ Evidence, p. S125.

³⁶ Evidence, pp. S43-S44.

³⁷ Evidence, p. S44.

exports from Australia.³⁸ This concern is understandable given the sensitivity of the subject. Lists do appear in Hansard in response to answers to related questions to the Minister for Defence and in August 1993 Defence produced its *Annual report: Exports of defence and related goods from Australia 1992-93*. The latter document, however, was not tabled. The data provided excludes the names of the companies exporting as this information is commercial-in-confidence. The annual report should be expanded to include information such as details of the export, its value and its country of destination, the number of licences and permits approved and denied and the time taken to process each application. The latter category should be included in the next annual report only for evaluation purposes.

3.46 **The Committee recommends:**

10. the Department of Defence's *Annual report: Exports of defence and related goods* be improved and expanded consistent with the definitional recommendations previously made and it include information such as details of the export, its value and its country of destination, the number of licences and permits approved and denied, and for the next annual report only, the time taken to process each defence export application. The Minister for Defence should table the Annual report in Parliament within six months of the conclusion of the period under scrutiny.

General Conclusion

3.47 The Committee is satisfied that the guidelines are a vast improvement on those which existed in the past in attempting to appropriately balance the granting of approvals for exports while minimising the infringement of other Australian interests.

Role of Customs

3.48 ACS is responsible for facilitating the movement of all goods including defence and related goods being exported across the national border while ensuring compliance with prohibitions or restrictions on goods. This is achieved through the use of an electronic clearance and reporting system known as EXIT. Exporters or their agents apply for export clearance by transmitting information to ACS by computer through a public access dial-up network. ACS said about 97 per cent of all export entries are lodged electronically, while the rest are lodged in documentary form at customs houses.³⁹

³⁸ Evidence, pp. 408, S91, S115, and S307-S308.

³⁹ Evidence, pp. 122 and S297.

3.49 Before issuing the export clearance ACS must ensure that the goods being loaded have valid permits. In the case of defence related exports such permits are issued by Defence. Computer profiles of defence goods listed in Schedule 13, 14 and 14A of the Customs (Prohibited Exports) Regulations have been inserted into the EXIT program so that consignments are not cleared unless relevant permits have been issued.

3.50 ACS is also responsible for issuing permit numbers directly to exporters of certain non-commercial firearms.

Verification of the nature of exports and that goods are exported

3.51 In clearing exports ACS stated that it is reliant on the information supplied by the exporter or freight forwarder as much as its own operating procedures. It said:

We continue to place the emphasis on the honesty and skills of the exporter, airline, freight forwarder in correctly identifying those goods intended for export.⁴⁰

3.52 To counter balance this reliance ACS undertakes an audit program of documentary and physical examinations, that is spot checks, to ensure compliance with export controls. As well, it relies on intelligence information from Defence and other security organisations regarding queries on shipments and it only acts after receiving information from the other agencies.⁴¹

3.53 ACS said it is even reliant on Defence to verify that the goods on the export documentation are the same goods that the invoice is made out to and payment has been made for. It reported Defence has an officer available 24 hours a day to fly anywhere in Australia to provide it with advice on this matter. The officer was only used twice in the 12 months prior to February this year.⁴²

3.54 The Committee also sought to confirm that there is a system in place that verifies that defence and related goods that have been given a permit for export, are actually exported.

3.55 ACS said while it does not do physical checks to confirm this, it does examine documentation from shipping companies to see that the export entry was acquitted by a line on the manifest, indicating that the shipping company carried the goods out of Australia. But again, ACS said it is dependent on the integrity of the people supplying the information. ACS receives a weekly report of all idle export clearance numbers and efforts are made to reconcile those to determine whether the

⁴⁰ Evidence, p. S298.

⁴¹ Evidence, p. S298.

⁴² Evidence, pp. 125-126.

goods were actually exported. In some cases the export clearance application is withdrawn and that is confirmed. However, there is no follow-up to see why this has happened because there are many commercial reasons for it, for example, the order for the goods has been withdrawn.⁴³

3.56 It is Defence's responsibility to reconcile the permits they issue to confirm whether the goods are exported or to explain why not. This checking is done electronically.

3.57 ACS was reluctant to confirm that its chances of detecting someone exporting something different from that stated on the documentation are low and that exporter fear of being apprehended is also low.⁴⁴ Rather, it put its faith in the intelligence services of Defence and others in detecting such problems and bringing them to its attention as has occurred in the past. All an ACS representative would say was:

...It is difficult for me to say that we feel confident about our level of export controls on any of the prohibited or restricted goods, but it is also difficult to see that we can do a lot more unless more resources are provided.⁴⁵

3.58 To its credit ACS has recognised the problems in this area and has initiated a review of the whole export control process. The objectives of the review are to determine if the current export controls are adequate and whether the current documentary and physical controls of exports are effective, nationally consistent and meet appropriate risk management standards.⁴⁶ The review started in December 1993 and was due to report in late July 1994, but is now not expected until September 1994.

3.59 ACS said it would not be in a position to estimate the resources required to improve the current situation until its review is complete. However, it did confirm that the resources available for maintaining controls on exports had not decreased in recent times. In fact, it responded to the contrary:

Resources allocated to this function have increased slightly since the electronic processing system EXIT was introduced in December 1988.⁴⁷

3.60 Defence confirmed the arrangements as outlined by ACS but stressed that:

...we place a pretty high intelligence priority on keeping track of attempts to illegally export material...we do not

43 Evidence, pp. 129-130.

44 Evidence, pp. 126-128.

45 Evidence, p. 127.

46 Evidence, pp. 124 and S363-S369.

47 Evidence, p. S361.

feel that we have a big enforcement problem in this area...it is a risk management area...we think the arrangements we have got in place are adequate and cost effective to meet the scale of the problem as we perceive it. We get a good deal of reassurance from the fact that we do watch the international arms trade pretty closely and we feel we have got a reasonably good intelligence hold on that...⁴⁸

It also stressed its intelligence links to the defence industry and international cooperation in this area.⁴⁹

3.61 Defence said it thinks the process is acceptable at the moment but more resources for ACS would obviously be beneficial and it is keen to encourage a greater regime of random testing at the physical or barrier level by ACS. Defence will be encouraging this as an outcome of the implementation of the Conroy Review.⁵⁰

3.62 As an interim measure ACS reported informally that it and Defence are liaising to improve their combined operations in this area. Defence later advised that:

Intelligence collection, both open and closed source, had been carried out on an as required basis by Defence and other agencies for some years. In about July 1991 the process was made more rigorous and systems have continually evolved since then...

The electronic auditing of defence and dual-use exports also began around July 1991. Policy and procedures for the physical auditing of defence and dual-use goods have been under development since August 1992 as a result of the support given by electronic desk audits. The first physical audit under the new system was conducted by Defence and ACS in July 1994.⁵¹

One-stop-shop for permits and clearance

3.63 To improve the export process ACS suggested that a system be introduced whereby an exporter could apply for clearance of a consignment and the relevant permit simultaneously.⁵²

48 Evidence, p. 475.

49 Evidence, pp. 476-477.

50 Evidence, p. 477.

51 Evidence, p. S492.

52 Evidence, pp. 122-125 and S298.

3.64 It believes this could be done by downloading relevant information from the ACS computer to the permit issuing agency, that is Defence, at the time of applying for clearance and by the making of a 'clear' export clearance notice on the electronic receipt of advice from the agency that a permit had been issued. This would mean that the exporter would only have to contact one government agency - ACS - to obtain approval to export.

3.65 Legislation would have to be changed to achieve this. ACS reported it has had some informal discussions with some permit issuing agencies on this matter. If such a system were implemented though, ACS would like to see it as a change for all general export controls, not just defence exports.⁵³

Conclusion

3.66 The potential for covert sales of defence and related goods should not be treated complacently.

3.67 ACS's poor performance in verifying the nature of defence exports is probably the most alarming aspect of this inquiry. This situation has to be rectified as a matter of high priority. Obviously this matter is a symptom of the problems in ACS identified by the Conroy Review.⁵⁴

3.68 Despite any benefits that may accrue to the defence industries from a one-stop-shop for permits and clearance of exports being implemented, while the current deficiencies exists in other critical areas of ACS's export control performance, the Committee rejects the suggestion that ACS take on any new role in the export control process.

3.69 **The Committee recommends:**

11. **the Minister for Industry, Science and Technology take immediate action to rectify the deficiencies in Australian Custom Service's performance in the defence exports control process as outlined by this Committee.**

[See also recommendation 6(b), page 43]

Export of defence services

3.70 Controls and constraints on defence services as a commercial export have not yet been addressed, except for Defence saying it should be consistent with

⁵³ Evidence, pp. 122-124.

⁵⁴ *The turning point: Review of the Australian Customs Service*. December 1993. Chaired by Mr Frank J Conroy. Canberra, AGPS, xlix 195p. appendices.

the guidelines and constraints on the sale of defence goods.⁵⁵ Defence points out this is a complex and difficult area. It said:

The appropriate methodology that might be used for controlling the export of defence services depends very much on the nature of the service in question. For example:

. well established Commonwealth procedures apply if the service involves the use of Australian Government classified information or classified information entrusted to Australia;

. if the service involves the development in Australia of, for example, software (either classified or unclassified) for military purposes, then the Customs (Prohibited Exports) Regulations apply to the software so developed;

. if the service involves training of foreign forces by the ADF, either in Australia or overseas, or provision of access to ADF training facilities by foreign forces, then the full range of Australian Government political, policy and administrative control on the activities of an Australian Department apply;...⁵⁶

3.71 Defence also notes that '...many goods will come bundled with services and therefore the traditional distinction between goods and services is becoming less helpful in the defence export context...'⁵⁷ On the other hand, some projects involve substantial services components. For example, Transfield Shipbuilding Pty Ltd noted in discussing market opportunities 'I think 80 per cent of our opportunity lies in services and in actually providing services from within their own countries, through joint venture and setting up operations there.'⁵⁸ Transfield Shipbuilding Pty Ltd said it is making a proposal to sell, in the long term, services to Malaysia to help them build some 20 or 30 patrol vessels in their own country.⁵⁹

⁵⁵ Evidence, pp. S250-S251.

⁵⁶ Evidence, p. S468.

⁵⁷ Evidence, p. S468.

⁵⁸ Evidence, p. 437.

⁵⁹ Evidence, p. 429.

The Committee recommends:

12. the Government develop the policy on the controls on the export of defence services and that policy be included in an expanded version of the next issue of *Australian controls on the export of defence and related goods*.

Chapter Four**Export facilitation**

4.1 There is a small range of defence specific policies and programs and a much larger range of wider Government policies and programs to facilitate defence exports. The main agencies involved are Defence, Austrade, DFAT, DIST and the State and Territory government industry development agencies.

Defence Export Program

4.2 The major program is the Defence Export Program (DEP) which was established in late 1992 in the Acquisition and Logistics Organisation of Defence. DEP's focus is to coordinate export activities within Defence, evaluate methods of export assistance, disseminate information to industry and identify export opportunities.¹

4.3 Defence advised that the Program has an annual staffing of about 9.5 (salaries of \$0.580 million) as well as three Defence Trade Commissioners, one staff member in Washington and the third of the time of an officer in London. The total budget for the Program for 1993-94 was about \$3.16 million consisting of Salaries \$0.66 million, Cash Limited Advance Expenditure of \$0.71 million and Minor Capital Equipment Program of \$1.79 million. The DEP in 1993-94 was ASEAN specific and did not have formal sections covering North America and Europe.² The expected budget for 1994-95 totals \$4.062 million consisting of Salaries of \$0.810 million (average staffing level of 18.83), Cash Limited Advance Expenditure of \$1.365 million and a Minor Capital Equipment Program of \$1.887 million (including \$1 million for the Defence Trade Commissioners).³

4.4 The program is responsible for arranging briefings for Defence Attaches, support for the facilitation role of the Defence Trade Commissioners, inwards/outwards Defence and industry missions, government-to-government collaborative marketing initiatives, and promotion of Australian industry capability at international defence trade exhibitions etc. For the past two years it has held the

¹ Evidence, p. S249.

² Evidence, pp. 24 and S355; and
Defence Export Program actual expenditure 1993-94. July 1994. Canberra, Department of Defence, Unpublished, p. 4.

³ *Defence Export Program anticipated 1994-95 expenditure*. July 1994. Canberra, Department of Defence, Unpublished, pp. 1-3.

Export Outlook Conference and in March 1994 it released a draft Defence Export Strategy⁴ in conjunction with the other facilitation agencies previously outlined.

4.5 The draft Defence Export Strategy, which took a year to develop, addresses the distinct markets for defence related goods and services and establishes priorities. The draft priorities include establishing country specific programs at a government-to-government level for both exports and cooperation with South East Asia especially Indonesia, Singapore, Malaysia and Thailand; modifying the traditional relationship with the United States so that Australia exports to it more; Australian companies forming partnerships with European prime contractors in competition for Western European defence business on a niche product basis; and expanding into new markets such as the Gulf States, Taiwan and Japan where commercial opportunities underpin the relationship more than strategic considerations.⁵ Australia has a long way to go to expand sales into those new markets. The next draft of the Strategy is expected in September 1994.

4.6 The complexities and difficulties of doing business in South Asia should not be underestimated. There are the inevitable demands for counter trade and the differing industrial and trade practices of those countries.

4.7 Companies are also being encouraged to cluster into six defence industry export groups - submarines and anti submarine warfare; command, control, communications and intelligence; surface ships and systems; aerospace; construction and facilities; and niche products.⁶ Defence said:

Formation of defence industry export groups was actively encouraged by the Defence Organisation at the 1994 Defence Export Outlook Conference in response to our perception of potential customer requirements and in order to improve communication among defence export stakeholders.⁷

4.8 Numerous organisations and individuals stressed that credibility in the market place is a critical factor in defence exports and winning overseas customers. Australian defence industries that can demonstrate that their product is in service with the ADF have a key market advantage. Defence therefore has a critical role in providing "...evaluation reports and trials information on products procured from Australian firms, and where a product is not in the Australian Defence Force inventory, provides available data to assist evaluation of the product."⁸ Defence said:

4 *Draft of the defence export strategy statement*. March 1994. Canberra, Department of Defence, Unpublished, 11p.

5 *Draft of the defence export strategy statement*, op. cit., pp. 4-8.

6 Evidence, pp. 481, 484-485 and S466.

7 Evidence, p. S466.

8 Evidence, p. S249.

... we have not signed those contracts in order to provide an export capability; we have signed those contracts because we wanted the equipment.⁹

4.9 In March this year further progress was made on the facilitation side with Defence and Austrade clarifying their respective roles. While defence export companies may go to whichever organisation they choose, as a general rule: Defence will assume prime carriage for materiel cooperation proposals and where the customer is seeking Defence support in developing broad defence technologies or operational capabilities; and Austrade will assume prime carriage where the activity is generated by the commercial relationship.¹⁰ Generally, Defence will lead defence export activity in South East Asia and with the defence departments/military services of Australia's traditional materiel partners. Austrade will lead in areas where defence export activity is commercially driven, for example the Gulf States.

4.10 These responsibilities are reflected in the roles of the Defence Attaches and Defence Trade Commissioners, with the later funded by Defence but operating out of Austrade Offices in Bangkok, Kuala Lumpur and Jakarta. The Defence Attaches will operate at the materiel cooperation end of the spectrum and the Defence Trade Commissioners at the commercial end.¹¹

4.11 The new Commissioners took up their posts in June this year some 18 months after the commencement of the program. With about \$1 million of Defence's export budget being spent on the Defence Trade Commissioners¹², their success is crucial to the overall success of the program. While the principles for the Commissioners' work are in place most of the practicalities still have to be resolved such as making the divisions of responsibilities work, arrangements for feedback to industry and who are the day-to-day recipients of the service. Priority will be given to those businesses that are strategically important industry/export areas for the ADF.¹³

4.12 Defence also assists communication with industry on export matters through its Acquisition and Logistics Regional Offices in Sydney, Brisbane, Darwin, Perth, Adelaide and Melbourne. These offices disseminate defence export information to specific companies and provide a local contact point for export assistance.¹⁴ The Price report recommended that these offices be given additional responsibility for liaison with industry and State Governments in areas of defence export coordination. Advice on the implementation of this recommendation is conflicting.

9 Evidence, p. 18.

10 *Draft of the defence export strategy statement*, op. cit., pp. 8-9; and Evidence, p. S250.

11 Evidence, p. S250 and *Draft of the defence export strategy statement*, op. cit., p. 9.

12 *Draft of the defence export strategy statement*, ibid., p. 3.

13 *Draft of the defence export strategy statement*, ibid., p. 2.

14 Evidence, p. S250.

4.13 In May this year work on export facilitation by Defence had been proceeding for a little over a year.¹⁵ While Defence says it is only one and a half years into a three year program, the progress has been extremely slow and disappointing.

4.14 Price has recently reported that while defence industry policy, including the export work, has been approved by the Government, the speed of implementation is a problem. He notes that an Implementation Program was drawn up at the time of preparing his report but it was not made public. He said '...I did not believe that it would take so long to implement as both the Department and ADF were committed to its implementation.'¹⁶ Six monthly progress reports on implementing the Price Report are provided to the Minister.

4.15 While the Price Report recommendations are being ticked off as being implemented by Defence there is no ongoing evaluation of the extent, quality and effectiveness with which they are being implemented. Rather, there will be an evaluation of their effectiveness in late 1994.

4.16 Attitudes within Defence have been changing to export activities most recently demonstrated by the establishment of DMCEC. However, while there has been a clearer recognition of the part that defence exports play in the ADF and the defence procurement process, there is still no integration of defence exports and procurement activities. Defence notes that:

The defence export strategy acknowledges that what goods and services we procure from Australian industry for the Australian Defence Force, and how we do so, are key determinants of how we can compete overseas and what we can sell abroad. Accordingly, development and acceptance of processes for assigning due weight to the defence export potential of competing bids for Australian defence business will be an important aspect of a mature defence export strategy.¹⁷

4.17 The use of government purchasing policy to promote the development of Australian industry strategically without compromising price and quality is now Government policy.¹⁸

4.18 Defence believes industry concerns regarding Defence's attitude to the ownership of intellectual property (IP) and hence the ability of companies to

¹⁵ Evidence, p. 480.

¹⁶ Price, Roger, the Hon. MP. June 1994. Speech to the *Defence Procurement '94 Conference*, on 21 June 1994 at the Lakeside Hotel Canberra. Unpublished, p. 3.

¹⁷ Evidence, p. S470.

¹⁸ *Working nation: Policies and programs*. May 1994. Presented by the Prime Minister, the Hon P J Keating MP. Canberra, AGPS, p. 76.

commercially exploit it in export projects¹⁹ have been addressed through a significant change in Defence's method of handling this matter. In announcing the change in March 1994 the Minister for Defence, Senator the Hon Robert Ray, said '...the Department will only pay for IP rights that it actually needs and will place less emphasis on outright ownership of IP generated by industry under Defence contracts.'²⁰ How this operates in practice is yet to be tested.

4.19 Industry seems more satisfied than in the past with the policies and procedures in place and the dialogue between Defence and industry, at least regarding exports, is developing.

4.20 AAI reported that 'The export facilitation support given by Defence at various Trade Shows, missions etc are much appreciated - especially by smaller companies in the Association who find it difficult to "get a hearing" on such occasions.'²¹ Questions remain however, on the extent to which this program, like Austrade's work, is really assisting the smaller defence export businesses rather than just the so called 'big ticket' items like the Transfield Malaysian patrol boats project. Defence should work with DIST and Austrade to facilitate services to small and medium sized defence export businesses.

4.21 The UNAA recommends that 'Australia should not appoint special arms trade officials to Asian capitals or participate officially in arms trade fairs and similar displays of defence equipment.'²² The MAPW is also concerned about Australia's role as '...a facilitator of the international arms trade throughout our region'²³ particularly through arms bazaars such as AIDEX.

4.22 Price recommended 'Specific commercial activities undertaken by Defence at industry's request, that is beyond those activities that would normally be undertaken to meet Defence's coordination and facilitation role, will remain subject to cost recovery.'²⁴ Such activities include trialing products not in use by the ADF or Defence. The Committee supports that view.

4.23 **The Committee recommends:**

13. the Department of Defence make public its Implementation Program on the *Defence industry and policy report* and the six monthly progress reports on implementation and the

¹⁹ Evidence, p. S124.

²⁰ News release. Minister for Defence, Senator the Hon Robert Ray. *Defence takes new approach to intellectual property*. 10 March 1994, 1p.

²¹ Evidence, p. S126.

²² Evidence, p. S36.

²³ Evidence, pp. S96-S97 and S99-S100.

²⁴ *Defence policy and industry: Report to the Minister for Defence*. November 1992. Prepared under the direction of the Parliamentary Secretary to the Minister for Defence the Hon Roger Price MP. Canberra, AGPS, p. 36.

Department direct its resources to make the Defence Export Program fully operational;

14. the Department of Defence give a priority to endorsing appropriate Australian defence products and services particularly those developed and used by the Department of Defence and the Australian Defence Force;
15. the integration of defence exports and procurement activities in Defence be completed within six months of the tabling of this report;
16. the Department of Defence consult with Austrade and DIST to establish what additional export facilitation services and activities it might need to develop to assist smaller and medium sized defence export businesses and then implement those facilities; and
17. any charging for services under the Defence Export Program remain on a cost recovery basis.

Department of Foreign Affairs and Trade and Austrade

4.24 Defence and related exporters can also avail themselves of the full range of DFAT and Austrade services that are available to all exporters.²⁵

4.25 DFAT's overseas missions assist by offering exporters official sponsorship of business visa applications, temporary residency arrangements, key local market contacts, representational activities and direct advocacy in supporting marketing efforts.

4.26 General support programs offered by Austrade include background information, market opportunity advice, market research, in-market support and financial support through programs such as the Export Market Development Grants (EMDG) Scheme, International Trade Enhancement Scheme (ITES), Asia-Pacific Fellowship Program and the Australian International Management Exchange Program. This support is provided through a network of 72 posts in overseas markets.²⁶

4.27 The EDMG Scheme and ITES recently have been reviewed by Austrade, tightened and extended. The ITES, which provides marketing related loans or advances up to \$5 million on a discretionary basis for expansion and

²⁵ Evidence, pp. S274-S275.

²⁶ Evidence, p. S274.

acceleration of export activities, will continue for another four years at \$50 million per year. The EDMG will continue for a further five years thereby providing assistance to approximately 5000 exporters a year at a cost of \$231 million in 1994-95 increasing to \$290 million in 1997-98.²⁷ In May this year an Auditor-General's report recommended further improvements to the EDMG Scheme including improved accountability to Parliament, better performance measures, legislative changes, enhanced quality of claims and control measures and separation of the Scheme's administrative budget from Austrade's administrative budget.²⁸ Austrade accepted all recommendations.

4.28 Austrade also provides some specific support for defence exporters. As well as supporting the Defence Trade Commissioners, it maintains the Aerospace-Defence Business Development Unit which assists significant and committed exporters of aerospace, aviation, airport and defence-related goods and services. The current priority areas for that Unit are South East Asia, North America and the Middle East. Austrade also recently opened a post in Atlanta to focus on aerospace and defence opportunities across North America and its post in Riyadh, Saudi Arabia has the identification of defence and aerospace opportunities as a leading priority.²⁹

4.29 Although a November 1993 survey of Austrade's export promotion effectiveness showed that it contributed to new exports in 1992-93 valued at \$4.25 billion³⁰ and Defence pointed to the excellent advantages of Austrade's extensive geographic coverage compared to Defence³¹, there are still criticisms that Austrade is not capable of helping the smaller companies, including defence and related businesses.

4.30 In fact, one small defence exporter, CAMTECH, commented 'Although AUSTRADE is well staffed by outstanding individuals, they seem to fall down as a team. CAMTECH has by-passed AUSTRADE wherever possible and used Defence Export Facilitation...'³² The reason given for this was that a lot of the services offered by Austrade are commercially available at more competitive prices elsewhere.³³

²⁷ *Working nation: Policies and programs*, op. cit., p. 79-80.

²⁸ The Auditor-General. *Australian Trade Commission - The Export Market Development Grants Scheme: Its efficiency and effectiveness*. Audit Report No. 33 1993-94. Canberra, AGPS, xxix 113p.

²⁹ Evidence, pp. S274-S275.

³⁰ *Austrade export verification study*. August 1993. Prepared by Product Development. Unpublished, 39p.

³¹ Evidence, pp. 483-484.

³² Evidence, p. S290.

³³ Evidence, pp. 443-444.

4.31 This view is not shared by AAI and Transfield Shipbuilding Pty Ltd which found the services offered to its companies by Austrade particularly helpful.³⁴

4.32 Since the 1993-94 budget some funds from some Austrade's services, such as the ITES, have been particularly targeted by the Government to smaller exporters. However, earlier this year, Austrade suggested there had been a slow take-up of the ITES indicating a lack of awareness of the scheme by smaller exporters.³⁵

Department of Industry, Science and Technology

4.33 Like DFAT, DIST's general programs and networks facilitate defence and related export businesses. Again those exporters generally are treated in a similar manner to all exporters.³⁶

4.34 Specific export programs that may be of assistance are Export Access which provides practical assistance to small and medium sized exporters and the Export Finance and Insurance Corporation's (EFIC) work in ensuring Australian exporters have access to appropriate credit and insurance facilities which are broadly comparable to those overseas.³⁷ The Export Access Program has been particularly successful with the result that its funds were increased by \$8 million over three years in November 1994. This enabled the number of export experts to assist exporters to be doubled to 22 and the number of businesses that can be helped over the next three years to be trebled to 1400.³⁸

4.35 The range of services offered by EFIC includes credit insurance, finance for capital goods and services, performance bonds and the working capital guarantee facility.³⁹ In May 1994 the Government announced the working capital facility will be expanded to cover exports of services and manufactured goods (rather than only capital goods) and the performance bond facility will be expanded to provide advance payment bonds.⁴⁰ EFIC also manages aid-supported soft loans with funds available from the Commonwealth's Development Import Finance Facility (DIFF) but this does not relate to defence exports.⁴¹ The Government does not provide concessional finance facilities to exporters of defence and related goods as happens in the United States.

34 Evidence, pp. 428 and S122.

35 Exporters slow to take up ITES. *Financial Review*. 8 March 1994.

36 Evidence, pp. S188-S195.

37 Evidence, p. S191.

38 Joint statement. Media release by the Hon Alan Griffiths MP, Minister for Industry and Senator the Hon Chris Schacht, Minister for Science and Small Business. *Export experts open the door to overseas success*. 1 November 1993, 3p.

39 Evidence, p. 290.

40 *Working nation: Policies and programs*, op. cit., p. 76.

41 Evidence, pp. 290-291.

4.36 EFIC said that assistance to exporters in the defence sector is historically not a large part of its business, but it has supported communication equipment projects, the patrol boats etc. Assistance for directly offensive equipment requires approval from both the Defence and Industry Ministers.⁴²

4.37 DIST also has a host of other programs, not focusing on exports, but which may be useful for firms wishing to become more export oriented. For example, the Partnership for Development Program, the Vendor Qualification Scheme, Industry Research and Development Board Programs, National Industry Extension Service Schemes and several Networks.⁴³ While there may be some constraints on the defence sector becoming involved, DIST considers network activities and collaborative agreements particularly important because the trend towards the globalisation of world markets means that Australian businesses wishing to export need to form strategic alliances and become involved in international networks.⁴⁴

4.38 The new AusIndustry initiative announced in May this year by the Prime Minister will make it easier for small and medium sized businesses, including defence exporters, to be aware of and access the full range of development services offered by DIST and other Commonwealth and State programs.⁴⁵

4.39 Again, despite complaints from MTIA⁴⁶ regarding finance, there were no major comments on the programs.

4.40 As a result of the strengthening of the integration of trade and industry policy major decisions regarding Austrade, EFIC and AusIndustry will be taken collaboratively and the Boards of these bodies will have cross representation. The services of the agencies will be integrated to the fullest extent possible to maximise ease of access of firms.⁴⁷

Consultation and coordination

4.41 Given the wide range of policies and programs available to potential defence exporters, consultation and coordination between the providers of those services, as well as with industry, is essential. This process has been made easier with the greater integration of Austrade's and DIST's work.

4.42 In the past coordination and consultation were achieved through Defence convening the Defence Export Facilitation Working Group. Participants included Federal and State Government agencies and industry representatives.

42 Evidence, pp. 291-292.

43 Evidence, pp. S192-S195.

44 Evidence, p. S191.

45 *Working nation: Policies and programs*, op. cit., pp. 86-87.

46 Evidence, pp. S209-S211.

47 *Working nation: Policies and programs*, op. cit., p. 79.

4.43 Developments in the defence exports area have meant that the Defence Export Facilitation Working Group is no longer as relevant as it used to be. There are now two main approaches for coordinating the facilitation process. First, through the DCDMCE's and IDCDMCE's work on specific proposals as outlined in Chapter 3 and second, through working groups on the generic areas of defence technology (cluster groups) set up at the Defence Exports Outlook Conference in March 1994 and discussed earlier in this chapter.

4.44 In its submission the Australian Electrical and Electronic Manufacturers' Association (AEEMA) recommended the development of a Defence Export Task Force along the lines of the Telecommunications Export Task Force.⁴⁸ More recently AEEMA suggested that similar results could be achieved by the forementioned cluster groups reporting to a central body and that the most appropriate group would be a Consultative Forum established under the auspices of the Defence Industry Committee (DIC).⁴⁹

4.45 The DIC is a senior advisory committee to the Minister for Defence on a range of issues affecting Defence policy for industry. It consists of industry members appointed by the Minister and ex officio departmental members from Defence (both military and civilian), DIST and the Department of Finance. The DIC is not a representatives committee. Rather, industry members are appointed as individuals. Issues on which the DIC provided advice in 1993 were Long Term Supplier Relationships, Regional Defence Cooperation, Intellectual Property, Defence Exports and the Industry Commission Inquiry into Defence Procurement.⁵⁰

4.46 Since 1992 there have been two Consultative Fora of the DIC. These are, firstly, the Commercial Support Consultative Forum which facilitates the exchange and discussion of ideas between Defence and industry on the Defence Commercial Support Program. This Forum is co-chaired by Defence and an industry member of the DIC with membership drawn from Defence, the industry associations and unions. Secondly, the Contracting Consultative Forum formalises consultation between industry and Defence on contracting matters and is also co-chaired by Defence and a member of the DIC.

4.47 Defence reported that:

Subject to the DIC's agreement, the forum will be chaired by an industry member of the DIC and membership of the forum will include the Chairperson from each of the Defence Industry Export Working Groups.⁵¹

⁴⁸ Evidence, p. S221.

⁴⁹ Copy of letter from Mr J Owens, Chairman C³I Export Forum to Mr G Jones, Deputy Secretary Acquisitions and Logistics, Department of Defence, dated 14 July 1994.

⁵⁰ *Defence Industry Committee: Information pack*. 1994. Canberra, Department of Defence, various pagings.

⁵¹ Evidence, p. S469.

4.48 Defence noted 'Arrangements for Commonwealth-State liaison on defence export issues have yet to be settled.'⁵² The Committee would not like to see yet another committee set up to address this. Rather, those agencies should maintain close contact on relevant issues and if necessary meet once a year, say before or after the annual Defence Export Outlook Conference, to more formally address general concerns on potential overlap and coordination.

4.49 The MTIA believes '...owing to the lack of total coordination of departments and agencies in this area, the Department of Defence should be given responsibility over all Defence export activities.'⁵³ MTIA wants Defence as the focus agency.⁵⁴ This proposal is inconsistent with the wider approach to defence exports which the Committee believes is appropriate.

4.50 The effectiveness of the consultative and coordination arrangements will require close monitoring.

4.51 **The Committee recommends:**

18. **the Department of Defence, in consultation with other agencies and industry, establish an appropriate mechanism for coordinating industry input to the defence export facilitation process; and**

19. **Commonwealth and State agencies maintain close contact on defence facilitation activities and if necessary meet once a year to address more formally areas of overlap and coordination.**

⁵² Evidence, p. S469.

⁵³ Evidence, p. S211.

⁵⁴ Evidence, p. 147.

Chapter Five

Implications of defence exports

5.1 Throughout the report a number of implications of the current policy on defence exports have been addressed. Additional matters are dealt with here. Given the mid-stage development of parts of the program it is difficult to assess anything but the immediate impression and impact. A more detailed assessment and the longer term implications require more in depth study.

Political implications

5.2 While there are generally considered to be few failures of the export control process, those which do occur are considered by some people to have political costs and cause diplomatic problems in the international arena. In reporting on all known areas of failure in the past few years Defence said that it used the following criteria:

...(a) defence exports that have upset the regional military balance; (b) those that a customer has used to initiate "incidents" against its neighbours or has used in abusing the human rights of its own citizens; (c) those that have been used against Australia or our citizen's abroad; or (d) or[sic] those that have generated adverse public comment in Australia.¹

5.3 In assessing performance against those criteria Defence said:

Defence has no record of defence exports that meet criteria (a)-(c). However, several export applications have generated adverse public comment (criteria (d)).²

5.4 Three sales or near sales were listed by Defence as generating adverse public comment.

5.5 First, the sale of surplus Australian Mirage jet aircraft to Pakistan in 1990. Defence said:

The decision to market the Mirages to Pakistan was made in 1987. As this was before the Standing

¹ Evidence, p. S460.

² Evidence, p. S460.

Interdepartmental Committee on Defence Exports (SIDCDE) was established, the basic Mirage marketing decision was not subject to the kind of consideration that now prevails. Export of Mirages to Pakistan was approved by the Minister for Defence in 1990, at which time India objected.³

5.6 At hearings evidence was put by both DFAT and Defence that conflicts with the above comment on the existence of SIDCDE and the timing of the decision about the Mirages.⁴ However, one positive outcome of this situation reported by Defence is that:

The controversy generated by this sale accelerated acceptance of more formal mechanisms for consultation between departments interested in the export of defence and related goods to sensitive destinations.⁵

5.7 The second was the export of engine governors and fuel pumps to Burma for use in the Burmese Air Force's PC6, PC7 or PC9 trainer aircraft that were approved on 26 March 1991 and were exported in two shipments on 28 May 1991 and 26 July 1991. Defence notes that:

The components concerned were not lethal and not of major military significance, under the defence export guidelines existing at the time...

On 19 July 1991 Senator Evans [the Minister for Foreign Affairs and Trade] wrote to the Minister for Defence proposing that Australia ban the export of defence and related goods to Burma. The Minister concurred with Senator Evans' proposal but not before the above shipments had occurred.⁶

5.8 Regarding the third, Defence stated:

Prior to the Iraqi invasion of Kuwait, and as a result of the war between Iran and Iraq, the Australian Government embargoed the export to Iraq of lethal goods and goods of major military significance.

At the time of the Iraqi invasion of Kuwait, Australian officials were processing an export permit for engine

3 Evidence, p. S460.
4 Evidence, pp. 44 and 63.
5 Evidence, p. S460.
6 Evidence, p. S460.

spare parts for an Iraqi trainer aircraft. The parts were valued at about \$850,000. The particular engine was of Canadian origin, was used in many civil aircraft and was not designed specifically for military aircraft. The engine spare parts were not embargoed at the time of the invasion.

Under section 112(2AB) of the Customs Act, the Minister for Defence can withdraw permission and licences by way of notice. In this case, permission was withdrawn immediately after the invasion of Kuwait and the goods were not exported.⁷

5.9 Mr Gary Brown cited two additional incidents which he considered to have incurred political costs. These were '...well-publicised attempts to sell 76mm ammunition to Sri Lankan Government counter-insurgency forces...and...there was a failed bid to export thousands of fragmentation grenades to Sri Lanka [in late 1993].'⁸

5.10 In commenting on instances where the safeguards have failed DFAT said:

...There are one or two instances where sales have gone ahead in an environment where the policy towards a certain country was evolving. There are very few cases...But there is always a lead time. There are applications made, approvals in principle, and eventually arms sales may go ahead at the same time that a situation may be deteriorating...Certainly, there have been problems and there always will be...⁹

5.11 In numeric terms the number of failures is small when compared with the 1000 to 1500 applications processed annually. It is much more difficult to assess the political costs of those failures in terms of the overall credibility of the system.

5.12 On a more general level, the MAPW notes the small return to Australia for defence exports and states '...For that sort of return we are risking our reputation...'¹⁰

5.13 The MAPW also suggests that '...the political benefits of going down the other roads are so good, or so potentially good, that we would be better to chuck the arms export aim and concentrate on diplomatic initiatives...'¹¹

7 Evidence, pp. S460-S461.
8 Evidence, p. S317-S318.
9 Evidence, pp. 58-59.
10 Evidence, p. 377.
11 Evidence, p. 381.

5.14 Looking at the matter from the alternative viewpoint, the ADA commented:

In a cruder sense, too, developing a dependence upon Australia for the continued supply of such items as spare parts or ammunition confers a degree of political leverage on Australia. This point should not be overstated because every country's procurement policies will attempt to reduce the level of such leverage that can be applied by a supplier. This has certainly been Australia's experience with a number of foreign suppliers in the past.¹²

Human rights implications

5.15 DFAT states that:

Australia accords a high priority to the promotion and protection of human rights internationally. The Government is conscious of its obligation to reflect in its foreign policy the democratic and individual values of Australian society. The Government will not permit defence exports to governments that seriously violate their citizens' rights unless there is no reasonable risk that the goods might be used against those citizens.

The Government makes this judgement on the basis of information available to it through its diplomatic network and through diverse public sources...These decisions often require fine judgements, particularly when they involve Governments which have a degree of commitment to democratic processes but also face difficult internal security situations.¹³

5.16 The criteria used by Defence in looking at when the safeguards had failed included '...(b) those that a customer has used to initiate "incidents" against its neighbours or has used in abusing the human rights of its own citizens'.¹⁴ Defence reported that it '...has no record of defence exports that meet [that] criteria...'¹⁵

¹² Evidence, p. S15.
¹³ Evidence, p. S266.
¹⁴ Evidence, p. S460.
¹⁵ Evidence, p. S460.

5.17 Some non-government organisations and individuals who provided evidence do not share this view.¹⁶ For example, CAA claims 'There have been several instances in recent years where Australian military exports have directly supported such military repression or abuse.'¹⁷

5.18 In reviewing evidence a number of countries are consistently mentioned as being supplied with defence and related goods from Australia that are used for repression and human rights abuses.¹⁸ In most cases there is little or no detail of the cases provided. In those where some detail is given, it is found that the export didn't occur or it is not a commercial export or the details of the human rights abuses are not provided. Therefore, the Committee will continue to direct its attention to the general principles and issues.

5.19 CAA notes that:

In many countries in the Third World and elsewhere, armed forces are used not so much for national defence but to keep elites in power and to suppress internal dissent. This is particularly true in countries where there is widespread poverty and great disparities of wealth.¹⁹

5.20 The PNDQ believes that by Australia supplying arms it becomes linked with the oppressors.²⁰

Economic and strategic implications

5.21 Defence is providing well in excess of \$3 million per year in staff and resources to promote defence exports. In 1994-95 this amount is expected to be over \$4 million. This contribution is considered reasonable when combined with those of the other Commonwealth agencies and looked at in the light of the current level of defence exports.

5.22 As outlined in Chapter 4 the range of activities that assist defence exporters is largely the normal support that governments give to their indigenous industries. Defence describes it as support, not a subsidy, in the narrow sense. It said:

¹⁶ Evidence, pp. 378, S6, S24, S51, S56-S57, S62, S67-S68, S92, S100, S115, S130, S148, S156-S157, S225-S229 and S303-S304.
¹⁷ Evidence, p. S303.
¹⁸ Evidence, pp. 378, S6, S14, S56-S57, S67-S68, S92, S100, S115, S130, S148, S156-S157, S225-S229 and S303-S304.
¹⁹ Evidence, p. S303.
²⁰ Evidence, p. S114.

What we are looking at here is the distinction between subsidies in the narrower sense and support. Of course, the defence industry in Australia gets a lot of support from the government because we are a major customer...²¹

5.23 In relation to the offsets program Defence commented:

There is a debate within Defence over the extent to which the offsets program involves subsidies, either direct or indirect. We found that very hard to measure. The basic thrust is that offsets programs in the defence area should entail no extra premium. That said, it is for judgement, because the arithmetic is very hard to calculate. It is probable, depending on the nature of the competition, that foreign supplies will factor into their prices a degree of premium.²²

5.24 DIST listed some programs which would support defence or defence related industries which it described as subsidies²³ (also see paragraphs 4.33-4.40).

5.25 Australia's minimal soft loans etc in the defence exports area compared with other countries have been discussed earlier in this report²⁴ (see paragraphs 2.56 and 4.35).

5.26 The Committee received no evidence that would lead it to suggest that the program should be expanded, nor that a larger organisation similar to the bodies in the United Kingdom, Canada and the USA outlined in Chapter 2, is required to facilitate defence exports at this time.

5.27 Exports and other types of international cooperation in the defence area normally involve long-term commitments and investments and the returns also tend to be long term.

5.28 It is generally recognised that the monetary returns from defence exports are modest, though there is potential for great fluctuation in sales. Some considered the lack of achievement in export sales as a 'failure' of the strategy²⁵, whereas others highlight other economic benefits or impacts, as well as sales.

21 Evidence, p. 17.

22 Evidence, p. 16.

23 Evidence, p. S342.

24 Evidence, pp. 151-152 and 426.

25 Evidence, pp. S317-S320.

5.29 Defence points out that an important economic benefit of defence exports is that they help Australia to sustain its industrial capability without the subsidies of the vast scale of the past.²⁶ For example, ADA commented:

...Australian Defence Industries' Mulwala explosives plant now exports more product in two months to a single American customer than the Australian Army's total annual requirement for small arms propellants. Clearly, Mulwala's existence as a strategic defence plant in Australia would come under threat if it could not sell its product overseas.²⁷

5.30 MTIA commented:

...what we are endeavouring to do in exports, if I could speak selfishly from Transfield Shipbuilding's point of view, is to sustain, nurture and enhance that intellectual talent that we have built up in, let us say, the ANZAC ship project...So we are not so much driven by the extra number or arms and legs, jobs or whatever, we are driven more by this need to sustain the intellectual resources we have, increase them and then fund the development of new products coming out of that for sale...²⁸

5.31 Defence work has often provided the take-off point for industry. AAAI reported that:

...Some years ago the [aerospace] industry was very heavily dependent on defence for its workload, but over recent years this has fallen away and the large proportion of the industry workload is now civilian. Nevertheless, defence work still provides a base workload for many companies and defence exports assist in keeping these industries alive.²⁹

5.32 Transfield Shipbuilding Pty Ltd (Transfield) notes that:

...most viable and sustainable defence industry companies these days will not just be involved in defence products and services. For example, Transfield is only doing about 25 per cent of its turnover in defence business...[however] Most nations consider their shipping to be of strategic

26 Evidence, p. 12.

27 Evidence, pp. S15-S16.

28 Evidence, p. 148.

29 Evidence, p. 165.

necessity to their country and it is very blurred whether it is defence, commercial or merchant.³⁰

5.33 In some instances there is also a substantial flow on from defence exports to civilian business. DIST reported that '...The defence industry does have large contact with industry in general. Last year they had contact with and dealings with about 3,000 domestic firms, so their potential impact on domestic industry is quite large...'.³¹ Elaborating on this issue more generally the MTIA said:

...what one tends to find as a prime contractor is that 30-40 per cent of the value of your prime contract flows on to suppliers and subcontractors. Some of those contractors build things that are very benign like equipment cases or such things...So there is a flow on outside the defence industry...³²

5.34 An example of this flow on from defence industry cited was the Hawker de Havilland new civil helicopter project, the MD Explorer.³³

5.35 Transfield pointed out that through participating in defence export projects many companies, that are not traditional defence industry companies, are able to develop international quality accreditation.³⁴

5.36 The argument of boosting defence exports mainly to offset the heavy cost of imported equipment to the balance of payments equation was played down by Defence.³⁵

5.37 Little detail was provided on the impact of defence exports on employment. This is not surprising since there has been little work done on the number of people employed in defence industries. The Industry Commission's work on Defence Procurement may assist in redressing this as it is surveying defence industries.

5.38 DSTO is an organisation with very significant research and development skills but because our market for defence goods and services is so small some research and development opportunities for Australia are lost overseas. By exporting we can expand the market base and develop the technology in Australia.

30 Evidence, p. 423.
31 Evidence, p. 100.
32 Evidence, p. 149.
33 Evidence, p. 168.
34 Evidence, p. 424.
35 Evidence, p. 9.

5.39 In its assessment of the benefits of the defence export facilitation program Defence stressed the strategic benefits more than the economic ones but noted that the view may vary with different areas in Defence.³⁶ It said:

...The benefit for us, particularly with respect to arms sales within the region, is that they provide a very valuable bridge or girder, if you like, to the sorts of defence relationships that we are trying to build with the countries in our region. Those defence relationships are not being built from scratch. We have longstanding defence relationships with all countries in our region...³⁷

5.40 Defence believes that the success of this policy approach already has been demonstrated by the nature of the relationships that Australia has developed with the United States, the United Kingdom and France over many years.³⁸ On the economic side Defence stressed that there is a fairly complex matrix of benefits.³⁹

5.41 DFAT made the most significant comment on the implications of defence exports for Australia's industrial base and the Committee concurs with its general assessment.

5.42 DFAT said that its initial impressions of Defence's industry involvement programs are that '...the impact appears to be beneficial to industry efficiency.'⁴⁰ It suggested in general terms the programs have developed: program management techniques; raised manufacturing quality standards; strengthened through-life-logistics-and-maintenance-support; generally improved skill levels; and had beneficial flow-on effects for Australian industry as a whole in areas like advanced manufacturing, electronics, communications, marine surveillance and computer-aided logistics support. DFAT noted that 'In summary, the long-term impact of the industry involvement programs operated by the Department of Defence is difficult to assess and will require more work.'⁴¹

5.43 On the export side DFAT stated:

...In time these programs could play a part in stimulating increased exports of defence-related goods and services. But it would be unrealistic to expect that defence exports would have a particularly profound impact on our industrial base even if they were to grow strongly in coming years because the export base is so small. However, this assessment ignores the "lumpiness" of

36 Evidence, p. 19.
37 Evidence, p. 19.
38 Evidence, p. 19.
39 Evidence, pp. 31-32.
40 Evidence, p. S276.
41 Evidence, p. S276.

defence exports. It is of course conceivable, perhaps even likely, that Australian defence contractors will become involved in large collaborative ventures overseas. This could have a very substantial impact on particular firms and possibly whole industry sectors.⁴²

5.44 It is generally accepted that there needs to be ongoing scrutiny of the administrative and policy framework for defence exports. The effectiveness of the implementation of the Price Report recommendations will be evaluated late this year. This will obviously include reference to the exports sections of the report.

5.45 A detailed evaluation of the facilitation side of the program should be undertaken in early 1996 when the three year program has been implemented.

5.46 Given the critical role which several government agencies play in the defence export process, it is essential that any future review of the policy and administrative framework not be undertaken solely by Defence. The failings and the inevitable criticisms drawn by a narrow defence perspective have been clearly demonstrated earlier in this report.

5.47 Consideration needs to be given now to how performance in this area is to be measured. From information presented by Defence it seems that performance indicators have yet to be finalised.⁴³ It is essential that information systems be put in place as a matter of priority to collect the relevant performance information for the future evaluation. Austrade is developing some experience in this area and its assistance should be sought. A range of indicators is needed covering both strategic and economic factors. Price has questioned whether targets should be set for defence exports as a means of measuring Defence's and industry's commitment to exports.⁴⁴ International benchmarking and overseas best practice must also be addressed.

5.48 **The Committee recommends:**

20. **the Department of Defence, in association with other agencies and industry, identify performance information and standards needed to assess the success or otherwise of the defence export facilitation activities and implement systems immediately to collect the necessary data for future evaluation of the system.**

[see also Recommendation 6(c), page 43]

⁴² Evidence, pp. S276-S277.

⁴³ Evidence, p. S464.

⁴⁴ Price, Roger, op. cit. p. 7.

Conclusion

5.49 While the Committee acknowledges that the development of an export facilitation scheme such as the Defence Export Program is a demanding and complex task, it is concerned that the pace of implementation is so slow. Even taking into account the different timeframes for implementation, the achievements on the defence exports control side are not matched by the facilitation work. Both strategic and economic benefits are expected from the program. Defence must ensure that its performance is directed towards achieving both ends, even though the economic benefits may be expected to be somewhat limited, particularly when compared with past projections.

Chapter Six

Australia's international role in arms control

6.1 Fundamental to Australia's policy on defence exports is its work in promoting security through agreements in the areas of arms control, disarmament and confidence building measures.¹ This is to prevent the acquisition and transfer of destabilising weapons systems. DFAT stated:

Creating a secure environment at the international and regional level ensures that weapons systems, whether indigenously developed or acquired through imports, are likely to be used defensively and will not create tension or instability in a region.²

6.2 Consequently, Australia plays a leading role in the conclusion of treaties and agreements in the areas of non-proliferation of weapons of mass destruction (WMD), conventional weapons and international export controls. Australia's performance in this area is well respected internationally.

6.3 To promote these aims Australia is represented by DFAT as a member of the Geneva-based Conference on Disarmament (CD); is an active participant in the United Nations Disarmament Commission, the First Committee (the disarmament and security committee) of the United Nations General Assembly and in all non-proliferation export control regimes; is a member of the International Atomic Energy Agency (IAEA) and currently Chairman of the IAEA Board of Governors; as well as pursuing those aims through negotiations, deliberations and dialogue on a regional and bilateral level. This participation reflects Australia's high profile on the issue of arms control.³

6.4 Australia's effort is led by the Minister for Foreign Affairs, Senator the Hon Gareth Evans, with Defence and other portfolios providing specialist support and advice. Defence is responsible for the administration of most of the defence export controls involved.⁴

6.5 A central theme of many of the measures introduced is international transparency in armaments. DFAT advised that Australia has encouraged the view that arms acquisition should not be seen as inherently bad or wrong; transparency is not an end in itself, rather its purpose is to contribute to security at the lowest

¹ Evidence, p. S451.
² Evidence, p. S451.
³ Evidence, p. S451.
⁴ Evidence, p. S254.

possible level of armaments; and there are limits to transparency, that is, points at which confidence could actually be undermined.⁵

6.6 The scope of arms control has been extensive for some time. The Minister for Foreign Affairs and Trade, Senator the Hon Gareth Evans, has noted that since the end of the Cold War:

... the actual agenda of arms control and disarmament issues has not itself changed appreciably. What has changed is the attitude towards negotiations on these issues and the need - often at relatively short notice - to find new and creative ways of dealing with emerging problems.⁶

6.7 DFAT provided the following picture of Australia's participation in international arms control activities.⁷

Non-proliferation of weapons of mass destruction

6.8 Controls on the proliferation of WMD is a well established field of arms control internationally. DFAT reported Australia does not possess any of those weapons and precautions are taken to ensure Australia does not export any material or equipment or dual-use goods that might contribute to their acquisition by other states.

6.9 Australia's activities cover nuclear, chemical and biological weapons and missiles technology. Australia ratified the Nuclear Non-Proliferation Treaty (NPT) in 1973 and DFAT is working to ensure its indefinite extension in 1995. Continuation and extension of the countries complying with that regime and the related system of international safeguards administered by the IAEA is vital. Progress in other nuclear areas, such as common security assurances on the non use of nuclear weapons against non-nuclear weapon states party to the NPT, is also a priority for the Government. The Department says it is actively advancing negotiations on a Comprehensive Test Ban Treaty (CTBT) and has tabled a complete draft CTBT text in the CD as a means of assisting the negotiating process. Australia is also urging China to join other nuclear weapon states in a moratorium on nuclear testing. DFAT is also taking a leading role in ensuring that the current favourable circumstances for additional nuclear arms control agreements are not wasted. Australia supports the South Pacific Nuclear Free Zone and ratified the Treaty of Rarotonga in 1986 along with eleven other regional parties. The Treaty

⁵ Evidence, p. S454.

⁶ Evans, Gareth. 1993. Arms control in the post-Cold War world. in *Arms control in the post-Cold War world with implications for Asia/Pacific*. Edited by Trevor Findlay. Canberra, Australian National University, p. 2.

⁷ Evidence, pp. S451-S456.

is a major regional arrangement against the proliferation of nuclear weapons. DFAT says it continues to promote strategies to convince all eligible countries to join the Treaty and its Protocols.

6.10 The Biological Weapons Convention was ratified by Australia in 1977. As the Government believes the Convention needs strengthening by the addition of verification arrangements, DFAT has contributed to an experts group which identified and evaluated the feasibility of such measures. The Department will continue to play a role by participating in a Special Conference of states parties to be convened in September this year to develop and formalise such measures.

6.11 A key contribution was also made by Australia in the finalisation of the complex Chemical Weapons Convention (CWC) which was concluded in 1992 and open for signature in January 1993. Australia is now working in the CWC Preparatory Commission to establish the detailed arrangements to enable the Treaty to come into force. Australia is also working at a regional level to ensure support for the CWC by conducting a series of seminars on the Convention and its implementation.

6.12 There are a number of other multilateral arrangements to which Australia is a party including the 1925 Geneva Protocol which was ratified in 1930, the 1953 Antarctic Treaty ratified in 1961 and the 1981 Inhumane Weapons Convention ratified in 1983.

Conventional weapons

6.13 Conventional weapons is a less well established field of international and regional arms control than the control of WMD. Exceptions to this are the Inhumane Weapons Convention which controls the use, not the trade, of certain conventional weapons, including landmines, and some conventions regarding the militarisation of special areas such as the Antarctic Treaty. Conventional arms control is obviously a difficult issue because every state has the right to defend itself. However, there is increasing acceptance of transparency in this area. DFAT suggests Australia has long recognised the need for greater international and regional controls on conventional arms.

6.14 In 1992 following several years of study the United Nations established the Conventional Arms Register to provide information on the import and export of seven categories of weapons, namely: battle tanks; armoured combat vehicles; large calibre artillery systems; combat aircraft; attack helicopters; warships; and missiles and missile systems. In its first year of operation 83 states submitted returns reflecting about 90 per cent of international arms transfers in 1992. Australia has supported and participated in that development.

6.15 Defence advised that Australia's first return showed that there were no exports of equipment listed in the Register, but Australia imported 29 missiles and

missile launchers with no imports in any of the other categories. There were, however, three pieces of equipment imported for official museum purposes and some private exports and imports of museum pieces which were not reported.⁸

6.16 Australia is also represented on a United Nations experts group examining ways to improve the Register, such as its extension to include arms productions and holdings, as well as transfers. Other disarmament forums are also paying increased attention to ensuring transparency in conventional arms and avoiding excessive and destabilising acquisitions. The CD set up an ad hoc committee to look at it and the UN Disarmament Commission is considering international arms transfers.

6.17 Because of the large scale civilian casualties by landmines Australia is attempting to have the 1980 Inhumane Weapons Convention strengthened when the Convention is reviewed next year. DFAT said:

...[Australia is]...arguing that the Convention should be extended to internal conflicts, that self-neutralising or self-destructing mines be used, that production and trade restrictions be introduced to help ensure compliance with the Convention and that verification provisions be incorporated.⁹

6.18 The Committee also notes that landmine countermeasures and Australian expertise in this area are defence exports and these could be expanded.

Export control regimes

6.19 The third tier of activity is the international export control regimes. These are designed to prevent the proliferation of WMD or related dual-use materials, equipment and technology or, in the case of the Missile Technology Control Regime (MTCR), the control of the key delivery system for these WMD.

6.20 The three regimes that Australia is a member of are the Nuclear Suppliers Group (NSG) and Zangger Committee dealing with nuclear weapons export controls, the Australia Group coordinating controls against chemical and biological weapons and the MTCR dealing with ballistic missile export controls. The Australia Group, which was established in 1985, was an Australian initiative and we continue to take a leading role. Australia is encouraging regional countries and potential missile suppliers outside the region to implement similar export controls and abide by the MTCR Guidelines.

⁸ Evidence, p. S255.

⁹ Evidence, p. S453-S454.

6.21 Australia was also a member of the Coordinating Committee for Multilateral Strategic Export Controls (COCOM) which was established in 1949 by a group of Western industrialised countries to control exports of weapons and strategically important dual-use items to members of the former Eastern bloc. Australia joined in 1989. COCOM wound up in March 1994.

6.22 DFAT said Australia remains an active participant in the international process currently transforming the old COCOM into a more broadly based organisation to limit the transfer of sensitive military and dual-use products to countries of proliferation concern or regions of instability. Working groups are meeting to determine the character of the new organisation which is expected to be in place by the end of 1994. Russia, many former Eastern bloc countries and a number of countries in the Asia Pacific region are interested in joining. In the absence of an international control regime, DFAT reported the former COCOM partners are using their national defence export control arrangements to restrain the flow of arms.

6.23 While there was some praise for Australia's performance in the mechanisms of international arms control, a number of areas for expanding Australia's participation were proposed.

6.24 The UNAA ..believes Australia should take full advantage of the emerging concern within the United Nations for more comprehensive non-military approaches to security'.¹⁰ The MAPW said 'There is a lot of work which can be done in preventive diplomacy, and I think we have not reached our capacity in that'.¹¹ The MAPW compares the far greater resources given to Defence than DFAT and suggests 'We should be funding DFAT much more, so that it is able to engage in more preventive diplomacy measures in our region and throughout the world'.¹²

6.25 The WRL believes:

Australia is playing a useful role in the development of an international regime of monitoring and reporting military exports, but it is not enough. The government still fails to publish a complete list for Parliament to debate each year, and continues to argue the line about non-offensive equipment and human rights safeguards.¹³

¹⁰ Evidence, p. 225.

¹¹ Evidence, p. 382.

¹² Evidence, p. 382.

¹³ Evidence, p. S130.

6.26 The ACAAT points out:

Australia has done some excellent work for world peace such as leading efforts for the Chemical Weapons treaty, negotiating peace in Cambodia, and working for the United Nations Register of Arms Transfers.¹⁴

6.27 However, the ACAAT stresses the need to promote transparency of arms transfer, in particular, to make present registers mandatory rather than voluntary; to lead negotiations to limit the transfer of offensive weapons such as landmines, tanks, fighter planes, missiles and warships; and support moves to outlaw nuclear weapons.¹⁵

6.28 The Secure Australia Project would like the Government to urge the United Nations to greatly expand the list of items, including paramilitary equipment, to be registered on the UN Arms Register. If this registration is too difficult or protracted, it suggests Australia should at least move towards more detailed disclosure amongst the countries of our region.¹⁶

6.29 The MAPW supports Australia's efforts in improving the UN Arms Register, but notes the register's limitations in coverage, its voluntary nature and the number of nations participating. It believes there is a lot more work to be done in this area.¹⁷

6.30 However, in its evidence DFAT points out work is being done on the UN Arms Register:

We attach importance to widespread participation in the Register, as a necessary attribute of confidence-building. Participation in the Register should be voluntary at least in the early period of its establishment. Military planners generally will have concerns about the international community calling for transparency in areas which would expose holdings of specific types or numbers of particularly sensitive weapon systems and these concerns will need to be taken into account.¹⁸

6.31 In addition, as previously outlined, DFAT is on a United Nations expert working group currently examining ways of improving the register, including its extension to include arms production and holdings as well as transfers.

14 Evidence, p. S93
15 Evidence, p. S93.
16 Evidence, p. S138.
17 Evidence, p. 382.
18 Evidence, p. S454

6.32 Amnesty International also noted its support for multilateral types of arrangements that seek to control the flow of armaments.¹⁹

6.33 Stronger criticisms appear in the literature. For example, Dr Trevor Findlay, Peace Research Centre, Australian National University,²⁰ has pointed out that:

there is a view that most Australian activity in the arms control field to date has been of the ubiquitous 'apple pie' variety. It has been politically popular, relatively cost free and more symbolic than real...²¹

Findlay said Australia has rejected naval arms control.²² Future work in the latter areas already has been outlined.

Conclusion

6.34 The Committee is satisfied that Australia is fulfilling its obligations in complying with the arms control and related treaties and agreements to which Australia is a party.

6.35 Australia has an appropriate high profile and level of involvement in international forums on arms control. The Minister and the Department of Foreign Affairs and Trade are commended for the leading role taken in a number of those areas. The additional initiatives and activities the Department of Foreign Affairs and Trade have outlined as priorities that Australia is pursuing, or proposing to pursue, are supported.

6.36 The Committee is particularly supportive of Australia's work in achieving a balanced approach to international transparency in armaments and to military transparency and stresses the importance of this work continuing.

6.37 Consistent with Australia's regional focus the Committee believes more attention should be given to promoting regional participation in arms control particularly in the area of conventional weapons and in the export control regimes.

19 Evidence, p. 215.
20 Findlay, Trevor. March/April 1992. Disarming cooperation. *New Zealand International Review*. 17(2), pp. 5-12.
21 Findlay, Trevor. *ibid.*, p. 10.
22 Findlay, Trevor. *ibid.*, p.11.

6.38 Given increased international interest in international arms transfers, Australia must be vigilant in ensuring its own controls remain appropriately balanced.

Senator Stephen Loosley
Chair

An Additional Report

Defence Export Inquiry

Chairman: I will open the batting by making a few comments. The dynamics that gave the terms of reference to this inquiry came from the Senate. ..I think the motivation of the Senate was the community concern for the hideous nature of the amount of world resources spent on means of killing compared with the amount spent on development. ..There is widespread community concern about Australia engaging in the arms trade. First Session of Committee, Hansard 29-11-93 p.5.

Introduction

1.1 As the then Chair (Hon. J. Kerin) said in opening the Committee's hearings, the reference involves two aspects. One is Australia's policy approach to the export of defence-related equipment. This is in part a subset of the Government's wider defence-related industry policy, and thus impinges on the policy of "defence self-reliance". The other, more detailed but equally significant, aspect is the nature and structure of the regulatory regime which governs these exports.

1.2 Many of the exceptions we have to the majority document relate less to what it contains as to what it fails to address. Indeed, we consider that in certain areas the majority report does not adequately address the Terms of Reference (ToR) and is in that way deficient, quite aside from objections we may have to some of the conclusions reached and recommendations made. As a consequence this is not a "dissenting" report in the traditional sense but an alternative or additional report picking up matters the majority report has regrettably failed to address despite being required so to do by the ToR. The remainder of this Additional Report deals principally with these matters.

1.3 We would like to state that it was not through lack of evidence, nor lack of discussion that those issues were not included in the majority report. We feel that their exclusion was a result of the predominant attitude of the majority of members and reflected their personal focus on the export schemes and export facilitation programs from a relatively uncritical standpoint of improving exports. In this dissenting report there is no implication of fault in the Secretary of the Committee or others who were involved in the actual writing of the report. We feel that the formulation of the report accurately reflected the committee's bias, as did the extensive citation from industry and defence department statements, and lack of mention of statements of critics, both critics from NGOs with a peacemaking or human rights perspective and critics with a pro-defence perspective who nonetheless criticised the export push.

Economic versus moral arguments

1.4 The majority report is based on an assumption that the arguments against a liberal defence exports regime are largely or solely moral. This is not the case. Ill-judged export approvals can cause real and measurable hardship, in contravention of human rights guarantees under international law which Australia is committed to upholding. They can also undermine other foreign policy goals by alienating a significant section of an importing nation, or a rival country. There are pragmatic reasons to favour a more restrictive approvals regime, and these are not adequately explored.

1.5 This is not just a theoretical concern; some exports or export approvals under the liberal post-1988 regime have had precisely those effects. The report fails to mention some, and analyses none in any depth. It could be argued, perhaps with some justification, that subsequent changes to the guidelines were designed to prevent a repetition of those approvals, but it was incumbent on the Committee to examine those changes and draw that conclusion. The basis of this inquiry was that the post-1988 regime erred on the side of incaution. If the majority believes that all problems have been addressed, it should have justified that conclusion with hard arguments.

1.6 Prime examples of poor decisions made under the post-1988 regime exist. The report deals cursorily with three (involving Pakistan, Burma and Iraq), acknowledging the public controversy caused within Australia but ignoring negative foreign policy implications, namely that:

- the 1990 decision to approve the sale of 36 Mirage fighters to Pakistan caused major difficulties in Australia's relationship with India, and raised serious nuclear proliferation concerns; The former Pakistani Prime Minister Nawaz Sharif¹ has recently publicly admitted Pakistan has nuclear weapons, provoking an intensification of the long-standing dispute with India. The Mirages could themselves deliver nuclear weapons, or provide air support for a nuclear strike by Pakistan's front-line F-16 aircraft. India has responded by placing conventional and non-conventional weapons on its border with Pakistan. While the Mirages were delivered "for parts" they are currently being used as fully functional aircraft.
- the 1990 and 1991 decision to permit the export trainer aircraft parts to Iraq and Burma respectively sent inappropriate signals to regimes with poor human rights records. Indeed, the Iraqi air force had in 1988 dropped chemical weapons on Kurdish civilians, killing up to 5,000 of them (the export approval was withdrawn only following Iraq's invasion of Kuwait).

¹ AP Delhi, Aug 26, 1994 *India to look upon deployment of non-conventional weapons: India nuclear*, AP story 27-08 0438

1.7 Other recent examples of inappropriate export approvals are not examined in the majority report, which should have explained how these breaches of good judgement and the presumed intent of the Guidelines occurred, and why it believes similar errors will not be made in future. A few of the recent mistakes not elsewhere mentioned are:

- In 1989/90, approval was granted to export Strikemaster trainer aircraft worth \$4.87 million to Somalia; the export did not proceed only for commercial reasons. Somalia had been gripped by civil war for years, and Amnesty International had documented numerous atrocities by government forces. The Somalian Air Force had a counter-insurgency squadron which by definition was for internal use.
- Australian military equipment and training have contributed to human rights abuses on Bougainville, by both the Papua New Guinea Defence Force and the Bougainville Revolutionary Army. Australian-made patrol boats were used to enforce a total embargo on supplies to Bougainville, which has contributed to a collapse of health services and loss of life.

I AREAS NOT ADEQUATELY ADDRESSED BY THE MAJORITY REPORT

I.a The Regulatory Regime for Defence Exports

2 A primary consideration not mentioned in the terms of reference but required to adequately address the issue of whether the appropriate controls are in place and functioning effectively, must be a clear understanding of the purpose of these controls. There was no discussion of this, but numerous references² appear to support the assumption that the controls are designed to support Australia's security, international harmony, and respect of human rights, and to assure that these objectives are not compromised. *Human rights* are taken to be as defined in the Human Rights Manual published by DFAT. Broadly, these are reflections of the *Universal Charter on Human Rights*, to which Australia is a signatory, the two *International Covenants on Civil and Political Rights* and *Economic Social and*

² The quote from the Hon John Kerin supports this notion, as do the guidelines themselves. While Section 2 of the guidelines state that the Government wishes to encourage defence exports in paragraphs 9 and 10, paragraph 10 also goes on to state that the exports will go ahead unless they prejudice important Australian interests and then proceeds to outline the factors it will consider. The regulatory regime is clearly not designed to promote sales, but to control them. The majority of the criteria for refusing export under paragraph 11 involve an assessment of security and humanitarian implications of the sales which might preclude such sales. Implicit in any discussion of whether a good or category of defence goods should be restricted is the idea that the potential for violation of human rights, international harmony and security interests are the reason for a regulatory regime to avoid these.

Cultural Rights, and various specific measures such as the protocols of the Geneva Convention which Australia has also signed.

A) **To investigate and report on the implications of Australian defence exports in all forms, with particular reference to the definition of what goods and services constitute defence exports**

3.1 **Definition:** In this report the following term is defined thus:

disciplined services: disciplined services include any uniformed or non-uniformed agency at any level in which:

- a hierarchic decision-making structure exists and members are obliged to take orders from superiors;
- activities are generally undertaken under either direct or standard orders

(this would include police, intelligence, security and other services not necessarily connected with national defence or necessarily operating at a Federal level.)

Guidelines: where used in this Additional Report, "Guidelines" with a capital refers to *Australian Controls on the Export of Defence and Related Goods: Guidelines to Exporters*, DoD, March 1994.

3.2 The report did not discuss or investigate at all the range of goods which should be regulated, or any classification system (including the current one) to differentiate between categories of goods for the purpose of regulation. The report therefore failed to address this term of reference.

3.3 Several of the submissions explicitly took up this issue³ and it was discussed in hearings. They noted that many goods used by various formal and informal "enforcement" agencies are not included. These include restraining devices, (handcuffs, shackles, glue-guns, etc.) "non-lethal" anti-personal weapons (lasers, truncheons, tear gas, capsicum gas, etc.), tools for interrogation and torture (including pharmaceuticals: sodium pentathol, hallucinogens, hypnotics, drugs involved in memory destruction and brainwashing etc.) and surveillance devices (such as the cameras used in Tienanmin Square, listening devices, electronic bugs and phone taps, micro-cameras, computer phone-monitoring systems and software, etc.). Sale of any of these to countries known to be actively involved in domestic political, ethnic, social or economic repression would make Australia an accomplice in these crimes, and would be counter to the essence of restrictions on export to human rights violators.

³ Submissions No: 1 (S00003), 4 (S00013), 8 (S00044), 16 (S00091), 22 (S00129), 24 (S00136 Supp Vol 3: 330), 27 (Supp Vol 3: 346) 34 (S00307-8), 35 (S00316, 00322)

3.4 This is an issue of increasing significance, since, as the report notes, ethno-religious and other domestic conflict appears to be on the rise. The last four international actions involving Australian defence troops have been domestic conflicts involving human rights issues, ex-Yugoslavia, Somalia, Kampuchea, and Rwanda. With the end of the Cold War, more and more international attention is likely to be focused on domestic human and civil rights issues. With the increase in population, poverty, environmental degradation, and the disparity between rich and poor, domestic conflict is likely to become the major source of conflict, death and injury. Governments, using the military, police, and paramilitary groups are actively involved in repression and actions that generate such conflicts, and a variety of products and services are implicated in this.

3.5 While not all items potentially useful for repression are sufficiently clear to allow regulation without causing great difficulty (toothpicks, pliers or fishhooks may be used for torture, this is not their general or primary use) many areas are clear enough for inclusion under customs regulation, similar to the three classes of goods currently examined. Current broad classes of goods are: significant military goods, other military goods, lethal non-military goods. To this should be added classes such as:

Non-lethal anti-personnel goods: rubber bullets, water cannons, truncheons, glue guns, laser guns etc.; tear gas, capsicum gas, mace and other gases and sprays.

Restraint devices: hand-cuffs, shackles, thumb-locks, straight-jackets, paddy-wagons etc.

Goods for interrogation & torture: pharmaceuticals used as truth drugs, for brain-washing, those affecting memory or volition, and dual use goods such as cattle prods frequently used in torture.

Surveillance goods and services: equipment for audio or visual surveillance, especially covert surveillance including wire taps, ultra-miniature cameras and microphones, resonance receptors etc. plus recording, analysing, and controlling surveillance technology including computers, computer software and services.

3.6 We note that this range of goods and services may be used by disciplined services other than the military, including police and intelligence services. These forces may be involved in repressive actions violating human and civil rights. While inclusion does not imply that all such exports should be stopped, it allows some regulation of their destination and probable end use.

3.7 It would be appropriate at this time to extend the definition of "defence exports" to include the full range of exports useful in aggression and repression. This is the case regardless of whether the end-user or goods-exported approach is adopted. End users should include all disciplined services, while goods classified should be extended to deal with other goods used outside a strict military/lethal context. This should include support for moves to similarly extend the UN Arms Register to include conventional small arms, non-lethal weapons, and the tools of repression.

3.8 It is recommended that a Joint Parliamentary Select Committee be set up to define exactly what areas should be included under customs regulations for examination as *defence and related exports*. The definition should be clear enough to cover the range of goods requiring regulation, while broad enough to include categories of related goods without specifying every item.

B) To investigate and report on the implications of Australian defence exports in all forms, with particular reference to guidelines, constraints and conditions governing defence exports

4.1 Due to the questions of definition, and the desire to regulate exports of all goods and services used in aggression, repression or oppression by any disciplined service, we note that the widest definition is used in this section, including export of items not directly related with national defence by formal military forces.

4.2 It is particularly important to note that exports in this context are not necessarily confined to exports of materiel produced by Australia's defence-related sector. Items exported as surplus ex-ADF equipment - e.g., the ex-HMAS *Melbourne*, sold to China, or the ex-RAAF *Mirages* sold to Pakistan - are relevant here, as are items exported under the Defence Co-operation Program (DCP) or otherwise transferred to foreign states. One example is the *Iroquois* helicopters transferred to Papua New Guinea.

Guidelines

4.3 Once defence exports are defined (and the Committee has ample evidence to support a recommendation that both "defence industry" and "defence exports" are terms requiring clear and urgent redefinition) it will be necessary to establish criteria under which proposed exports may be prevented or approved. Guidelines should be clear enough so that most decisions can be made by delegates from the appropriate bureaucracies. The guidelines have been progressively improved, and in many respects are reasonably broad and inclusive, and cover most concerns within the current definition of exports. While they are clear in terms of

defining the issues to be examined, there is room for improvement, particularly in making clear **when** restrictions should be applied.

4.4 A submission from Roger Blake, a former Director General of Canadian Defence Programs put the issue succinctly. "*Thus the export control list will delineate which products can be sold to which countries. The policy must be clear so the following situations can be responded to decisively.*

- . *Four-wheel drive ambulances to Syria;*
- . *Sonars for the Iranian Navy;*
- . *Civil aircraft overhaul for the Burmese Government"*

4.5 Mr Blake is not against defence exports, and has considerable expertise. What he is saying is that in his experience a policy which can provide clear guidelines in making difficult decisions is vital, for regulators, for exports and for the public. None of the cases he gives is obvious, yet all are the sort of thing a committee will need to answer, at least periodically. What he is aiming at is a framework for assessing applications and making decision, with a hierarchy of values. The ambulance is liable to be used by Syrian ground forces. But it would be used to assist the injured, a humanitarian duty. If we would not help Syria build up its military, is an ambulance a defence export which should be banned? What about medical aid to civilian populations such as Iraq where there is a likelihood that the military will confiscate at least some of the supplies? Is our obligation to civilians greater or less than the risk that the military may gain help for wounded soldiers? These are ethical questions and can only be answered through clear value-based guidelines. They also suggest the need for additional categories of exports, i.e. medical goods, etc.

4.6 No substantial discussion of guidelines is given in the report, and no conclusions reached. No real investigation of the current guidelines occurred. During committee hearings there was some interest in this area, and issues such as ambulances were brought up several times. Other issues were raised, such as whether some differentiation in restriction is appropriate and whether military aid is appropriate to a nation which violates civil and human rights, when the export, e.g. a submarine, would not be directly used in such violations. No conclusions were reached, and no mention of the issue appears in the report, although the posing and resolution of the question has obvious value to ongoing refinement of guidelines.

4.7 The majority report does outline a difference in approach to regulation between the DFAT and the DoD, although it confuses this with a definition of exports themselves. The implications for the difference in approach in relation to the term "defence export" is treated in section II below as part of the explicit critique of the majority report. There are also implications of the departmental difference between two "approaches" in regard to regulation, the end-user approach, said to be DFAT's and the goods-sold approach, said to be DoD's. The majority report does not examine or assess the strength or weakness of these, nor how the conflict is resolved or embodied in practice. It also made no distinction between DoD's "goods-oriented approach" and the attempt by DoD to limit consideration by excluding several export

types, e.g. exports in conjunction with Defence Co-operation, from its definition of "real" defence exports.

4.8 A "real" export, to Defence, appears to be one produced or part-produced locally. In that this helps sustain Australia's defence industry infrastructure, something very important to DoD, this concept of "real" exports is understandable and even useful in that limited context. But this cannot be allowed to affect a wider consideration of exported goods and services when considering the structure and nature of a regulatory regime which ought not exclude exports which, though not "real" for DoD purposes, are indeed real to the exporting body, the recipients and those against or upon whom such items might be employed. This point is simply validated if we consider the very real adverse international relations consequences of the *Mirage* deal, which was nonetheless outside DoD's concept of "real" exports. Sale of surplus equipment and transfers through military co-operation and other programs should continue to be treated as defence exports.

4.9 The disagreement between the DoD and DFAT approaches revolves around the issue of whether to ban all "defence exports" to a given "end user", or to regulate by breaking "defence exports" down into classifications with their own guidelines. Currently there is a hybrid system, in which some nations, (Libya, Iraq and ex-Yugoslavia) are totally excluded from defence exports, others are on the unpublished "sensitive" list, and may be denied exports or selected exports, and non-sensitive users. Goods are divided into three schedules Category 1, Category 2 and Category 3 goods, and each application is to be considered in terms of its implications in relation to end users. However, those applications involving destinations considered "non-sensitive" are generally processed very quickly (i.e. with a minimum of scrutiny) by DoD and not referred to SIDCDE. While not explicitly stated, it would appear that certain goods in category 1 may be considered sensitive regardless of destination, e.g. goods involved in production of, or useful as biological or chemical weapons, or some command and control technologies.

4.10 Since a hybrid system already exists, the distinction in approach appears to be artificial. There is no reason why a hybrid approach cannot be maintained and refined, with some nations denied export of some or all of the various goods. This would be useful when repressive goods are included, and the humanitarian records of nations are considered. There are no specific guidelines which permit the ready classification of states as sensitive destinations, or give guidance as to when a situation might be sufficiently sensitive as to necessitate the restriction or prohibition of exports to that nation.

4.11 Currently the division is between:

- 1) "Lethal military weapons & weapons platforms";
- 2) "Other military goods" (warning & detection systems, decoy systems, minesweepers, cryptographic goods, etc.)
- 3) Non-military lethal goods ("sporting" weapons)

4.12 There is no classification for surveillance goods, non-lethal military and non-military weapons, interrogation goods, restraining devices or anything in the area of services. Some of these could be regulated (e.g. surveillance devices under Item 31) if the restrictive clauses limiting consideration to pure military applications were deleted or modified to incorporate other enforcement applications used repressively. This was noted by Amnesty and other submittants. These could and should be added. It would also be appropriate to stop calling category 3 weapons "sporting" weapons. They are clearly more than that, and DoD statements indicating that such exports are nearly double the exports of what they call "real" defence goods points to their importance. They are lethal weapons often destined for "civilian" Government agencies, and used domestically against citizens. What kind of "sport" is this?

4.13 We note that in 1992-93, total lethal non-military exports were valued at under \$9 million, while in 1993-94, according to DoD evidence, these exports amounted to \$30 million. In 1992-93 they included over \$700,000 worth of guns to Singapore. Singapore is a city-state, with strict gun laws and no hunting. That these weapons represent a substantial inflow is clear. Were these for civilian government uses? Were they listed as "recreational" on end user certificates? Who are the recreational buyers of such large quantities of weapons, and it should be noted that Australia is not the sole supplier of "recreational" weapons. Who are their customers? Others top ten importers of guns include Cyprus, Hong Kong, Thailand, New Caledonia, and Namibia. Exports of Ammunition include \$351,428 to Kuwait, \$172,538 to Bangladesh, and \$108,433 to PNG. These are for "recreation"?

4.14 In addition, no consideration was given to the adequacy of regulations on transfer of technologies likely to lead to weapons production (partially covered under items: 7g, 36, 40, 42, 44. Again consideration under guidelines is often explicitly limited in scope). Of particular concern here are the technologies for weapons of mass destruction and their delivery systems, (covered by international agreements) and command and control technologies. International agreements should be considered minimum restrictions, and regulation should be more inclusive where appropriate, for example with the transfer on radioactive resources and nuclear technology, the technologies for production of nerve gas compounds and other chemical weapons, and biological technologies and substances capable of adoption to biological weapons. The issue of biological weapons is of particular concern given the broad application possible for genetic engineering and other biological technologies, and the minimal physical resources required to adapt them to weapons production. Also of concern is the transfer of nuclear technologies to developing nations, and the potential application of these technologies in weapons programs even if no Australian uranium is used.

4.15 There is a lack of transparency in this hybrid system which is not discussed. The sensitive list remains secret. This - as is clear from the evidence of respected NGOs such as Amnesty International and the United Nations Association - undermines public confidence. The Government appears callous or derelict when it appears they have failed to act on their own guidelines. Secrecy means it is not clear whether nations have failed to be classified, or a decision has been made that

potential harm of an export is not *significant*. Failure of transparency means that such decisions cannot be queried. In the diplomatic context both our American ally and the United Kingdom make public their perceptions of which states should be recipients of defence-related exports; Australia does not. This transparency adds a diplomatic option which Australia's secrecy denies. Such transparency does not preclude diplomatic negotiations with a nation over **whether** it will be classified, so it does not restrict options, but strengthens them. It also provides scope for further diplomatic negotiations around possible de-classification. The Australian approach generates a self-inflicted problem of public confidence and simultaneously robs our diplomats of an option freely used by our major western friends and allies.

4.16 Nor does the existing system provide adequate Ministerial accountability to the Parliament. In the exercise of his Executive authority, the Minister is of course bound by the relevant law and subordinate legislation, but Parliament has no means of requiring the Minister to administer it according to its wishes. As they stand, the guidelines have no real force, nor provide scope for accountability. The guidelines should be refined, and then incorporated into regulations in the Customs Act. This would provide a means of guaranteeing some accountability and Ministerial responsibility.

4.17 A proper classificatory system should be capable of distinguishing between nations that are deemed "sensitive destinations" due to:

- . A security risk to Australia;
- . Military aggression or the likelihood of aggression against other nations;
- . Government sponsorship of, or inability to control, quasi-independent military or para-military forces engaged in interference with legitimate political process, especially where these involve aggression or repression (e.g. Argentinean secret "hit squads" under the former dictatorship);
- . Bilateral tension with neighbours;
- . Internal conflict and/or civil war;
- . Repression of a minority group;
- . Violation of human rights;
- . Violation of social or economic rights.

4.18 Any of these problems *should* generate some response in terms of exports of tools of aggression/repression. The Government should be capable of setting clear guidelines for inclusion and response, and should do so. Decisions should be made on the basis of these guidelines and at least the decision-making criteria should be transparent.

4.19 Currently the only mechanism is entirely discretionary at three points. First, DoD must decide whether an export is sufficiently sensitive to refer it to SIDCDE. Then SIDCDE must choose to recommend a nation to the Minister of Defence for classification. Finally, the Minister must choose to classify the nation. There are only the most general guidelines (e.g. that a nation pose a security risk or be involved in violation of human rights) to classification. It is in this area that questions arise as to whether it is appropriate that the ultimate decision rest solely

with Department and the Minister for Defence. Clearly many of the criteria for exclusion involve diplomatic and human rights judgements more properly the responsibility of the Department and Minister for Foreign Affairs. In fact, the imbalance in the existing system in favour of the Defence Department is one of the most unfortunate deficiencies of the present system. While industry is entitled to a continuation of the "one-stop shop" system, this is not inconsistent with a requirement that both DFAT and DoD should have to approve export applications.

4.20 The present system, vesting all authority with Defence, has manifestly failed to perform. This is demonstrated conclusively by the *Mirage* affair, by attempts to export 76mm ammunition and fragmentation grenades to Sri Lanka and by proposals to supply Steyr rifles of the type used by the Australian Army to the Thai forces, whence it can reasonably be inferred they will find their way into the hands of the Khmer Rouge. These matters are further discussed below (see para 4.27). The Defence Department simply lacks the necessary insight into the wide range of interests - foreign policy, human rights and so on - which are engaged by exports of defence-related equipment, and if it (via its Minister) is permitted to retain sole authority then further foreign policy *faux pas* can be expected. A more balanced system is required.

4.21 It is recommended that:

- i DoD should remain the only point of contact for those seeking export approvals: applications should be submitted to DoD and responses to applicants provided by DoD;
- ii DoD should be required to provide information on each application to DFAT and, indeed, the Customs Service. DFAT should be able to flag any item it wishes for consideration by SIDCDE. Both DoD and DFAT should hold independent veto power on any item
- iii The present Guidelines⁴ set out eight criteria [(a) - (h)] for export applications of military goods (Schedule 13, categories 1 and 2). Responsibility for these criteria should be divided between DoD and DFAT, such that DoD has responsibility for criteria (a), (c), (d), (g) and (h) and DFAT for (b), (e) and (f). Similarly, for non-military lethal goods, there are six criteria [(a) - (f)] given. DoD should have responsibility for criteria (a) and (f), and DFAT for (b), (c), (d) and (e). In all cases an application would succeed if the appropriate criteria were assessed positively by the relevant Department, so that all criteria were satisfied. Defence would then convey the outcome to the applicant.

⁴ Australian Controls on the Export of Defence and Related Goods: Guidelines to Exporters, p. 3, DoD, March 1994.

The effect of these changes will be to share responsibility between the Defence Department and the Department of Foreign Affairs and Trade, while preserving the "one-stop shop" as the interface with the public and industry lodging applications.

4.22 It appears that although there is a firm basis for guidelines in place, and a history of improvements in those guidelines there is still considerable room for improvement. For determining when to act they are insufficiently clear for making most decisions on other than an *ad hoc* basis. The categories of defence exports should be expanded as noted above, and a real commitment made to meeting the regulatory requirements in the guidelines. In particular it appears that many exports go to nations with poor human rights records, to nations with internal conflicts, to nations where such exports exacerbate tensions with neighbours, and to nations which are involved in open or covert aggression. Guidelines should be clarified to cover this, and then incorporated into regulations under the Customs Act.

It is recommended that:

4.23 The list of nations classified as sensitive in accordance with the guidelines should be published, a proposal also forming a part of coalition policy⁵. The area(s) of guideline contravention should also be published. A system of public input should be developed and the decision-making process should be transparent, particularly in relation to human rights issues and regional security. The list should be reviewed annually. Nations should also be able to be reclassified rapidly in the event of dramatic changes, either being included in the event of gross abuses or being normalised in the event of rapid positive political change. While the regulations do not block all exports, when a nation is classified, the onus of proof should be reversed, with exporters arguing why exports will not aggravate the situation.

4.24 It appears that part of the problem is that ultimate discretion rests with the Minister of Defence, while most of the problems occur where exports are contrary to the objectives of diplomacy, international harmony and the assurance of human rights, all objectives falling into the Foreign Affairs area. We therefore believe that authority and responsibility be shared between DoD and DFAT, with the former remaining the "shopfront" organisation and each holding independent veto power over any application. DFAT should receive sufficient resources to allow adequate performance of its duties.

4.25 The regulation of services and of components is an area requiring close examination and a clear set of guidelines. This should be accomplished as a matter of urgency. Services should be defined and regulation proposed. Of particular concern is the regulation of services relating to defence-related computer software. Means should be developed of assuring that components do not end up as weapons in the wrong hands. No area of defence exports, including transfers to associated companies, defence co-operation, or defence aid should be immune from the regulatory regime, including end-user certificates.

Implementation

4.26 The report made little mention of implementation of guidelines. Guidelines may be excellent, but without a regime of successful implementation, they are only words. No analysis of failures was made, to determine what weaknesses led to such failures.

4.27 Although failure to examine exports render regulatory decisions useless, failure to regulate is also a concern. Several submissions mentioned high profile failures of the regulatory system. The sale of Mirage jets to Pakistan was mentioned frequently, as was the gift of Iroquois helicopters to PNG, and the application for export of fragmentation grenades and automatic small-arms ammunition to anti-insurgency forces in Sri Lanka, which appeared to be stopped only by public outcry.

4.28 Some of the submissions also listed numerous cases, mainly in Indonesia and PNG, of grave violations of human rights, and cases of domestic conflict in nations to which we export arms, give training and military aid. These activities should have been excluded if the criteria 10b, 10h, 11a, 11c, 11d, 24c or 24e had substantial force. Export of "non-military" weapons to nations such as Cyprus, where conflict is prevalent and exacerbated by foreign (Turkish) occupation, is also questionable. More recently, the US has banned exports and training to Indonesia on the grounds of human rights abuses, including the violent situations in Timor and Irian Jaya, the repression of unions, and the recent repression of those protesting Government closure of three major journals for daring to criticise the propriety of some Government departments. But the Minister for Defence and DoD continue to promote arms sales to Indonesia.

4.29 More recently still, the Minister of Defence has been promoting the sale of small arms to Thailand, although there is a strong concern that weapons in Thailand find their way into Khmer Rouge hands, with or without official government sanction. Thailand is also noted for its political instability and heavy involvement of the military in domestic and political affairs. The recent massacre ordered by General Suchinda is an indication of the sort of problems that can arise. In December 1993 a truckload of weapons under Khmer guard was intercepted by

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as published October 1992, on page 122 of *A Strong Australia*.

Thai police heading for the Cambodian border. The weapons had apparently been transported from caches in Thailand and there is evidence that there is collusion with at least some elements of the Thai military. Domestic conflict extends to armed conflict between quasi-military police and military units, such as the attacks on police stations in Ranong and Nakhon Ratchasima by local army units. There are also human rights issues in Thailand, such as the *Khor Jor Kor* forced resettlement program, or the abuses against the Hmong and Karen refugees from Burma, and of other hilltribe members born in Thailand but unrecognised as citizens.

4.30 In spite of the conditions, the two applications in late 1993 for export of Steyr rifles to Thailand as samples for a major bid were not considered sensitive enough for referral to SIDCDE. The applications were processed quickly by Defence alone. This is in spite of assurances of great improvements since the Mirage jets incident, also not considered important enough for examination by SIDCDE. In spite of statements in paragraph 3.31 of the report that the two new committees, the DMCEC and IDCDCMCE were formed especially to give consideration to broader policy issues and to assure sufficient time for assessment by working with exporters on emerging proposals, neither committee considered the export of large quantities of automatic weapons to Thailand, either in principle or as an emerging proposal, nor do they have such consideration on their agenda. Yet the proposal is sufficiently formed to allow both the Minister for Defence and the Minister for Trade to support it publicly, while the Minister for Foreign Affairs is trying to reassure the public that proper scrutiny will be given. We also now have three Defence Trade Commissioners, located in Kuala Lumpur, Bangkok, and Jakarta, the capitals of three nations where the human rights record is not particularly good. If they are actively supporting arms sales to these nations the ability to assess the propriety of those sales in an unbiased manner may be compromised.

4.31 With problems such as these arising continually, it appears procedures are not being followed, and either that the guidelines are not being implemented, or the judgement of what constitutes a "serious" violation of human rights or a security risk is considerably at variance with the values of the community. In either case, it calls the regulatory process resulting in permission to export into question. Where significant export proposals are being promoted by the Minister prior to examination, it becomes far more difficult to make a negative decision, and far more damaging if one is made. The system of regulation is effectively bypassed by Ministers acting as salespeople. Likewise it was noted in evidence that for many enterprises, application for export is the first stage of entry into the process, and one of the last stages of actually attaining a contract and selling goods. This is the reason for the industry's call for speed, and does not indicate a problem of speed. It indicates that a proposal is considered for approval far too late in the export process. While recognising that things can change, no company should even consider putting in a bid where export is liable to be stopped. The implication of this is that there is a strong case for approval in principle, considered inter-departmentally, in the early stages of the export process.

4.32 As was noted in the report, Customs is one of the major organisations involved in actual control and inspection, and the evidence of Customs was damning.

No routine inspections and an inability of Customs agents to distinguish when goods are not as described make controls singularly ineffective if an arms exporter is not honest. DoD has a single agent available to assist Customs officers, but that agent was only used twice in the last year. In essence, Customs is entirely dependant on military intelligence to notify them of forthcoming attempts at regulatory and customs violations. While Customs claim that this is sufficient, the culture of secrecy and covert action common to military organisations generally finds an apex in military intelligence organisations, and history records too many cases where intelligence agencies have followed their own agendas rather than those prescribed by the law or by Government. The Iran-Contra affair, indeed, showed this phenomenon in the precise context of this inquiry - international transfers of arms.

4.33 There is also the possibility of corruption of Customs officials and others involved in trade. The corruption of a shipping clerk who evaded over \$3.5 million in duties (Can. Times, 17-8-94) was done through the simple expedient of affixing false customs stamps. He was also involved in the importation of cocaine. It demonstrates that Customs procedures and staffing levels do not appear adequate, and shows that corruption does occur. It is likely that drugs are monitored more closely than arms, but they are not necessarily more implicated in corruption. The same paper noted on page 14 that German authorities uncovered three cases of weapons grade nuclear material smuggling in the last four months. The illegal transfer of radioactive materials internationally is currently occurring at a dangerous level.

4.34 There is little evidence as to whether measures designed to prevent violations of permits and licences are actually working. Customs has admitted it does not check, and military intelligence cannot be trusted to reveal what it knows. Lack of official detection of violation is no guarantee that violations have not occurred. While some arms exporters may be honest in relation to the Australian Government, many arms traders are known to be corrupt. The book taken in evidence, *Profits of War* by Ari Ben Minashi⁶, gives evidence of the murky world of the arms trade, and he relates various scams operating through Australia. Events around Kushogi, another arms trader, have shown that Ben Minashi is certainly not alone. The shipment of container-loads of arms through Australia to the forces of General Rabuka at the time of his coup⁷ is another example of activities that have come to light. The issue is that the definition of a successful arms violation is one that remains hidden.

4.35 Part of the problem is that much of the arms trade, and defence procurement in general, occurs in an atmosphere of corruption. In many nations, successful sales are said to relate less to price or quality than to the size of bribes offered to the procurement agents. Where governments have been restricted, they

⁶ Exhibit 7b

⁷ The shipment of a container-load of arms was seized in Sydney on 24 May This stimulated an investigation of networks of arms smuggling operating through Australia. reports include: *Fijian Arms Shipment - tip of the Soviets Pacific Iceberg?* 8 June 1988, News Weekly, and 4 Corners, 21 August 1989,

will often seek covert means of obtaining weapons, with connivance of traders. Non-government forces (guerrillas, terrorists, mercenaries, etc.) will also assist traders to subvert regulation. Military forces themselves may engage in covert actions with or without Government approval, including terrorism, subversion, attack, transfers of weapons and training to "insurgents", the use of arms trading to accomplish other objectives. The Iran-Contra scandal is one of the largest recent cases, where it became clear that the US military was acting in violation of the will of Congress in supporting covert war in Nicaragua and actively trading with weapons to Iran. In such cases it is clearly insufficient to deem a nation an ally with a comparable regime of arms control, and so appropriate as a purchaser with minimum restrictions.

4.36 This sort of institutional corruption and violation of can easily lead to such events as improper issuance of End-User Certificates or far more serious breaches. This is without even considering the extension of the system of corruption in procurement to personal corruption of foreign and domestic officials involved at both ends of trade. In such a situation, the consideration of applications for an average of slightly under 4 days is not cause for congratulations. It is doubtful if even the full 21 days (15 working days) is sufficient to adequately assure even that an End-User Certificate is valid and correctly issued. How then can it be sufficient time to assess the actual intentions of the recipient of arms? We congratulate the Government for taking the action announced on the 8th March 1994 and significantly extending the period (to 45 days) for potential consideration of complex or sensitive cases.

4.37 The implementation part of the process of regulation is the weakest area. We recommend that action should be taken to implement all the existing guidelines, especially those designed to guarantee human and civil rights, and those designed to minimise conflicts (internal and external) and to avoid aggravating international tensions, and that progress towards these goals be reported to the Parliament within six months. Extension of the guidelines to strengthen these considerations should also be investigated, and recommendations included with the progress report.

4.38 It is recommended that:

- i Customs set up a system of co-operation with the Customs agencies of other nations, and international police networks, to monitor defence trade;
- ii military intelligence work closely with the UN arms register and other intelligence organisations, customs and police organisations to assure that there is a truly international and open system for monitoring all aspects of defence trade from manufacture to disposal or use.

F) **To investigate and report on the implications of Australian defence exports in all forms, with particular reference to the strategic, political, economic, international and human rights implications of defence exports**

4.39 This term of reference was almost completely ignored by the committee in its report. In order to address it, it would have had to examine the exports by type and destination. The reference was for all forms of exports, with no exclusion of Defence Co-operation Programs or Defence Assistance, offsets, or "non-military" weapons. A difficulty that becomes apparent here is the lack of discrimination between types of exports. A submarine will have different strategic and human rights implications than a shipment of fragmentation grenades.

Strategic Implications

4.40. Strategic implications involve not only Australia's defence, but also the issue of international conflict, and major domestic conflicts such as civil war. They are also not entirely separate from the political context, since who is in power in a nation has a bearing on our relations with that nation.

4.41 The breakdown of the cold war has left the world with fewer clear motives for alliance. With no ideological or military conflict of global scope, conflicts are more likely to be regional or bilateral and relate to tensions or unilateral aggression. One consequence of the demise of the cold war is that the security council of the UN is no longer in perpetual deadlock. Although there are claims that is it disproportionately represents US strategic interests, it will now take action to intervene in both international and major domestic conflict.

4.42 There are good reasons to hope that the activity of the UN, and the end of the strategy of "balance of terror", can lead to a marked reduction in conflict itself, and a decline in military defence in all nations. This possibility should be supported through policies of *conflict resolution* through diplomatic means, and *conflict prevention* through development assistance and support of human and civil rights. This is the policy supported by the Minister for Foreign Affairs, Senator Evens, in his book *Co-operating for Peace*, and is in line with current UN and international thinking. While not seen as entirely ideal, it is also a policy that has gained broad public support as a marked improvement over the current military security approach.

4.43 While every nation has the right to self-defence, **promotion** of arms sales goes well beyond acceptance of this principle. In the absence of common enemies, the increase of military power of any nation is liable to increase insecurity in its neighbours. Increases to maintain or exceed military parity, or to defend against a neighbour's new weapons, may be profitable to the arms industry, but does nothing for peace or development. The supply of arms to one or both nations in a situation of military tension, such as that between India and Pakistan, will only exacerbate the situation.

4.44 Many nations still spend far too much of their national wealth on military expenditures than is good for their people, further reducing security. Domestic conflict can be fuelled by such choices, and defence and paramilitary forces may be involved in repression of some groups or strata of society. The last several cases of international military involvement have all been domestic situations where the military and paramilitary forces have been violently engaged against people of their own nation, ex-Yugoslavia, Somalia, Kampuchea, and Rwanda.

4.45 Many other situations that are similar or potentially similar exist, in Sri Lanka, in India, in Bhutan, in Myanmar, in Fiji, in many of the African countries, with the Kurds and other Central Asians, and with the Timorese, the people of Irian Jaya, and the Bougainvillians. If we are serious about a commitment to peace and avoiding a contribution to these conflicts, we must not arm one side while decrying the tragedy.

4.46 There are statements in the Guidelines that would support the idea that such exports are questionable. The problem seems to be that these exports are not often questioned, or that the answers place a greater importance on economic benefits.

4.47 All of these situations have strategic implications, as any international or intense national conflict tends to pull other nations into it, at least to the extent of taking a position, but often including some military involvement or a feeling that their own defence arrangements need to be strengthened. If these conflicts occur in our own region, they become even more significant.

4.48 Domestic upheavals are also strategically significant because they create instability. Where oppression or repression results in civil war, insurrection, or mass popular movements there is a real chance that a change of government will bring a change of relations with Australia. This may be an improvement, but may equally be a coup, or see the rise of aggressive, militaristic government. If this should occur, arms exported may be used in an unintended way. This is another reason why defence exports and co-operation should see caution rule, especially where a nation is unstable or has the seeds of instability through a repressive government or a strong and independent military that believes it has a direct role in political life.

4.49 Support of nations whose leaders reign through strong military ties, or a nation where a faction or representative of the military rules, is inherently risky, even where that nation is considered an "ally". Such alliances tend to be based on the principle that "the enemy of my enemy is my friend" rather than firm and mutual respect or common values. In a world where "the great enemy" has disappeared, there is little motive for loyalty. History, as seen with support for Iraq, Iran under the Shah, Panama under Noriega, Nicaragua under Somoza, and the Philippines under Marcos have shown that such support may backfire, and rarely has results that could be considered beneficial.

4.50 Some submissions⁸ questioned the consequences for Australia's security of transfers of technology and material designed for regional offensive/defensive capability, rather than low-technology conventional warfare. Some see this as a risk of bringing neighbouring forces into parity with Australia⁹, others see such a build-up as destabilising and calling for a response from other regional forces¹⁰. These are valid considerations, particularly in terms of sophisticated electronics and command and control technologies, two areas where Australia highly developed. This was noted mainly in submissions by those who approve generally of a strong Australian military and export sales. It is our belief that it would be more productive to concentrate efforts to improve economic and domestic security of our neighbours, increase popular participation in government, and reduce the potential for situations that would give rise to security threats. While nations wishing to attain strategic arms or high technology products may be able to buy them elsewhere, it would be foolish for Australia to encourage such parity through **promoting** sale of such arms.

4.51 One premise of defence co-operation has been that it will give us greater influence in assuring neighbours are not aggressive and respect human rights. This is highly questionable, especially where relations are delicate in themselves, and where export markets are highly competitive and where buyers have primary power. It is at least equally likely that our desire to co-operate or to export arms will make us less likely to stand up publicly against aggression or rights abuses. Non-defence trade and appropriate development assistance is likely to prove far more effective as a diplomatic tool and bridge without precluding criticism to the same degree.

4.52 Among the worst dangers to Australia is the development of nuclear capacity, especially in our region. Nuclear power is seen by many developing nations primarily as a means of developing nuclear weapons capacity. Nuclear programs in South Africa, Israel, Pakistan, Iraq, Argentina and North Korea have all been either involved or implicated in the development or attempted development of nuclear weapons. In this context assisting Indonesia to develop a substantial nuclear program seems utterly stupid. Aside from the problems of weapons proliferation, the possibility of accident alone should deter such action.

Political Implications

4.53 In most ASEAN nations, and many nations in general, the military is seen to have a valid role in national politics. This role may involve:

- a military seen as separate from the political process but able to intervene when it deems it appropriate, including through the imprisonment of elected leaders or the suspension of domestic politics;

⁸ Submissions: 3, 4, 16, 17,+

⁹ Submission 3, 4+

¹⁰ Brown

- . a political leader or group who controls the military and uses it to maintain power;
- . a situation such as Thailand where domestic politics has aspects of competition between military factions.

4.54 In such situations, or in any situation where the holders of political power use the military/police resources of the state to oppress or repress groups or strata within society, any support of the military will have political implications. To support the military of such a nation is to support the actions of that military, or the use of the military by its leaders in a political context. It is to take a stand within the domestic politics of that country.

4.55 When we support the Indonesian military, we support the political repression of the people of East Timor, Aceh and West Papua, and the repression of unions and critics of the government, and repression of the press and the use of military power and loyalty to keep General Suharto in control. To support the defence forces of Fiji is to support General Rabuka and the policy of ethnic Fijian control and political marginalisation of people of Indian and other ethnic descent. Support of regimes such as that of General Suharto have political connotations. Any support we give such nations **will** have domestic political connotations. We cannot avoid responsibility for such actions.

4.56 Currently we appear to evade such responsibility, hiding behind the idea of non-interference in domestic policy. In exporting defence goods we have already moved beyond non-interference, and actively entered the political realm of another nation. Some argue that exports give us influence. Even the US, with its predominance in exports, has not been able to influence Indonesia through exports, and is now trying influence by withholding them. Other diplomatic channels and non-defence measures may be more effective than any defence-related measure.

Economic Implications

4.57 As noted in the report, the economic situation today is vastly different than in the Cold War period. There is intense competition as the US and NATO nations reduce their military commitment. The partial dismantling of the old Soviet military machine, and the reduction of Euro-American forces have led to a situation where the market is virtually saturated with high-quality surplus defence products. Procurement levels have dropped markedly and Northern hemisphere defence industries are struggling for survival¹¹. In order to maintain sales volume they are aggressively marketing arms exports. Major defence export nations concerned with the security and domestic economic implications of failure of defence industries and

¹¹ International Defence Review - Defence '93: *What's really going on and what lies ahead in the defence industry?*, p 9-11 *Financial aspects of marketing and investment in the defence industry*, pp 28-32

reduction of industry research as companies struggle are actively facilitating the export push.

4.58 There are few markets where military expansion is deemed feasible by both exporters and regional domestic leaders, and where economic growth could adequately support such expansion. As noted in the report, and in evidence such as Brown's, ASEAN is seen as a pre-eminent market for expansion. All exporters are actively competing to sell into this small market, with total regional procurements at about the level of Australian defence procurements. Many of these nations have long-term links with suppliers, many with ex-COMECON suppliers, who are currently willing to make very competitive offers in an effort to improve their own shaky trade balances. Such offers include deals like the sale of 18 MIG-29s to Indonesia, where roughly one quarter of the cost will be paid in palm oil¹². As heard in evidence from Brown and others, it is unlikely that Australia will gain a substantial increase in exports in such a situation.

4.59 Several witnesses noted that high levels of exports are required to make many of our domestic defence producers economically viable without substantial subsidy. Representatives from DoD stated in the hearings that "significant resources will need to be invested in a defence export program by the Government up front before we can expect an early response." It is apparent that the expected growth in such exports has not materialised and is unlikely to materialise. Australia is therefore faced with the option to either continue to subsidise both domestic production and an export push, or to re-think its policies on defence product self-reliance. Subsidies and support of domestic and export defence industries are costly, and give questionable returns in security. They provide few jobs and are a very minor part of export trade. They do not provide substantial defence self-reliance, and we continue to rely primarily on defence imports.

4.60 In such a situation, we suggest the abandonment of centralist economic planning in regard to defence exports. It is virtually the only area where this occurs, and has been expensive, ineffective, and costly. The policy of defence self-reliance should be re-evaluated along the lines recommended by Woodman¹³, which focused on the original sense of self-reliance in terms of the ability to maintain, repair and adapt equipment, and a more market-based programme introduced, rather than allowing the "tail to wag the self-reliance dog" by equating self-reliance to production and production to exports¹⁴. A more market-based approach is liable to have far greater implications for Australian of goods such as frigates and submarines, than for goods where there is significant scope for diversification into civilian production, or such diversification is already in place, e.g. in electronics, or where there is a significant domestic defence demand, e.g. bullets. Imports and exports or jobs in terms of total economy are not likely to be substantially affected.

¹² Jahabar Sadiq, Reuters, 2-6-94 *Malaysia to buy Russian Migs with cash, palm oil*
¹³ Hansard 29-11-93, p 72
¹⁴ Hansard 29-11-93, p 71

4.61 As noted, in international development terms there have always been concerns about the level of developing country expenditure on defence relative to total GDP. Pushing newly developing nations to increase defence purchases reduces the money available in their economy for development and for domestic social expenditures. This remains a concern, and the level of "selling" of arms by defence industries desperate and in fear of economic failure is contradictory to the objective of real development, and will place pressure on any attempt to properly regulate such trade. Investment in other areas by developing nations, and non-defence co-operation, is more likely to lead to increases in non-defence imports which are far more important to the Australian economy.

International Implications

4.62 The report denies that the aggressive selling of arms into ASEAN has resulted in an "arms race", a competitive build-up of military capacity¹⁵. Arms imports are said to be simply a "modernisation" of militaries to make them more capable of strategic conventional warfare. This denies the fears that if a neighbour gains too much advantage in military power, security is at risk. Where such fear exists, there will often be an attempt to at least maintain parity or develop defensive capacity, e.g. the development of anti-submarine systems in response to the purchase of a submarine. The use of expenditure figures¹⁶ masks the situation where economic factors noted above have led to drastic decreases in the cost of material, and availability of surplus goods of higher quality, in great volume and at low cost. The proliferation of weapons, especially capital intensive strategic weapons that give nations a regional capacity for action, is inherently destabilising.

4.63 While the nations of ASEAN are economic allies, there are various tensions between them. Nations have differences of religion and ethnic background, and may have ethnic minorities which form majorities in neighbours. Domestic policies of repression of conflict with these minorities exacerbate problems with neighbours, e.g. the conflict between southern Thai Muslims and the Thai military. Other domestic policies may result in refugee flows or insurgent groups which create international problems and tensions, e.g. refugees and insurgents from Kampuchea or Myanmar. An arms build-up on any side works against the co-operative aspects of trade. Trade

¹⁵ Majority Report, Paragraph 2.23. The idea that this is not an arms race but only an "arms build-up" is highly rhetorical. There is significant evidence that there is an arms build-up, as noted in the *Asia-Pacific Defence Reporter*, an industry journal in April-May 1994, *Arms race, or prudent deterrence?* On pps 10. The author asks, "Is there, then an arms race? And does the acquisition of all these new arms constitute a threat to regional peace and security? The answer is both Yes and No" The *Asian Defence Journal*, on page 35 of its May '94 edition in an article *US Conventional Arms Transfer Policy*, cites Joel Johnson, Vice President of Aerospace Industries of America as saying before a Congressional hearing "The most effective avenue to discourage proliferation of unconventional weapons and regional arms races is by encouraging regional groups of countries to voluntarily limit the quantity and quality of weapons in the region." and generally to discourage trade in dangerous weapons.

¹⁶ Majority Report, Table 2.3

itself can exacerbate the tensions though, and many of the ASEAN nations are active competitors.

4.64 Outside the ASEAN area similar consideration exist. Selling arms anywhere in the Middle East will have international and regional implications, as will sales in Africa. Sales to Euro-American developed nations will generally be components of niche products, and the international implications depend on the product and what those nations are doing. Sale of goods used in strategic weapons systems will have an effect on the whole planet, since their use is liable to result in drastic consequences. Even goods sold to nations with whom we have mutual defence agreements may contravene the guidelines. Some of these nations have been involved in the overt or covert destabilisation or even unilateral invasions of other nations. No nation should be immune from the regulatory regime governing defence exports.

4.65 The diplomatic implications of defence exports are not insignificant. Australia has attained a certain reputation through the behaviour of its peacekeeping troops in UN actions, and the peacemaking efforts of the Department of Foreign Affairs. *Co-operating for Peace* is recognised as an important contribution to international security policy. Defence trade can undermine this good work, and promoting trade with nations like Indonesia that are subject to humanitarian bans by other nations undermines both our credibility in peace, and the attempts of other nations to act ethically.

Human Rights Implications

4.66 As noted in DFAT's *Human Rights Manual* (p130) war is intrinsically a violation of human rights. People are put in fear, they have their lives disrupted, they suffer losses of property and they and their loved ones may be killed or injured, whether or not they are civilians, regardless of their stand on the issues. Any activity that supports violence and aggression is contrary to human rights. While people have the right to defend themselves, preventative non-defence measures are frequently more effective and have fewer drawbacks. Military defence will generally increase tensions and leads to large social investments in paranoia and the technology of death, to the detriment of human welfare. Military culture and its support often creates domestic problems in itself.

4.67 In the last few decades, far fewer people have died in international war than in domestic conflicts, civil war, and through repressive regimes either run by the military or using the military as a tool. Human rights considerations in defence exports therefore tend to relate to **domestic** abuses of power. This is also the rationale for extending the definition of defence exports to include those products frequently used domestically in repression. The implication of supporting such actions through defence exports is that we approve of such actions or find them acceptable, and will actively contribute to their continuance.

4.68 Since we are signatories to the *Universal Charter and International Covenants* on human rights, actions contrary to them indicate a lack of commitment to these documents, and could signal that Australia feels it is acceptable to disregard them. We have incorporated various measures designed to allow regulation into defence export guidelines. Failure to use these would indicate a measure of hypocrisy in setting them. Pushing for arms exports to nations already under bans by other exporters would show a contempt for human rights in general and for the lives of the people in the nations involved.

4.69 In many cases the guidelines do not seem to be implemented in a clear way. Cases were given in evidence where decisions were made have raised questions in the community about the effective implementation of these guidelines. The goals of DoD in relation to export facilitation may create conflicts of interest with full implementation of the guidelines. Since DoD has the power to refer applications on to committees such as SIDCDE, and only a small percentage of applications are so referred, and DoD has exclusive power when they are not referred, this conflict of interest appears to pose real problems for implementation of the regulatory regime and guidelines.

4.70 A comparison of Tables 3.1 and 3.2 in the majority report bear this out, and show that only a small proportion of applications for defence exports are ever considered by the Standing Inter Department Committee on Defence Exports (SIDCDE). Since 1989-90 this proportion has never exceeded 15.2% and has been as low as 4 percent.

4.71 This is a serious deficiency. It is presently only Defence which determines whether an application goes to SIDCDE. If Defence makes an error, an application inappropriate for reasons which make escape DoD but be clear to DFAT can go to approval without being seen by SIDCDE.

4.72 It is our belief that defence exports are frequently counter to the goals of international security, international harmony, peacemaking, and protection of human rights. They may also be counter to the goal of Australian security. There is evidence that the implications of these areas are not adequately considered in the regulatory process, and will not be so considered while the process remains under control of DoD. The Majority Report fails completely to address any of the implications to this term of reference, in spite of the large number of detailed submissions made on the point, and reinforces the judgement that human rights and international peace are considered irrelevant to the export of defence goods and services, no matter what the guidelines say. Australia's current practice in regard to these exports is a cause for shame.

4.73 SIDCDE and IDCDMCE have so far failed to guarantee the international, political and human rights implications will be considered, and adequately incorporated into decisions under the guidelines.

We recommend that:

- i In the current situation, the only way to achieve these objectives will be through the formation of a Joint Parliamentary Select Committee whose primary brief is to guarantee consideration of these issues. It may also be appropriate to include advice from human rights NGOs or some similar community representation to such a committee.**
- ii All applications should be notified to DFAT, which should itself determine which ones it will further consider through SIDCDE.**

G) To investigate and report on the implications of Australian defence exports in all forms, with particular reference to Australia's role in the development of an international regime of monitoring and reporting defence exports

4.74 The majority report notes many of the activities in which Australia has been a party. Our formal diplomatic actions on many of these are to be applauded. As noted we have been leaders in international arms regulation policy. It is hoped we will continue to be leaders, and push for the strengthening of international regimes for regulation of arms trading, and for the inclusion of small arms and non-lethal weapons and devices used in repression and aggression in the Arms Register.

4.75 Australia's actions in regard to these guidelines undermine other good works on policy. The decision to weaken the US position on human rights in Indonesia, our silence on Timor and Irian, and other major human and political rights issues, our support of the repression of people in Bougainville give lie to our policies. When the leaders in setting policy standards ignore these standards in practice, we promote the position that such standards are only words

4.76 While there is room for improvement in policy and guidelines, they are basically in place. There are many proposals and licences that have been or are being supported which are counter to the objectives of peace, security, and human rights. This is evidence that the regulations are not working. The major problem is that the guidelines appear to be considered poorly or not at all, and only a very few cases receive real consideration. Facilitation and promotion of exports seems to have dominance over the need to regulate.

Ib. Facilitation of Exports

5.0 There is an inherent tension or contradiction between the regulation of defence-related exports and the promotion of the same. It will clearly be important that those who regulate not be those who promote. This is another reason why this report recommends that regulatory responsibility and authority be shared between DoD and DFAT.

C) To investigate and report on the implications of Australian defence exports in all forms, with particular reference to the role of existing programs in facilitating defence exports

5.1 The report devotes Chapter 4 to this topic. It fully accepts the goal of not only allowing exports, but facilitating and promoting them. It embraces this role uncritically, despite the comments of Brown and Woodman, neither of which are opponents of defence, defence industries or defence that indicate continued Government promotion of defence exports may be inappropriate or ineffective, a form of throwing good money after bad. It does not note that in talking about defence enterprises that the Government itself owns or has equity in several of our major exporting enterprises.

5.2 While devoting considerable space to the subject of facilitation, the report leaves out mention of several programs. It concentrates on the Defence Export Program (DEP). There is a serious mis-representation in Paragraph 4.13, which indicates that promotion of defence exports is synonymous with the DEP, a new program. Export promotion and facilitation have been going on for years, just not through the DEP. The Defence Offsets Program (DOP), the Defence Co-operation Program (DCP) and the Partnerships for Development (Pfd) program are all export oriented, and a unit, the Defence Export Facilitation Working Group has existed to co-ordinate Federal and State assistance to exporters. In some cases, such as the Mirage sales or with the Iroquois Helicopters, it has been defence directly that has engaged in arms exports.

5.3 The Defence Offsets Program (DOP) was designed to assure that imports resulted in exports to a percentage (30%) of certain defence imports. This was done through bilateral arrangements between countries, and through arrangements with industry. Figure 2.2 indicates that in 1991-92 aircraft offsets alone accounted for 45% of total exports. The DOP has been progressively replaced by Partnerships for Development (Pfd). Pfd is therefore also a significant component of defence export assistance, although it is a "general program". The report suggests as a priority "Australian companies forming partnerships with European primes in competition for Western European defence business." Again, no questions asked or notes made that this would exclude exports so made from the need for End-User Certificates and other controls where goods are transferred back to the "European prime" (or to subsidiary, parent or other branches of a company in other nations) and make regulation nearly impossible where the product is a

component of a product sold by the prime. It does not note that this loads the Pfd program with defence companies.

5.4 The Defence Co-operation Program (DCP) or "defence aid" runs at over \$80m per year. It includes various forms of aid, including gifts of defence products and services. Part, at least, of this can also be considered an industry subsidy.

5.5 No mention has been made of the support of and through DSTO, or the direct support of specific industries, notably ADI, which received a \$366.2 m debt-to-equity gift in '92-93 and a further \$25.6m in '93-94 for payments to redundancy, health and safety standards, and warranty claims. AeroSpace Technologies of Australia (ASTA) was given \$161.5m in '93-94 to improve their debt situation. These are companies where the Federal Government is directly and actively producing defence products, and is promoting export sales overseas. The value of the support to these companies, two of our principle exporters, and through the DOP is vastly greater than the resources given the DEP. Yet no consideration was given these programs or their huge cost relative to the \$4m given to DEP.

5.6 The two new committees (the DMCEC and IDCDMCE) mentioned in paragraphs 3.31-3.36 were mentioned there in the context of regulation as designed to ensure "timely and effective" consideration of proposals. They are supposed to consider "sensitive" proposals in the formulation stage, allowing greater time for consideration than SIDCDE can give. 3.35 makes this explicit. The conclusion on effectiveness is favourable, and leads to the subsequent conclusion 3.40 in the processing time section that current processing time is adequate. The two committees make a re-appearance in paragraph 4.41 in a new guise as being responsible for co-ordinating **facilitation** of exports.

5.7 The case of the Steyr rifles sales to Thailand illustrates some of the problems with the issue. The Steyr rifles are made by Government owned ADI, a company that regularly receives financial inputs of millions of dollars from Government unrelated to sales, and last year had loans worth over \$366 million made earlier "on a commercial basis" converted to equity. The Government already owns ADI, and conversion to equity does not accomplish any practical purpose, save to write off the debt and make it easier for the Government to privatise ADI. The prospect of the Steyr sales was apparent, but when samples were sent to Thailand, the proposal was not referred to SIDCDE, it was cleared through DoD as "insignificant", the samples involving only 50 rifles. SIDCDE has not been consulted on the actual proposal, although it is known to involve export of \$130 million worth of Steyrs. The new committees have not been consulted in *either* regulatory or facilitation role before both the Minister for Defence and the Minister for Trade actively and publicly supported the proposal here and in Thailand. Ministers appear to be dangerously proactive in defence exports in a situation where their role is that of ultimate arbiter.

5.8 What we see is a wealth of assistance to defence exporters, and Ministers actively supporting exports within and outside of official programs. There is a massive investment in domestic defence production, with investment, direct

assistance, loans, and programs costing hundreds of millions of dollars. This is in addition to the programs for exporters and industry generally, for which defence exporters are also eligible. As noted in Paragraph 4.59, the DoD projection is that considerably greater input of Government funds are required to make the export program bear fruit.

5.9 Total expenditure on defence equipment & stores, including food, clothing and so on was \$3.75 billion in '92-93. Major equipment acquisitions listed in Budget paper No 1, p 3.39 totalled \$1.8 billion. Imports of defence equipment totalled about \$1.5 billion. On this basis it appears that the majority of major equipment purchases by the ADF are made through import.

5.10 The rationale for the expenditure in propping up uncompetitive defence industries is that it is necessary for our security. This is questionable given the current level of our imports, or if true, it is questionable whether the policy of defence self-reliance ensures this security. What is certain is that it is expensive. Buying at home may engender two expenses, the expense of propping up the industry, and the expense of paying higher prices to domestic industries.

5.11 The expenses involved are recognised by Government. It is believed that one means of reducing these expenses is through making industries more competitive by getting them to export. This is the reason we hear statements like, "Exports are essential to the maintenance of domestic defence industries." The Government now adds a third expense, the cost of supporting industry expansion into exports, and the cost of promotion and facilitation programs for defence exports.

5.12 The result of all this expenditure is that exports have still **declined**. Progress has not been "slow", there has been a **contraction** in exports. The policy of defence self-reliance through central economic planning has failed. It is inefficient and expensive. The aspect of that policy that requires exports has also failed.

5.13 Mr Woodman in his evidence and submission emphasised this problem of the tail "wagging the dog"¹⁷. He points out that the initial idea of self-reliance was to ensure the ability to maintain, repair and adapt equipment. This was said to be dependant on production, and later production was said to be dependant on export. Woodman questions this logic, and stated that it may result in a reversal of priorities, with exports seen as the essential element. He strongly urged a re-think of this chain of reasoning, with a focus on the goals of the initial policy, the ability to maintain, repair and adapt defence equipment. We support that call.

5.14 A major problem in the debate has been this confusion between the notion of self-reliance and of subsidy or support. We are not self-sufficient. Support for defence industries are not needed equally. The capacity to build submarines and frigates needs a lot of support, or a strong export program. It is one of the areas least likely to prove commercially viable, and one of the most questionable in terms

of security needs. As Woodman points out, we could import a frigate hull and fit it out far at less cost than building our own. A major export area, electronics and high-tech components are often produced by companies that are diversified or diversifying, and is an area where Australia has a high level of competitiveness with little or no support. Small arms, ammunition and explosives, another major export area, seems to fall between the two, needing some support, but having some ability to compete reasonably well. It is also an area where security and self-reliance appear to have greater legitimacy.

5.15 The export push has been a failure in economic terms, regardless of the ethics involved. It was promoted to try and make uncompetitive domestic defence enterprises viable, as part of a policy to increase domestic defence production. Some defence enterprises are competitive without assistance, some are internationally competitive without assistance and will export in any case. Others are not. Why are other industries allowed to die as assistance is eliminated in the name of competition, while the Government spends millions to prop up the tiny, uncompetitive defence industry? This is in spite of the fact that most defence equipment has been and is now imported, and that this is likely to remain the case.

5.16 It is now past time to assess those policies of non-market support for domestic defence enterprises, and we recommend that the policy of "defence self sufficiency" be included as one of the aspects of defence exports listed with the Auditor General for assessment. Part of the consideration should explicitly be an analysis of the cost of support for different sectors of the defence industry, and of their separate security implications.

5.17 A collateral conclusion is that the Government's active involvement, both as owner of defence enterprises, and as a facilitator of exports, appears to run counter to its regulatory role, and leads to a situation where the Government is producer, salesman, government export program provider, involved in Government-to Government and military-to-military diplomacy, and is regulator. The Minister for Defence, as was noted, has ultimate discretion on regulation, and is also responsible to actively promote export, particularly from companies where Government is commercially involved. There are a number of contradictory elements here, both ethically and commercially. It appears necessary to clearly separate the various functions of Government, and set up a situation where the Minister is directly involved only as a last resort, and not as a proactive agent.

¹⁷

Hansard 29-11-93, p 71

E) To investigate and report on the implications of Australian defence exports in all forms, with particular reference to the shifting pattern of demand upon Australia's defence markets

5.18 Considerable attention was given to the shifting pattern of demand during the inquiry. That is summarised briefly in the report and has been mentioned above in this dissenting report. The basic problem was that with the end of the Cold War, the global market for defence products has contracted sharply. As a consequence, many defence enterprises face elimination as sales dry up. NATO nations involved in exporting are all anxious to find new markets to maintain their industries, an issue which has both security and domestic economic implications for the big exporters.

5.19 For various reasons, mainly a measure of stability and economic growth, the world seems to have targeted ASEAN as the area to sell into. The report notes that in paragraph 4.5 the Defence Export Strategy targets ASEAN. Brown's evidence notes that every exporter globally, including traditional suppliers of weapons platforms, are targeting this region, while the total market is no larger than Australia's domestic consumption. The implications of this for export success were hardly considered.

5.20 The implications of the evidence from Brown¹⁸, which is backed up in the trade magazines, is that currently the competition for sales are cut-throat, and the survival of many industries world-wide depend on such exports. Evidence included in the report shows global arms expenditure contracting. Defence exports have always had an element of risk, as contracts can be disrupted by diplomatic breakdowns between nations, but at the moment, the margins on sale are minimal, as companies compete with each other and against sale of surplus goods for scarce buyers. Prospects for the industry are poor.

5.21 In such an environment, security of supply is a major factor in defence contracts. This means that any attempt to restrict exports of items covered under existing contracts or implication that such goods could be restricted, will have serious commercial repercussions. For the Government even to publicly give rise to doubt about the use, reliability or the human rights record of a potential customer nation has serious implication for the success of defence exports, both in that nation, and in any other nation that believes it might fall subject to similar controls. The situation in Thailand highlights this commercial angle, as well as the stupidity of promoting weapons sales before such sales are considered. In the current buyers market there are strong pressures not to make waves and to look the other way where some of a buyer's actions are "sensitive".

¹⁸ Submissions (S 00313-325) Hansard, 16-2-94, 268-287, Brown, *Australia's Security: Issues for the New Century*, Australian Defence Studies Centre, 1994, ch *Self Reliance or Self Delusion*, pp 67-107, representative recent trade magazine articles were cited above.

5.22 Our traditional allies may involve us in joint procurement arrangements or joint development arrangements, but the US, France and the UK are likely to be following their own policies to ensure defence capacity in a situation where their own industries are under threat economically. Their own defence procurement is being drastically cut, by 30% and over, and there will be considerable pressure for them to use their buying power to support domestic industries wherever possible. For this reason, it is unlikely that major new export contracts will start up with these nations, and indeed, such exports are currently declining.

5.23 Any optimistic assumption on arms sales, e.g. the Cooksey or Price reports, will need to be seriously questioned. Defence exports to ASEAN may be increasing, but these are a small part of total exports, and total exports are decreasing by 47.5% per year for the last two years. Much of ASEAN's procurement will be of capital intensive goods such as aircraft, which we do not make. The option to sell Anzac frigates or Collins subs is liable to limited, given the number of cheaper comparable products, and much cheaper surplus products. We may sell goods, but sales are likely to be small, with low profit margins, and we will need to look the other way on a number of issues to appease our uneasy regional allies. Any strategy or policy that **depends** on defence exports faces a very doubtful future.

5.24 The implications of the current global situation are that the optimistic projections for exports have failed to materialise, and are unlikely to materialise in the foreseeable future. Defence trade is contracting, and getting far more competitive. All major exporters are focusing on the ASEAN region. Growth in this region is liable to require a less rigorous use of controls, and attempts to expand exports will make taking any restrictive action, either precautionary or punitive, increasingly difficult.

5.25 In this situation the only sensible path appears to be the wind-down of expenditures designed to develop export capability. Such money is unlikely to see a return for a very long period if at all, and both economics and real security would suggest that it would be better spent assisting non-defence-related development with our neighbours and domestically.

D) To investigate and report on the implications of Australian defence exports in all forms, with particular reference to the implications for Australia's industrial base of defence exports and imports

5.26 To some extent this was covered in the section above and on the section on economic implications. The defence offsets program was phased out because it was considered equivalent to a tariff and was said by DITARD to have resulted in uncompetitive protected industries. Much the same argument could be applied to export and industry promotion in regard to ADI, ASTA, and other heavily supported industries.

Summary of Issues Not Covered by the Majority Report

6.1 While the guidelines are much improved, the definition of defence exports needs to be broadened to cover all goods used in domestic repression and violation of human rights. A clear framework must be established for the conditions under which nations will have trade restricted, and some indications of what classes of trade will be concerned in which cases. Attention should be paid to avoid over-definition to avoid excluding unspecified cases. Increased attention to components and to services are needed.

6.2 A major problem appears to be the implementation of guidelines. We are currently exporting or proposing to export goods to a number of destinations which appear to contravene the sense of the guidelines. It appears that many major export proposals are not getting timely consideration, and that SIDCDE and other regulatory agencies are being bypassed or approached as an afterthought. The Minister for Defence appears to be actively promoting sales outside of any supervisory framework. It would be more appropriate to leave sales promotion to the relevant agencies and to have the Minister function only as the ultimate arbiter of security implications of export in cases where the guidelines are equivocal. The Minister for Foreign Affairs should be given explicit power to veto exports on human rights, bilateral and international diplomatic grounds.

6.3 The move to extend the definition of goods to tools of repression should see a parallel push to integrate these goods into the International Arms Register and international conventions.

6.4 We strongly support the review of Customs procedures. Customs should also work co-operatively with other international agencies, customs and international policing agencies. Military and other intelligence agencies should set up an arms trade information network available on-line to Customs, DoD, DFAT, the International Arms Register and other international security organisations.

6.5 Exports are currently contracting, in spite of major efforts to expand them. There is less chance of expanding exports today because of the global reduction in defence spending and the highly competitive buyer's market conditions, and the availability of considerable quantities of surplus equipment while major military forces are down-sizing. In this context, only extremely competitive products hold much chance of export without considerable support.

6.6 Australia has a mix of competitive and less competitive exports, and some enterprises supported by Government without much competitive advantage. The current approach equates national interest with defence self-reliance, self-reliance with production, and production with exports, and ends up with the "need to export" driving the entire process. Rather than developing industry from a standpoint of self-reliance, we have pressure on ADF procurement from the need of some industries trying to export to have a good domestic sales base, and on the economy to support and promote uncompetitive companies in the hopes of making

them viable. We support Brown's and Woodman's call for a complete reassessment of self-reliance and the abandonment of policies of support and subsidy for defence industries unless clearly required for basic maintenance, repair and adaptation of equipment.

6.7 The world is changing, and if the "new world order" is actually to be an improvement, the way forward is through increasing economic, social and peace security, and through international co-operation. The general approach outlined in *Co-operating for Peace* has broad acceptance in the community, and should provide the basis for the primary policy framework of Government on security. Further improvements using this as a starting point should be pursued through consultation with groups active in non-military dispute resolution.

II AREAS IN WHICH THE MAJORITY REPORT IS DEFECTIVE

7.1 This section highlights areas of the majority report, not already addressed in section I of this document, where we consider the conclusions reached to be seriously defective, or where evidence has been incorrectly or unfairly interpreted.

Defining Defence Exports

7.2 While not addressing many substantive issues of what items should be covered under "defence exports", covered here in section 4, the majority report discussed the approach to definition at some length in its paragraphs 2.1 to 2.17. We consider that its conclusions are incomplete and deficient and that it has failed to recognise the implications of the present unsatisfactory situation. In particular, the majority report does not fully acknowledge the importance of the nexus between the definitions of "defence industry" and "defence export".

7.3 The Committee had much evidence (DFAT, DoD, Brown¹⁹) concerning the problem of defining these terms. It is important, however, to emphasise more strongly than does the majority report that any definition of defence exports is substantially (though not exclusively) dependent on that of "defence industry" where defence exports are defined either in regulatory or promotion context as export products of the defence industry.

¹⁹ Submissions (S 00313-325), and in more detail in Brown, *Australia's Security: Issues for the New Century*, Australian Defence Studies Centre, 1994, pp 92-95

7.4 The majority report also fails to recognise the significance of the division between Defence and DFAT as to the appropriate definition of defence exports. As stated at paragraphs 2.3-2.5 of the majority document, Defence favours an approach which defines by the nature of the product, irrespective of the nature of the user. DFAT, however, supports an approach based on the nature of the user (the end-user approach), irrespective of the nature of the product to be exported.

7.5 This divergence is symptomatic and indicative of a wider divergence in perspective between DoD and DFAT. The primary implications are that under the DoD approach all exports to disciplined services should be considered regardless of their role in aggression /repression, with the implication that **all exports to disciplined services, including all dual use goods** may be restricted if a nation is classified under the guidelines. This might include, for example, non-melting chocolate rations for military use in hot climates, military ambulances, etc.. These example would fall outside current guidelines. The DoD approach is essentially the one embodied in customs regulation and primary in guidelines, and takes the approach that certain classes of goods have greater implication than others do for issues highlighted in the guidelines. This is reflected in the guidelines, e.g. where it is stated that if it can be shown that *no reasonable risk that the goods might be used against those citizens in violation of their human rights* then it would be possible to export to a nation seriously violating human rights. Export of submarines in such a context was used as an example during hearings. As will be shown below, this divergence has important consequences for the nature of the regulatory regime governing defence exports.

7.6 The implication of the DFAT approach to definition of "defence export" given in the majority report as applying only to **military users** was also not considered in the majority report. Such a restricted definition has serious implications in terms of regulation of exports to other disciplined services active in violation of human, social, economic or civil rights. That the recognition of the importance of regulating some non-military exports implicit in the category "lethal non-military exports" (Category 3) would argue against such a restrictive approach was also not commented upon in the majority report.

7.7 The implication of the DoDs approach to definition of "defence export" as certain goods coupled with their restrictive classification of "real" defence exports as excluding sale of surplus equipment, DCP transfers and so on has serious implications for regulation. These were also not examined in the majority report but would have important consequences if accepted.

7.8 While supporting the recommendations at paragraph 2.17 of the majority report, it seems clear to me that guidelines cannot be written until the definitions are sorted out.

It is recommended that the regulations and guidelines governing defence exports be comprehensively redrafted in the light of the definitional review recommended at para 2.17 of the majority report.

Exports and the security environment

8.1 DFAT and Defence were at pains to de-emphasise before the Committee any perception of a regional arms race. They did so because to do otherwise would undermine the credibility of the Government's defence exports drive.

8.2 However, DFAT has gone somewhat too far in this direction and has committed an error of fact. The majority report (para 2.23) quotes DFAT as saying that "among Australian neighbours there is no interest in power projection capabilities..."

8.3 Thailand is part of our region and strategically is a neighbour. It is embarking on a most significant acquisition: an aircraft carrier. This will be the first introduction into any ASEAN states' force structure of such a power-projection platform, and refutes the DFAT view.

8.4 It is, then, excessively sanguine to assert that our regional neighbourhood is not in the early stages of an arms build-up. **It is incumbent on Australia to help restrain this trend, not to facilitate it in an attempt to generate export revenue and prop up our defence industry sector at the expense of regional stability.**

8.5 Defence stressed (majority report, para 4.54) what it sees as the regional benefits of defence sales, referring to it as "a very valuable bridge or girder, if you like, to the sorts of defence relationships that we are trying to build..." It claimed (majority report, para 4.55) that the success of this policy approach has been "demonstrated" by the Australia-US, Australia-UK and Australia-France relationships.

8.6 France, the US and UK are all democracies, two of them English-speaking. Australia has long historical and cultural links with the UK and the US. To ascribe our relationships as growing out of defence trade is drawing a long bow indeed.

8.7 None of Australia's potential South East Asian defence markets are fully open democracies. None have historical and cultural ties with Australia. Our relations with these states can be correct, even cordial, but they are not based on shared cultural, historical, political and linguistic traditions with Australia.

8.8 It is noteworthy, also, that Australia's security relationship with France is far from intimate. We have long opposed French nuclear testing in the Pacific and are not sympathetic to French colonialism e.g., in New Caledonia, where the Matignon Accords will expire in a few years time.

Nature of the regional market

9.0 Defence (majority report, para 2.28) sees Australian participation in "regional procurement of defence goods and services" as "an increasingly realistic prospect".

9.1 Defence does not seem to understand that the post Cold War buyers' market is very strong in our region. We are confronted with numerous and powerful competitors who can draw on surplus stocks, cut prices, offer life-of-type service packages as part of a procurement contract and generally out-compete Australia's small defence industry sector.

9.2 Anyone who doubts this need only look at the statistics included in the majority report at Table 2.7. Australia's defence exports are not increasing, they are falling. In one year (from 1991-92 to 1992-93) they fell by almost fifty percent - from \$90.8m to \$46.3m.

9.3 Moreover, with the signature of a Middle East Peace Accord and the prospect of gradually reducing tension in that region, yet another traditionally strong defence market is likely to weaken, thus placing further pressure on suppliers who have earned revenue by selling in that region. They, too, are likely to be driven to the Asia-Pacific in search of new buyers, thereby making the competitive environment for Australian defence exporters even tougher.

9.4 Moreover, one cannot always do business in South East Asia according to normal principles. Much of the market is corrupt: a fact attested to by papers prepared for the 1993 Defence Export Outlook Conference by several of Australia's Defence Attachés, including DA Indonesia (see Committee *Hansard*, pp. 271-2). This is an issue not adequately dealt with by the majority report.

9.5 Even if not corrupt, the market is arbitrary, subject to individual whims of powerful figures. Britain, for instance, was excluded by Malaysia from the competition for Offshore Patrol Vessels for no better reason than that a UK newspaper carried stories unfavourable to senior Malaysian Government figures.

9.6 The Government created the Defence Export Program (DEP) in 1993. It received a budget of \$3.16m in 1993-94, increased to \$4.06m in 1994-95. We do

not yet have numbers for exports in those years, but one would expect a substantial return on this investment if it is to be justified according normal public sector practice. It is doubtful, however, if this investment can turn around the unfavourable conditions already described and achieve substantial increases in defence exports.

9.7 In short, the SE Asian defence market is:

- (i) fiercely competitive and likely to become more so,
- (ii) in some cases corrupt (precluding normal business practices and encouraging exporters to become corrupt themselves) and
- (iii) frequently subject to arbitrary political whims.

The Defence expectation that Australian defence exports can do well in the face of this combination of circumstances, and the value of the funds sunk into the Defence Export Program must therefore be questionable. Likewise questionable is Defence's ability to assess regional conditions.

Australia and Arms Control

10.1 Earlier sections of this report (e.g., para 4.14, 4.52) have dealt with Australia's role in the international transfer of nuclear technology and its role in proliferation which is by rights covered under Item 42 of the guidelines: *Technology having a physical form and applicable to the development or use of items specified in this Schedule other than technology specified elsewhere in this Schedule*, the Schedule including radioactive materials under Item 7, and under item 44b *Goods from which information of a technological kind having a military application may be obtained, being information that, in relation to which the Commonwealth has, for the purposes of giving effect to an agreement or arrangement with the Government of another country, taken steps to prevent its dissemination to persons generally*²⁰, the agreement in this case being the Non-Proliferation Treaty. The effect of these guideline items is to make exporters of technical services in relation to nuclear technology and nuclear energy part of the defence export regulatory process, as well as part of other regulatory regimes more specific to nuclear materials and technology, and may prohibit export of such technology which may be used in the development of a nuclear weapons program or provide the informational and technological base for the development of such a program, in contravention of the NPT.

10.2 Here we also wish to discuss Australia's role in the international nuclear fuel cycle in relation to weapons proliferation. While it appears that this is outside the scope of defence exports since uranium and Thorium are restricted under

²⁰ Australian Controls on the Export of Defence and Related Goods: Guidelines for Exporters, DoD, March 1994, pp A4 & A13

the Custom (Prohibited Export) Regulations and have export controls and bilateral agreements designed to assure that Australian uranium is never used in weapons production, it is worthwhile questioning this assumption. Two major export customers, the US and France have both been involved in building nuclear reactors (in Pakistan and Iraq respectively) that were implicated in the development of nuclear weapons. The Iraqi reactor was bombed by Israel prior to commissioning because of intelligence information stating that the reactor would be used in developing a nuclear weapons program. Pakistan has recently stated publicly that they have successfully developed nuclear weapons. Uranium used in civilian nuclear power fuel rods in "safe" countries may therefore have been sold to "civilian" reactors in much more dubious nations and implicated in a proliferation problem. Australian uranium can also be "re-flagged" by customer nations and used directly in nuclear weapons. In this situation it is inadequate to point to the NPT and bilateral agreements and say that these are sufficient and uranium is therefore outside the defence export brief.

10.3 There is also the specific question of Inhumane weapons and Australia's role. On 23 February 1994, a question was addressed to the Minister for Defence²¹ regarding Australia's obligations under the Inhumane Weapons Convention. The Minister responded that Australia would not export mines to any state which had not acceded to the Convention, observing that it would be "hypocritical" to do otherwise.

10.4 The US and most of our South East Asian neighbours are not parties to this convention. Therefore Australia is self-prohibited from exporting mines to any of these states.

III CONCLUSION

11.1 The Majority Report has largely failed to address many of the Terms of Reference. It has not advanced the question of a definition of defence exports, nor dealt adequately with the concerns that motivated this inquiry, namely that under current procedures we export items used in aggression and oppression to a number of users who are involved in human rights violations, or to users where those exports fuel bilateral tensions or aggression.

11.2 The report also seems to neglect the weight of evidence that shows the commitment to exports by Government has been a failure, and the continuation of any such push is also likely to fail, given the current economic circumstances. Defence exports have been declining dramatically in total, even though the small portion sold in ASEAN have increased. We have cited DoD belief that substantial new commitments of economic resources from Government will be needed to

increase exports more. In this case, if they are seeing light at the end of the defence export tunnel, we believe that light is likely to be an oncoming train. We strongly urge the Government to immediately cut any subsidy to the defence industry to develop exports, and to stop funding export promotion programs. We make this recommendation on economic grounds.

11.3 The current push for exports to ASEAN is inappropriate. It is fuelling a form of modernisation that goes beyond simple replacement to a change in the nature of military forces in the region. Capital intensive defence goods are frequently those which give a military a longer striking capacity, greater penetration, and greater capacity to fight a war based on airborne weapons and others with more remote striking capacity. Until now most regional militaries have been heavily biased towards infantry-type, close range forces. The change has implications for regional security, and means that procurement of such items are more liable to be seen as a new threat requiring new detection and response capability. Items for increasing regional penetration, e.g. the Thai aircraft carrier, are liable to create responses in neighbours thereby increasing regional tensions. Australia should not seek to profit from this situation, or any similar situation, and should involve itself in peacemaking and diplomacy and work to defuse such situations. We recommend this on security grounds.

11.4 The current push for exports to ASEAN is doubly inappropriate since many of the nations who would be customers do not have strong democratic traditions, have heavy military involvement in the political process, and have poor or irregular human rights records. It is highly probable that exports may be involved in human rights and civil rights abuses. Indeed, one of the nations specifically targeted for Australian exports, i.e. Indonesia, is currently under restriction by the United States for similar exports on human rights grounds. The regulatory process must take far more cognisance of human and civil rights issues in the approval process. It should immediately stop promotion of defence exports, especially to ASEAN, to remove any conflict of interest in the regulatory process. We recommend this on humanitarian grounds.

11.5 We have made a number of specific recommendations in various sections above to improve the formal process. We would like to conclude by commenting on the attitude that informed the majority of the Committee and was embodied in the majority report. This attitude is one in which humanitarian interests seem to be a subsidiary to profit, as seen in the failure to recognise problems that have arisen and are implicit in current practice. It is also one that we can only understand as placing a blind belief in the benefits of export promotion above both consideration of the nature and consequence of exports, and of the economic realities that no matter how heavily we promote and subsidise defence exports and defence industries, we are not likely to see any substantial increase in exports in the foreseeable future.

²¹*Hansard*, p.951, 23 February 1994

11.6 The disregard of both monetary and non-monetary considerations in favour of export promotion as an end regardless of cost is the reason we see such a disjunction between the guidelines and formal procedure and the actual implementation of defence export regulation. It is clear that there is a disjunction between theory and practice here, and we have recommended several steps to close that gap, but the success of any recommendation is contingent on a willingness to make them succeed. This will require a change of attitude, or a transparent system of accountability and responsibility which will enable the parliament and community to assure success. We commend to you this Additional Report.

Senator D Margetts

Mr L D T Ferguson MP

Senator V W Bourne

Mr G Gibson MP

Senator the Hon M Reynolds

Mr J V Langmore MP

Appendix One

Conduct of the inquiry

The major part of the work of this inquiry was conducted by the Trade Sub-Committee chaired by the Hon J Kerin MP and subsequently by the Hon M J Duffy MP.

In conducting this inquiry it was particularly important to the Committee that it heard the views of as many Commonwealth departments and agencies, defence industries, industry associations, community groups and members of the community as possible. Accordingly, the inquiry was widely advertised in major newspapers on 17 and 18 September 1993. In September 1993 the Committee also wrote to all Ministers whose portfolio responsibilities involved the inquiry, seeking submissions.

The Committee received 36 submissions from a wide cross-section of the target audience; a list of these submissions and their authors is at Appendix 2 and exhibits received are listed in Appendix 3.

Some people who had made submissions and provided research material to the Senate Standing Committee on Foreign Affairs, Defence and Trade's inquiry into controlling military transfers contacted the Joint Committee and resubmitted their research material.

In developing its public hearing program the Committee did not seek to take evidence from all organisations involved in, and affected by defence exports. Rather, the Committee focussed its attention on the major players. Hearings were held in Canberra, Sydney and Melbourne.

In total the Committee took evidence from 44 witnesses (see Appendix 5) representing 21 organisations or themselves at six public hearings between 29 November 1993 and 25 May 1994. Details of the hearing programs are provided in Appendix 4.

The submissions and public hearing transcripts have been incorporated into several volumes which are available for inspection at the National Library of Australia, the Commonwealth Parliamentary Library and the Committee Secretariat. References to the evidence in the text of this report refer to the page numbers in the submission volumes ('S' prefix) and public hearing transcripts (numeric sequence).

In addition, an inspection was held of the Defence Science and Technology Organisation (DSTO) Laboratories at Salisbury, South Australia. During the inspection members were briefed on the commercial activities of the Laboratories and several major DSTO projects including the Jindalee Over the Horizon Radar, the ALR 2002 Radar Warning Receiver and the Laser Airborne Depth Sounder.

Appendix Two

List of submissions

No	Name of Person/Organisation
1	Mr Roger Blake
2	Women's International League for Peace and Freedom, Queensland Branch
3	Dr Paul Satchell
4	Australia Defence Association, National Council
5	Mr and Mrs S Irvine
6	Women's International League for Peace and Freedom, Australian Section
7	United Nations Association of Australia Incorporated
8,8a	Amnesty International Australia
9	Ms Catherine Cox
10	Ms Rosemarie Gillespie
11	Environmental Research and Information Consortium Pty Ltd
12	Ms Joy Gough
13	Australian Anti-Bases Campaign Coalition
14	Rockwell Systems Australia Pty Ltd
15	United Nations Association of Australia (WA Divn) Incorporated
16	Australian Campaign Against Arms Trade
17	Medical Association for Prevention of War

18	Women's International League for Peace and Freedom, ACT Branch
19	Transfield Shipbuilding Pty Ltd
20	People for Nuclear Disarmament, Queensland
21	Association of Australian Aerospace Industries
22	War Resisters League, Australia
23	Australian Peace Committee (SA Branch) Incorporated
24,24a	Secure Australia Project
25	UTS Students Association
26,26a	Department of Industry, Technology and Regional Development
27,27a	Metal Trades Industry Association, Defence Manufacturers' Council
28,28a	Australian Electrical and Electronic Manufacturers' Association Limited
29	Centre for Peace and Conflict Studies, University of Sydney
30,30a, 30b,30c, 30d,30e	Department of Defence
31,31a, 31b,31c, 31d,31e	Department of Foreign Affairs and Trade
32	CAMTECH
33,33a	Australian Customs Service
34	Community Aid Abroad
35	Mr Gary Brown
36	Export Finance and Insurance Corporation

Appendix Three

List of exhibits

No.	Exhibits and Name of person/organisation
1	Hagelin, Bjorn. November 1992. Submarine complexities. <i>Pacific Research</i> . 5(4), pp. 3-6. Attachment to Submission Number 6 provided by the Women's International League for Peace and Freedom.
2	Shelley, Nancy. Editor. 1990. <i>Whither Australia?: A response to Australia's current defence policy</i> . Prepared by the Commission on International Affairs of the Australian Council of Churches. Sydney, Australian Council of Churches, 122p. Letter dated 15 October 1993 attached.
3	Gillespie, Rosemarie. August 1993. <i>Australia's role in arming violators of human rights: The case of Papua New Guinea and Bougainville</i> . Attachment to Submission Number 10 provided by Rosemarie Gillespie.
4a	<i>A christian perspective on Australia's arms trade</i> . 2p. Attachment to Submission Number 13 provided by Australian Anti-Bases Campaign Coalition.
4b	Dr Hannah Middleton and Mr Denis Doherty. nd. Submission to the Senate Standing Committee on Foreign Affairs, Defence and Trade inquiry into 'The adequacy with which Australia's policy and guidelines for controlling military transfers safeguard Australia's defence, security and international relations' on behalf of the Australian Anti-Bases Campaign Coalition. Attachment to Submission Number 13 provided by the Australian Anti-Bases Campaign Coalition.
5	Philips Defence Systems Pty Limited. <i>Summary of export activities</i> . (And brochures). Provided by Philips Defence Systems Pty Ltd.
6a	Warnke, Paul C. 1991/92. <i>Putting an end to business as usual</i> . Canadian Institute for International Peace and Security. Winter 1991/92, 2p. Attachment to Submission Number 17 provided by the Medical Association for the Prevention of War.

6b	<i>New dimensions of arms regulation and disarmament in the post-cold war era: Report of the Secretary-General of the United Nations, Mr Boutros Boutros-Ghali, on the Occasion of Disarmament Week, 27 October 1992</i> . October 1992. United Nations, Department of Public Information and the Office for Disarmament Affairs. 7p. Attachment to Submission Number 17 provided by the Medical Association for the Prevention of War.
7a	Material supplied by Mr John Doohan. 15 October 1993. 31p.
7b	Ari Ben-Menashe. 1992. <i>Profits of war: The sensational story of the world-wide arms conspiracy</i> . St Leonards NSW, Allen & Unwin, xix 394p. Provided by Mr John Doohan.
8	Attachment to Submission Number 23 provided by Australian Peace Committee, SA Branch.
9	<i>Call for an inquiry into Australia's security</i> . October 1992. Attachment to Submission Number 24 provided by the Secure Australia Project.
10	Australian Electrical and Electronic Manufacturers' Association. Submission to Industry Commission Inquiry into Defence Procurement dated 14 October 1993. 17p. Attachment to Submission Number 28 provided by the Australian Electrical and Electronic Manufacturers' Association Ltd.
11	Kishwar, Madhu. <i>The assassination of Rajiv Gandhi: Some lessons</i> . 4p. Attachment to Submission Number 29 provided by the Centre for Peace and Conflict Studies, University of Sydney.
12a	<i>Australian controls on the export of defence and related goods: Guidelines for exporters</i> . March 1992. Canberra, Department of Defence, 12p appendices. Attachment to Submission Number 30 provided by Department of Defence.
12b	<i>Annual report: Exports of defence and related goods from Australia 1992-93</i> . August 1993. Canberra, Industry Involvement and Contracting Division, Department of Defence, 19p. Attachment to Submission Number 30 provided by Department of Defence.
12c	<i>Australian controls on the export of technology with civil and military applications: A guide for exporters and importers</i> . September 1992. Canberra, Department of Defence, various pagings. Attachment to Submission Number 30 provided by Department of Defence.

- 13a Woodman, Stewart. November 1993. Exploding myths: Defence policy for industry beyond the Price Review. Draft paper presented to *Australia's defence industry: Needs and opportunities, Australian Defence Force Studies Centre Conference*. Canberra, Australian Defence Force Academy, November 1993, 21p. Provided by Dr Stewart Woodman, Strategic and Defence Studies Centre, Australian National University.
- 13b Woodman, Stewart. July 1992. *Defence and industry: A strategic perspective*. Working Paper No. 257. 14p. Provided by Dr Stewart Woodman, Strategic and Defence Studies Centre, Australian National University.
- 13c Woodman, Stewart. November 1993. Additional remarks to concluding panel discussion on 'Future directions for Australia's defence industry and industry policy'. *Australia's defence industry: Needs and opportunities, Australian Defence Force Studies Centre Conference*. Canberra, Australian Defence Force Academy, November 1993, 7p. Provided by Dr Stewart Woodman, Strategic and Defence Studies Centre, Australian National University.
- 14a Cheeseman, Graeme. 1992. *Selling mirages: The politics of arms trading*. Canberra, The Australian Foreign Policy Publications Program, The Department of Industrial Relations, Research School of Pacific Studies, Australian National University, 85p. Provided by Dr Graeme Cheeseman, Department of Politics, Australian Defence Force Academy, Canberra.
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- 15 *Corruption evidence*. Provided by Mr Gary Brown.

- 16a *Blue Paper Project*. 8p. Provided by Dr Hannah Middleton, Anti-Bases Campaign Coalition.
- 16b *Australians trading in death and destruction: Converting to a peaceful economy*. Sydney, Australian Anti-Bases Campaign Coalition, 6p. Provided by Dr Hannah Middleton, Australian Anti-Bases Campaign Coalition.
- 16c Extracts from: Cheeseman, Graeme. 1989. *An alternative defence posture for Australia*. Canberra, Peace Research Centre, Australian National University, selected pages. Provided by Dr Hannah Middleton, Australian Anti-Bases Campaign Coalition.
- 16d *Draft convention on the monitoring and reduction of arms stockpiling, production and transfers: A regime for comprehensive arms restraint: Executive summary*. September 1993. 6p. Provided by Dr Hannah Middleton, Australian Anti-Bases Campaign Coalition.
- 16e Cheeseman, Graeme. November 1991. Australia Report: Australia's arms exports 1990-91. and Australia's defence budget 1991-92. *Pacific Research*. November 1991, pp. 28-30. Provided by Dr Hannah Middleton, Australian Anti-Bases Campaign Coalition.
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- 18 *Extract from Pacific Research*. November 1991. 1p. Provided by Mrs Constance Ewald, Secure Australia Project.
- 19 Smith, Peter. 1992. *Fast tracking product development through international collaboration: the MDX case study*. 17p. Provided by Mr Ian Meibusch, Association of Australian Aerospace Industries.
- 20a *Industry Research and Development Board: Annual report 1992-1993*. Canberra, AGPS, 165p. Provided by Department of Industry, Technology and Regional Development.
- 20b *Department of Industry, Technology and Commerce: Annual report 1991-1992*. Canberra, AGPS, 276p. Provided by Department of Industry, Technology and Regional Development.

- 20c *Department of Industry, Technology and Commerce: Annual accounts 1990-91.* Provided by Department of Industry, Technology and Regional Development.
- 20d *Department of Industry, Technology and Regional Development: Annual accounts 1992-93.* Provided by Department of Industry, Technology and Regional Development.
- 20e *Department of Industry, Technology and Regional Development: Program information booklet.* January 1994. Canberra, Department of Industry, Technology and Regional Development, 48p. Provided by Department of Industry, Technology and Regional Development.
- 20f Australian Customs Service. 1992-93. *Bounty Acts: Return for Parliament 1992/93.* Canberra, Australian Customs Service, Unpublished, 66p. Provided by Department of Industry Technology and Regional Development.
- 21 Department of Defence. October 1993. *The export of defence and related goods: Defence Instructions (General).* Canberra, Unpublished, 3p. appendices.
- 22 Letter from Amnesty International Netherlands to Amnesty International Australia dated 13 June 1994 and copy of Dutch arms policy. 32p. (In Dutch with selected parts translated to English). Provided by Mr John Schooneveldt, Amnesty International.
- 23 Hirdman, S. 1993. *Sweden's policy on arms exports: English version.* Sweden, Ministry for Foreign Affairs, 39p. Provided by Mr John Schooneveldt, Amnesty International.
- 24 Correspondence provided by Australian Electrical and Electronic Manufacturers' Association on the forming of a Defence Exports Consultative Forum under the Defence Industry Committee from Mr J Owens, Chairman C³I Export Forum, AEEMA to Mr G Jones, Deputy Secretary, Acquisitions & Logistics, Department of Defence, dated 14 July 1994; and from Mr Bryan Douglas, Deputy Director, AEEMA to Mr Bob Wylie, Assistant Secretary, Exports and International programs, Department of Defence dated 20 May 1994 stating AEEMA's response to the Department of Defence's draft Export Strategy Statement.
- 25 Defence Export Program and Defence Export Controls: Expenditure 1993-94 and 1994-95.

Appendix Four

Program of activities undertaken by the Sub-Committee

Public Hearings

Canberra	29 November 1993
Canberra	15 February 1994
Canberra	16 February 1994
Sydney	10 March 1994
Melbourne	29 March 1994
Canberra	25 May 1994

Inspections

DSTO Salisbury	11 March 1994
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Appendix Five

List of witnesses appearing at public hearings

Witness/organisation	Date(s) of appearance
Amnesty International Australia	
Mrs Dorothy Bennett, Secretary Government Liaison Group	16 February 1994
Mr John Schooneveldt, Vice-President, Australian Capital Territory Branch	16 February 1994
Association of Australian Aerospace Industries	
Mr Ian Meibusch, Deputy Chairman	15 February 1994
Mr Geoffrey Mitchell, Executive Director	15 February 1994
Austrade	
Mr David Shires, Manager Government and Economic Affairs	29 November 1993
Mr Greg Hull, National Manager Aerospace/Defence Business Development Unit	29 November 1993
Australian Anti-Bases Campaign Coalition	
Mr Denis Doherty, National Coordinator	10 March 1994
Dr Hannah Middleton, National Media Spokesperson	10 March 1994
Australian Customs Service	
Mr Thomas Anderson, Director, Secretariat	15 February 1994

Mr Peter Gulbransen, Director Exports, Import-Export Control	15 February 1994
Australian Defence Association	
Mr Michael O'Connor, Executive Director	29 March 1994
Australian Defence Industries	
Mr Kenneth Harris, Managing Director	10 March 1994
Australian Electrical and Electronic Manufacturers Association	
Mr Bryan Douglas, Deputy Director	16 February 1994
Australian National University	
Dr Stewart J Woodman Strategic and Defence Studies Centre	29 November 1993
Mr Gary Brown	16 February 1994
CAMTECH	
Mr Owen Graham, Managing Director	25 May 1994
Community Aid Abroad	
Mr Jeffrey Atkinson, National Research Coordinator	29 March 1994
Ms Mary Goodfield, Campaigners Coordinator	29 March 1994
Department of Defence	
Mr David Fitzsimmons, Acting Director Strategic Trade Policy and Operations	29 November 1993 25 May 1994
Captain Graham MacKinnell, Director Management and Mobilisation Plans	29 November 1993

Air Commodore Douglas Riding, Director General
Defence Force Plans and Programs 25 May 1994

Mr Hugh White, Acting First Assistant Secretary
International Policy 29 November 1993
25 May 1994

Mr Bob Wylie, Assistant Secretary
Exports and International Programs 29 November 1993
25 May 1994

Department of Foreign Affairs and Trade

Mr Rory Steele, Assistant Secretary
Strategic Assessments Branch 29 November 1993

Mr David Hegarty, Director
Defence Policy Section 29 November 1993

Mr Peter Davin, Executive Officer
Defence Policy Section 29 November 1993

Department of Industry, Technology and Regional Development

Ms Ruth Gallagher, Director, Industry Policy 15 February 1994

Mr Robert McKeon, Assistant Secretary
Industry and Services Policy Branch 15 February 1994

Export Finance and Insurance Corporation

Mr John Smith, General Manager 10 March 1994

Hawker De Havilland Limited

Mr Ian Chapman, Manager, Servicing Projects 15 February 1994

Mr Ian Meibusch, Canberra Manager 15 February 1994

Medical Association for Prevention of War

Dr Ian Buckley, ACT Committee Member 29 March 1994

Dr Susan Wareham, Vice President and
International Councillor 29 March 1994

Metal Trades Industry Association, Defence Manufacturers' Council

Mr Peter Bowler, Manager Business Development
Transfield Shipping Pty Ltd 15 February 1994

Mr Alfons Jaugietis, Marketing Director
British Aerospace Australia 15 February 1994

Dr Keith Richmond, Secretary 15 February 1994

Mr Harley Tacey, Marketing Director
Siemens Plessey Electronic Systems Pty Ltd 15 February 1994

Secure Australia Project

Mrs Constance Ewald 10 March 1994

Transfield Shipbuilding Pty Ltd

Dr John White, Chief Executive 29 March 1994

United Nations Association of Australia

Dr Kevin Clements, Convenor of Peace Program 16 February 1994

Mr David Purnell, National Administrator 16 February 1994