

AUSTRALIAN MANUFACTURING WORKERS' UNION

Inquiry into Defence Procurement

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Introduction

The Australian Manufacturing Workers' Union (AMWU) welcomes the opportunity to make submissions in response to the inquiry into Defence procurement. The AMWU notes that the terms of reference for this inquiry are the procurement procedures for items identified in the Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*.

The AMWU represents approximately 110,000 members working across major sectors of the Australian economy. AMWU members are primarily based in the manufacturing division in the sub-divisions of metal manufacturing, printing and graphic arts, food and vehicle building, repair and service. The AMWU also has significant membership in the mining, building and construction, aircraft and airline operations, laboratory, technical, supervisory and public sector employment. The AMWU has civilian members within the Department of Defence, including each of the Armed Services and the Defence Materiel Organisation and Defence Science and Technology Organisation (collectively, the APS). It also has members within various private contractors to Defence, including BAE Systems, Boeing, ASC, Thales and TAE, and within related sub-contracting firms.

Overview

Federal Government procurement spend accounts for \$24 billion annually. A significant proportion of this falls within Defence procurement, a factor that will only increase given the guaranteed 3 per cent real growth in the Defence budget until 2017-18.

Procurement spend is a vital tool in Australia's economic development. Governments must be able to use these vast amounts of money to retain and create jobs, develop and support local industry, and maintain and build industry capability in terms of skills, training and emerging industries such as green industries and green engineering skills. Further, the government must not allow trade agreements and negotiations with other nations to hamper its ability to use procurement to support local industry.

The AMWU notes with approval the improvements that have been made to both general Government procurement policy and defence procurement more specifically

following the Mortimer Review, the Pappas Review and the McKinsey report. In particular the expansion of the Australian Industry Participation Framework and enforcing compliance with Fair Work Guidelines for successful tenderers have been positive steps. However, the AMWU believes that further improvements are needed both generally and within defence to most effectively use procurement to grow jobs and support industry.

The AMWU believes that Defence procurement policy should be guided by the following principles:

- i. Support for local industry and maximisation of local content participation, including, but not limited to (a) minimum local content spends defined by jobs created rather than money spent, and (b) granting price preference to Australian companies of 20%, and 25% in regional areas;
- ii. A high skills development and training agenda, including a minimum number of training places;
- iii. Greater support for local small-to-medium enterprises, including expanding the definition and granting preference to SME's when all other matters are equal; and
- iv. Compliance with all ILO conventions enforced for off-shore contracts awarded.

Response to Terms of Reference

A strong local defence industry is vital to Australia's economic and security interests. The AMWU notes with approval that the Government's position in respect of opportunities for Australian industry as part of Defence procurement is expressed in supportive terms. In the most recent Defence Capability Plan (DCP)¹ for instance the Government states that its 'policy is to ensure that as much of the Defence budget is spent in Australia as is reasonably practicable'. The White Paper reiterates this commitment, recognising 'growing the capacity and competitiveness of local defence industry' as a key policy objective².

The AMWU believes that Defence procurement policy must change in several key areas in order to ensure the government objectives in relation to levels of local

¹ 2009 (December 2010 Update), Public Version

² At 16.18

content, support for local industry and skills development are achieved.

i. Prioritising Local Content

The current Defence Procurement Policy explicitly does not impose minimum levels of local content participation³. The only certain way to improve rates of local content participation is to impose minimum levels. Several State governments have taken this step and have achieved significant improvements. A relevant example can be seen in Victoria, which introduced in 2001 the Victorian Industry Participation Plan for use in the government's major procurement activities. Between 2001 and 2008 the VIPP led to average local content levels of 84% and created an estimated 22,500 jobs in the state⁴.

The Commonwealth government is currently restricted by its obligations under international agreements or treaties from imposing these standards. For example Australia has a treaty with the United States in relation to defence procurement; the *Memorandum of Agreement Between the Government of Australia and the Government of the United States Concerning Reciprocal Defense Procurement* which provides at Article 2 (b) that each Government shall in relation to defence procurement 'accord industries of the other Government treatment no less favourable in relation to procurement than that accorded to industries of its own country'⁵. However, the AMWU believes that it is not in fact in violation of these obligations for the Government to prioritise Australian providers in its procurement decisions; this would merely involve including the economic benefits of job creation and industry development when undertaking a cost/benefit analysis of the proposal. It is vital that the government does not unnecessarily allow international agreements and treaties to restrict the development of a strong local industry.

The most effective way to prioritise local content in this manner is to grant Australian companies price preferences in the tendering process, a method adopted in Victoria and also New South Wales' Local Jobs First Plan⁶. Price preferences allow Australian companies to effectively compete with large multinationals and are an effective tool for encouraging local industry growth and development. The AMWU

³ 3.12 (7), (22)

⁴ *Building our Industries for the Future: Action Plans for Victorian Industry and Manufacturing*, Department of Industry, Innovation and Regional Development, November 2008. p16.

⁵ It is hosted on the United Nations website here: http://untreaty.un.org/unts/120001_144071/17/6/00014059.pdf

⁶ <http://www.nswprocurement.com.au/Government-Procurement-Frameworks/Goods---Services/Framework/Local-Jobs-First-Plan.aspx>

supports price preferences of 20%, rising to 25% in regional areas.

The AMWU notes with approval the commitment in the White Paper to government intervention to support priority industry capabilities (PIC's) in the local defence industry⁷. Active support from government is necessary for local industry to grow and develop. However, the AMWU is concerned with the government's reluctance to identify the specific areas that will attract this kind of support. While we recognise the strategic motivations behind this, it is vital that the security concern is balanced with transparency and accountability measures. It is recommended that there be strong communication and consultation between all sectors of the defence industry, including unions, industry associations and corporate actors, and that representatives of these groups participate in all decision-making of this kind.

ii. Skills and Training

The AMWU notes that the White Paper recognises the vital importance of supporting skills development in the Australian defence industry, and the centrality of high-skills work to Defence procurement⁸. The Defence sector is particularly affected by the skills shortage facing Australia currently. This must be addressed if Australia's local defence industry is to remain sustainable and grow. Procurement policy is an extremely efficient tool for addressing the skills shortage and ensuring the sustainability and growth of local industry.

The AMWU supports the imposition of requirements on contractors to provide a minimum number of local apprenticeships, cadetships and traineeships (as appropriate). The minimum required should be determined with reference to the size of the project and the needs of the industry as a whole.

iii. Support for SMEs

Supporting and developing small-to-medium enterprises (SMEs) is vital to the growth and sustainability of local defence industry. The AMWU notes with approval the Government's commitment to supporting small-to-medium enterprises, including the policy of 10% sourcing from SMEs found in the Commonwealth Procurement Guidelines. However, the AMWU believes in order to be effective this policy must be strengthened from a 'best practice' guide to a mandatory minimum.

⁷ At 16.22

⁸ At 16.15

In order to make this change practicable, the definition of SME under the guidelines should be expanded to include more enterprises, at a minimum being the widest provided for in a State or Territory. Further, when all other matters are equal SMEs should be given preference in the tendering process.

The New South Wales Local Jobs First Plan⁹, implemented in June 2009, is a key example of the effectiveness of these measures. NSW expands the SME definition to include enterprises with up to 250 employees, imposes a price preferential and provides additional support to SME tenders which demonstrate local content, training plans, capability building, and Fair Work arrangements.

iv. International Labour Standards

While we maintain that Defence should prioritise local industry in procurement decisions, the AMWU acknowledges that there will be occasions where circumstances demand it necessary to award contracts off-shore.

When this occurs measures should be taken to ensure that international labour standards are complied with in all work done off-shore. Off-shore contracts should only be awarded where the tenderer has demonstrated that all relevant ILO conventions will be complied with. This will ensure that the Australian Government does not water down international labour standards through its defence procurement spend. It will also ensure a leveller playing field for Australian tenderers; if off-shore tenderers are not required to demonstrate compliance Australian tenderers will suffer a manifest disadvantage when competing for Defence contracts.

⁹ <http://www.nswprocurement.com.au/Government-Procurement-Frameworks/Goods---Services/Framework/Local-Jobs-First-Plan.aspx>