

Audit Reports Summaries

Audit Report No. 26 1995-96

Tabled 17 June 1996

Summary

Department of Defence

DEFENCE EXPORT FACILITATION AND CONTROLS

Performance Audit

Background

The Department of Defence is responsible for administering the Defence export facilitation program which is aimed at promoting Australian defence-relevant exports. The Department administers the program in cooperation with AUSTRADE.

Defence is also responsible for administering export controls on defence and related goods and dual-use goods. The Department of Foreign Affairs and Trade is responsible for controls on chemical and biological weapons precursors. The Department of Primary Industries and Energy is responsible for controls on nuclear-specific technology and source/fissionable material. The Australian Customs Service implements barrier controls at ports and airports.

In September 1993 the then Minister for Trade referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) an inquiry into the implications of Australian defence exports. The JSCFADT's *Report on the Implications of Australian Defence Exports* (September 1994) recommended, inter alia, that the Auditor-General conduct a performance audit of the operations of the guidelines concerning the controls on the export of defence and related goods, the export control process, and all export facilitation activities.

The Auditor-General agreed to undertake an audit, which commenced in May 1995 as a preliminary study and was designated as a performance audit on 30 August 1995.

Overall Conclusions

Defence Export Facilitation

The audit found that Defence has made significant advances in the area of export facilitation activities since the Price Report on defence policy and industry of 1992, particularly in improving the interaction with industry and in its coordination with AUSTRADE.

The ANAO concluded, however, that there is still much to be done in terms of detailed development of policy administration and performance measurement for export facilitation activities.

There is scope to improve the focus of export facilitation by better linking facilitation to the establishment and maintenance of industry capabilities of priority to Australia's defence self-

reliance. The contribution of defence export facilitation and materiel cooperation to the overarching Government policy on defence self-reliance cannot be meaningfully assessed until a framework has been put in place which allows a causal link to specific industry capabilities which have been identified by Defence as being of strategic importance.

Final outcomes in terms of major defence export impacts from the Defence Trade Commissioner initiative are not expected until the posts have been operating for three to five years. The importance and acceptability of these posts in the bilateral defence relationships and the unique features of the defence market at this time were major factors considered by the ANAO.

While recommending improvements to the operation of Defence Trade Commissioners, the ANAO concluded that the basic management approach to this major part of the defence export program was sound in terms of providing significant bilateral benefits and fostering realistic commercial and defence interoperability benefits for the future.

In short, the ANAO recommends that:

- export facilitation objectives, priorities, and performance information be developed and evaluated against Defence priorities for Australian industry capabilities;
- export opportunities be considered as an integral part of the force development, tendering and equipment selection processes;
- communication with industry be enhanced, for example through better use of modern media such as the Internet;
- a consolidated Defence instruction on the policy for assistance to exporters be issued;
- the agreement between Defence and AUSTRADE on the Defence Trade Commissioners be reviewed to give better focus to their work;
- aspects of the directives to Defence Advisers / Attachés relevant to defence exports should be reviewed to maximise the synergies between the various Australian positions overseas and
- the continued need for Defence funding of specialist Defence Trade Commissioners be reviewed in three years' time.

Defence Export Controls

The audit found that, in terms of export control arrangements, substantial improvements have been made in the speed of response to applications for export licences and permits. The export control system in place is an integral part of the Australian contribution to international export control arrangements.

The ANAO also found that there is scope for improving the accessibility of the guidelines, enhancing coordination between Defence and the Australian Customs Service, and allocating a higher priority to the collection of intelligence on unauthorised export of defence and related goods.

The ANAO therefore recommends that:

- a review be undertaken of defence export control legislation, including penalties;
- administrative policy options be developed for consideration by Government for the control of defence-related services;

- export approvals should allow for Defence to be able to request information about exports and allow inspection of export consignments;
- aspects of the control guidelines be clarified and simplified;
- a streamlined system be established for export applications for defence-relevant goods;
- liaison and coordination between agencies involved in the administration of export controls be improved;
- intelligence priorities relating to unlawful export of Australian defence-relevant goods be defined; and
- a risk-management plan be prepared and resources allocated to ensure effective scrutiny of export applications.

Agency responses

Defence commented that the audit report highlights key processes that could be improved to provide better facilitation of defence-relevant exports. Defence agrees with the overall tenor of the audit report and with the attention it draws to key issues. Defence and the other agencies consulted agreed or agreed in principle with the ANAO recommendations.