

**Submission
No 28**

**INQUIRY INTO THE DEFENCE INDUSTRY IN NEW
SOUTH WALES**

Name: Thales Australia

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**SUBMISSION TO THE LEGISLATIVE
COUNCIL STANDING COMMITTEE ON
STATE DEVELOPMENT INQUIRY INTO THE
DEFENCE INDUSTRY IN NEW SOUTH
WALES**

30 June 2017

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Introduction

Thales Australia welcomes the opportunity to provide a response to the Legislative Council Standing Committee on State Development's Inquiry into the defence industry in New South Wales, and specifically the opportunities to incentivise and grow the industry in NSW.

Current historic investment in Defence

With the release of the Commonwealth Government's 2016 Defence White Paper, Integrated Investment Plan and Industry Policy Statement, Australia's defence industry was recognised as a Fundamental Input to Capability (FIC). The declaration that defence industry as a FIC marks a profound and transformational shift and highlights the industry's importance in providing sovereign capability for the Australian Defence Force (ADF) and for Australia's national interest.

The Commonwealth Government has recently announced a substantial investment in the capabilities of the ADF, with over \$195 billion to be spent over the next 10 years. This has been coupled with a commitment to growing the Defence budget to two per cent of GDP by 2020–21. This once-in-a-generation investment including decisions on key defence projects like the Future Submarine and Future Frigate presents substantial opportunities to maximise the potential economic benefit to NSW.

Thales background

Thales Australia is part of a leading international electronics and systems group serving the defence, aerospace, security, and transport markets in Australia and throughout the world. In 2016 Thales Australia's revenue was more than A\$1 billion, and over the last 10 years the company has exported more than A\$1.6 billion of products from Australia.

Thales is one of the ADF's most trusted partners, with strong affiliations with the Defence Science and Technology Group (DSTG), the CSIRO as well as leading tertiary institutions in Australia.

Thales in New South Wales employs approximately 1,900 staff in eight major sites, and engages with more than 450 NSW SMEs in our supply chain.

In NSW, Thales provides the following sovereign capabilities for the ADF:

- Developing, manufacturing and maintaining submarine and ship sonar systems and mine countermeasures in Rydalmere;
- Manufacturing the current in-service F88 and EF88 rifles in Lithgow;
- Operating the Royal Australian Navy's major east coast refit, repair and maintenance facilities at Garden Island;
- Manufacturing the propellants and munitions for the ADF at Mulwala; and
- Providing end to end logistics for the provision, distribution and maintenance of ordinance in Orchard Hills and Myambat.

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> Thales in NSW



Australian headquarters in Sydney Olympic Park

KEY NSW SITES
 Garden Island
 Lithgow
 Mulwala
 Myambat
 Newcastle
 Orchard Hills
 Rydalmere
 Sydney Olympic Park



More than half of Thales Australia employees are based in NSW

> Sovereign Defence Capabilities delivered from NSW by Thales

Mulwala, Orchard Hills and Myambat



Rydalmere



Lithgow



Garden Island and Newcastle



A) Maximise opportunities for NSW-based companies from Defence's growing exports and investment in defence capability – in both acquisition and sustainment.

Australia has embarked on an historic nation building exercise in defence capability. There is an unprecedented alignment between defence policy in the First Principles Review and 2016 Defence White Paper, with Defence Industry Policy and long term budget commitments to acquisition and sustainment. Work is underway on two further important policy statements covering Sovereign Defence Industry Capabilities and Defence Exports.

New South Wales, as Australia's most populous state, with the largest pool of skilled workers and world class universities and research institutions has an important role to play in this critical national endeavour to recapitalise Australia's defence forces.

NSW has deep industrial capabilities already playing important roles in support of Australia's defence forces. The opportunities for NSW based companies from the growing investment in defence capability will be maximised by focusing on identifying existing areas of strength and building on these for the future.

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The depth of the industrial capability here in Australia has surprised many in the defence establishment and has already led to an encouraging embrace of industry potential. As a major long-term investor in Australian defence industry over the past 30 years Thales Australia believes that the following key principles are critical to underpin sustainable growth:

- Delivery of capability to the ADF is always the highest priority. Commitment to this is paramount and must be for the long-term.
- That means when we import a system capability, comprehensive technology transfer is essential to ensure complete in-country capability for sustainment and development to meet the customer requirements now and for the long term. This comprehensive transfer builds a skilled domestic workforce.
- Trust between defence and industry drives confidence to accelerate the delivery cycle. That means continuous improvement in collaboration through supply chains and with research agencies such as the Defence Science Technology Group.
- At every step Australian SMEs integrated into our sovereign in-country capabilities and global supply chains play an integral role. They help deliver the innovation and competitiveness and technical excellence required for export success and in turn share in the benefit of accessing global markets through global companies.
- With defence platforms in service for decades, patient investment is just as important as agility for successful innovation, and open architecture is essential for interoperability and adaptability to shifting requirements over the life of a platform.

Beyond these points, the engineering excellence required to deliver world class Defence capability will be a catalyst for growth of the entire advanced manufacturing sector in Australia and a beacon to attract the best and brightest people into a career that combines excellence and purpose.

C) Identify targets, programs and projects for defence spending in New South Wales

As outlined above the opportunities for NSW based companies from the growing investment in defence capability will be maximised by identifying existing areas of strength and building on these for the future. Sovereign industrial defence capabilities already existing in NSW include:

- Sonar and underwater systems development and manufacture at Rydalmere;
- Munitions manufacture at Mulwala;
- Small arms manufacture at Lithgow; and
- Ship repair and maintenance at Australia's largest naval base, Garden Island, and at Newcastle.

Opportunities for NSW in the Naval Shipbuilding Program

The two largest programs in the Defence Integrated Investment Plan are SEA1000, the construction of 12 future submarines, and SEA5000, the construction of 9 future frigates. The smart systems that will go into these naval platforms have yet to be selected and represent a major long term opportunity for defence industry in NSW. Furthermore these are areas of strength for NSW, as a result of long term investment in sonar and underwater systems by Thales at our facility in Rydalmere, Western Sydney.

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The Thales capabilities developed and delivered from Rydalmere are at the heart of the NSW offering into the Navy's next generation of submarines and frigates. They are the smart systems that provide the integrated eyes, ears, communication and training systems so fundamental to the effectiveness of the RAN's future force.

In the 1980s Thales undertook a technology transfer from Europe to deliver the Scylla sonar system for the Collins Class Submarines. Since that initial technology transfer, Thales Australia has made a long term and patient investment in the Rydalmere facility to build it into one of the company's global centres of excellence for underwater systems (which includes sonars, mine counter measures and other sensors).

Since the initial technology transfer Thales has worked hand in hand with the Defence Science and Technology Group to develop the next generation of sonars and underwater systems. This long term relationship has created world leading sovereign capabilities in sonar, mine counter measures and sensors.

In addition to underwater systems, Rydalmere is Thales's global centre of excellence for acoustic ceramic production. From our site, Thales delivers this capability to the RAN and exports products with our Australian supply chain around the world, including to the United States and Europe. This capability will be the core of Australian led innovation into the future of theatre Anti-Submarine Warfare (ASW).

Thales has exported over A\$400 million worth of products that have been manufactured and developed in Rydalmere to 11 countries. This success reinforces Thales's decision to invest substantially over the long term to create an international hub for underwater systems in western Sydney.

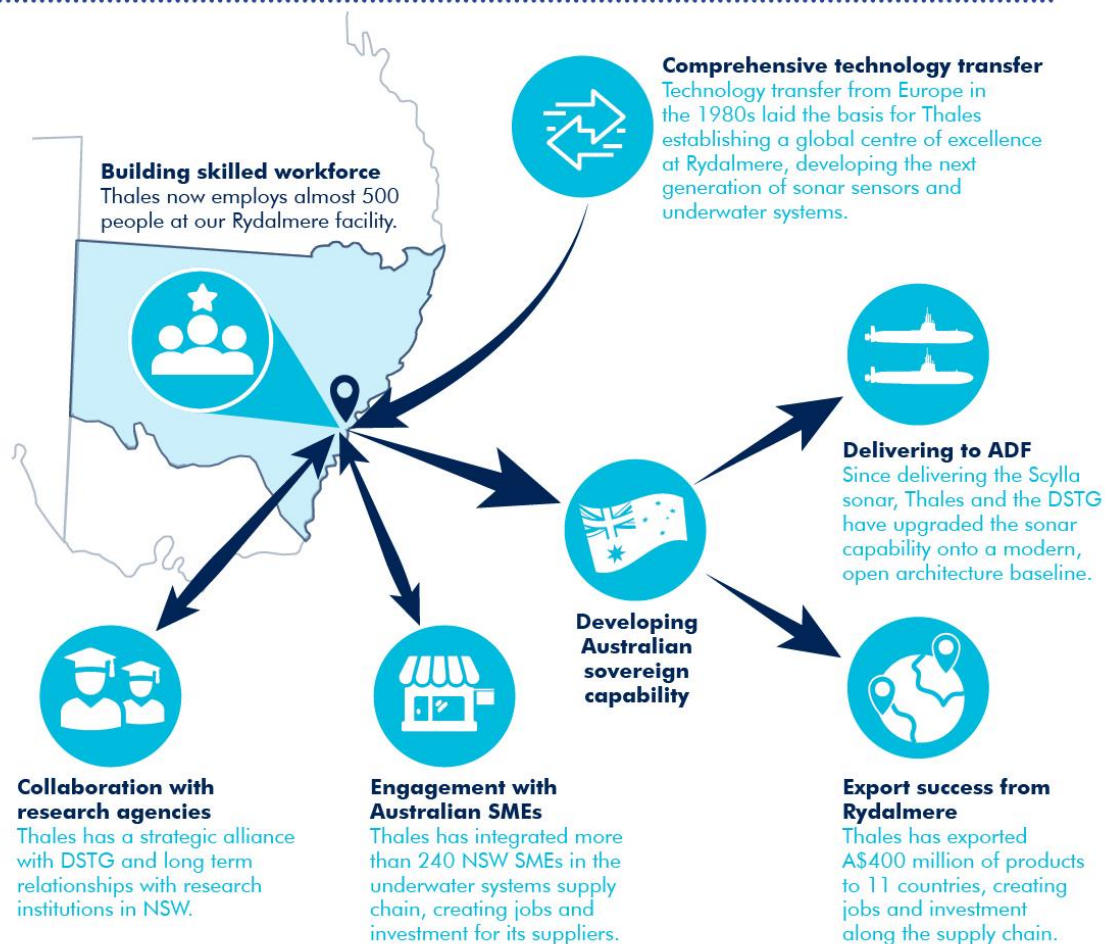
The Commonwealth Government's substantial increase in Defence spending has led to a rise of competitive Federalism, with each state and territory eager to maximise the economic impact for companies based within their boundaries.

This competition forces each state to focus on its natural strengths – underwater systems are NSW's greatest asset in this environment. For a generation Thales Australia's Rydalmere site has developed, manufactured and exported technologies and products that are world leading. Thales selection as the sonar provider for the Future Submarine would drive investment and employment well beyond the 50 year timeframe of the program, and would generate second and third order economic benefits for the NSW economy.

Initiative 2C of the Government's Defence and Industry is to "Target major defence projects to take place in NSW through coordinated campaigns, including SEA1000, 5000 ...". By supporting Thales's bid to provide the sonar solutions for the Future Submarine, the NSW Government has an opportunity to deliver on one of its key initiatives and potentially secure for NSW a significant part of the once-in-a-generation investment in defence capability that is currently being made by the Commonwealth Government.

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> How Thales Australia's long term investment in Rydalmere delivers sovereign defence capability



Opportunities for NSW in Ship Repair and Maintenance

As the Royal Australian Navy increases its fleet, it will require increasing ship repair and maintenance services to ensure high levels of availability. NSW is the leading state for this vital ongoing service, provided through Australia's largest naval base at Garden Island, home to the RAN's major east coast refit, repair and maintenance facilities. This includes the largest dry-dock in the southern hemisphere – the Captain Cook Graving Dock.

Since 1989 Thales has been trusted by industry, Government, Defence and the RAN to manage, operate, maintain and upgrade this crucial facility. In addition to supporting the RAN, Thales has provided ship repair, asset management services and engineering services for Defence vessels of other regional navies along with commercial vessels (cruise ships, workboats, ferries and others) for over 26 years in the Australasian/Pacific region.

In conjunction with the operation of Garden Island, Thales has an established presence in Newcastle, employing over 50 staff in maritime sustainment. This presence is set to grow, with Thales recently announcing a substantial investment to revitalise the Port of Newcastle as maritime hub, reinforcing NSW's position as a leader in maritime sustainment.

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D) Maximise the economic benefits of locating defence force bases and defence industry in the regions

Thales has a substantial regional footprint, with over 800 staff employed in locations outside of metropolitan Sydney.

Several of Thales's key regional sites are located in:

- Lithgow (more than 130 employees);
- Mulwala (more than 400 employees);
- Myambat and Orchard Hills (more than 150 employees); and
- Newcastle (more than 50 employees).

Lithgow (Armaments)

Since 1912, the Lithgow Small Arms Factory/Lithgow Arms has proudly supported Australia's soldiers on battlefields around the world. From Gallipoli, Fromelles and Pozières to North Africa, Borneo and Kokoda, and from Korea, Malaya and Vietnam to East Timor, Iraq and Afghanistan, Australian troops have carried weapons made in Lithgow.

Over the last three years Thales Australia has invested over A\$4 million to build the capability of the site in order to deliver the highest quality products for Australian soldiers whilst ensuring taxpayers money is spent effectively.

Lithgow Arms is focussed in pursuing contracts to continue the growth of the factory, ensuring its future once the current contracts with the ADF are fulfilled, with the export F90 version capturing attention around the world.

The NSW Government recently tendered for 'long arms' for the NSW Police Force. Thales Australia (through Lithgow Arms) submitted the F90LE (Law Enforcement) variant of the ADF's EF88/F90 rifle, which is designed and manufactured in Lithgow and tailored to the needs of police forces.

Newcastle (Ship repair and maintenance)

Thales is proud to have a heritage extending back to the establishment of the Fitzroy St sites for the Royal Australian Navy's Mine Hunter project. Thales currently employs more than 50 staff to maintain the RAN's Minehunters at the Port of Newcastle.

With assistance from the NSW Government, Thales has recently announced an initial A\$6 million investment to reactivate the Port of Newcastle as a marine sustainment precinct.

This is stage one of a phased redevelopment of the site, creating an additional 70 new jobs for the Hunter and revitalising the Port as a maritime hub. This commitment delivers on Initiative 4A of the NSW Government's Defence and Industry Strategy, potentially relieving pressure on Garden Island and further positioning NSW as a leader in maritime sustainment.

Mulwala (Munitions manufacture and services)

Thales's Mulwala facility is one of the most modern and capable munitions and energetics (propellant and explosives) facilities in the world employing more than 400 people.

Thales's Mulwala facility operates in conjunction with our Benalla facility. The Mulwala site produces high quality propellants and explosives while Benalla manufactures ammunition, explosive ordnance and other munitions. Thales's goal is to operate these strategic facilities to provide the ADF's ammunition requirements for today and into the future.

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Thales is the largest supplier of explosive ordnance to the ADF, with a successful track record delivering ammunition, propellants, explosives and related services.

Thales's world-leading BTI feature which was developed in Australia is a key capability advantage on operations in Afghanistan, and originally came from research requested by the Army from lessons learned during the Vietnam conflict.

Thales recently announced a 10 year contract to produce five million explosive boosters each year for use across Australia's mining and construction industries. The contract with Orica replaces previously imported products with Australian ones, and will increase manufacturing activity at the Mulwala and Benalla facilities.

■ Myambat & Orchard Hills (Munitions manufacture and services)

Thales's Myambat and Orchard Hills sites currently employ more than 150 staff and are key sites for its Armaments Services business which enables the ADF to train, fight and win. Thales's Armaments Services provide end to end logistics for the provision, distribution and maintenance of ordnance that has delivered maximum value for taxpayer money whilst also being 99% on schedule.

Thales also delivers a unique qualification service based at Orchard Hills that builds expertise both in the company and the ADF.

■ Conclusion

The Commonwealth Government's historic investment in the next generation of Defence capabilities coupled with the focus on maximising the input from the Australian defence industry presents New South Wales with an extraordinary opportunity to secure a once-in-a-generation investment in skills, technology and R&D.

NSW has deep industrial capabilities, the largest pool of skilled workers and world class universities and research institutions already playing important roles in support of Australia's defence forces. In order to leverage these advantages, the NSW Government must identify existing areas of strength and building on these for the future.

The Rydalmere developed and manufactured underwater systems are one of NSW's natural strengths. With more than 30 years of established expertise providing world class capabilities for the Royal Australian Navy, and globally acknowledged leadership in ceramics production and underwater sensors, these capabilities are at the heart of the NSW offering for the Navy's next generation of submarines and frigates.

Thales's selection as the sonar provider for the Future Submarine and Future Frigate would drive investment and employment well beyond the 50 year timeframe of the program. Generating sovereign defence capability for the Royal Australian Navy as well as considerable economic benefit for the state economy along the supply chain.

The Government and Opposition must move quickly and with bi-partisan purpose to maximise the opportunities for NSW based companies from the Commonwealth Government's investment in defence capability. Time is of the essence as other Government's look to maximise their economic benefit at the expense of slower moving rivals.

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