NORTHROP GRUMMAN

Northrop Grumman Australia Pty Limited
Unit 3, 2 Faulding Street
Symonston ACT 2609

27 May 2020

Select Committee on COVID-19
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Attention: Senator Katy Gallagher

Dear Senator Gallagher,

Northrop Grumman Australia, a wholly owned subsidiary of the Northrop Grumman Corporation, welcomes the opportunity to make a submission to the Senate Select Committee on COVID-19 and assist in advancing Australia's approaches to industry that will support the prioritisation and growth of enduring sovereign capabilities.

Northrop Grumman Australia is proud of its mature relationship with the Commonwealth of Australia and has been engaged in a variety of defence and civil programs in Australia for more than 20 years.

Northrop Grumman Australia has extensive experience in contributing to the expansion and localisation of Australian industry across all facets of its engagement. These include Cyber Security, Global Supply Chain programs, delivering against Australian Industry Capability commitments and academic engagements.

Northrop Grumman Australia's submission reflects an appreciation of the lessons learned from its past performance and the day to day engagements with its partners and suppliers. The company's specific focus and emphasis is directed towards securing local supply chains and diversifying the Australian manufacturing base as a fundamental first step.

We recommend that the Committee consider the recommendations contained within this submission and Northrop Grumman Australia will welcome the opportunity to present its recommendations in further detail.

Yours sincerely,

Chris Deeble AO, CSC
Chief Executive

Attachment:

1. Northrop Grumman Australia – Submission to the Select Committee on COVID-19

NORTHROP GRUMMAN

SUBMISSION

Senate Select Committee on Covid-19

27 May 2020

CONTENTS

NORTHROP GRUMMAN

INTRODUCTION

Northrop Grumman Australia welcomes the opportunity to make a submission to Senate Select Committee on the impacts of Covid-19 pandemic.

We congratulate the Coalition government and the state and territory governments on their response to the coronavirus pandemic. This truly national approach to dealing with the combination of health and economic crises and the support afforded to the Australian industry base is commendable.

Northrop Grumman Australia is a wholly owned subsidiary of the Northrop Grumman Corporation (NG). Northrop Grumman solves the toughest problems in space, aeronautics, defence and cyberspace to meet the ever evolving needs of our customers worldwide. Our 90,000 employees define possible every day using science, technology and engineering to create and deliver advanced systems, products and services.

NG works with the Australian Government to deliver world-class capability in support of the defence of Australia and its national interests. The company is extremely proud of the mature relationship with the Commonwealth of Australia and is committed to enhancing our business and geographic footprint in Australia. NG has a strong customer base in Australia and has been supporting a variety of defence and civil programs in the country for more than 20 years.

In particular, NG Australia works with the Australian government and the Australian Defence Force (ADF) to ensure border and Indo-Pacific region security mission success through a number of programs.

NG Australia's submission to the Committee addresses the company's Covid-19 response and support to its Australian industry suppliers and consider lessons learned from the crisis in the context of developing a resilient, sovereign Australian industrial base.

RECOMMENDATIONS

Northrop Grumman Australia commends the Senate Select Committee on Covid-19 and the Australian government to consider the following recommendations:

1. Develop a public-private consultative process that can identify goods that are priorities for domestic production.

2. Develop a policy framework to facilitate and bolster a viable local and diversified manufacturing sector.

3. Develop a national industry mobilisation strategy that considers sovereign industry priorities that encompass a whole-of-nation viewpoint across sectors.

4. Designate defence industry as an essential industry that can be mobilised to support national efforts during times of crisis.

5. Implement greater cyber protections for Australia's increasingly digitalised business and government services landscape and incorporate lessons learned from Australia's Covid-19 experience into the government's upcoming 2020 Cyber Security Strategy.

6. Develop a new Defence White Paper that takes into account Australia's rapidly changing geostrategic landscape.

7. Ensure Defence's force structure planning and the Integrated Investment Program provides Australia with the right force composition, planning and resourcing to meet the threats of a post-Covid environment.

8. Work towards greater technology and information transfers with allies to ameliorate the impact of travel restrictions and global industry disruptions, and enhance cooperative technology development and industry collaboration to deter and counter the emerging threats of a post-Covid-19 security environment.

NORTHROP GRUMMAN

NORTHROP GRUMMAN AUSTRALIA'S RESPONSE TO COVID-19

The immediate and forecast impact of Covid-19 to the Australian economy, local defence businesses and global defence supply chains means that now, more than ever, it is incumbent on major industry players like NG to help secure Australian jobs, support local businesses and deliver on the ADF's projects.

NG Australia's efforts to adapt its operations following coronavirus restrictions enabled the business to maintain continuity and productivity and ensure our ongoing support to the Commonwealth and Australian industry during this time of global disruption and uncertainty. NG undertook immediate and specific measures to adjust its business operations during Covid-19, including remote working arrangements for over 65 per cent of the Australian workforce, staggered shifts to enable strict social distancing measures, and rigorous hygiene measures to ensure the safety and wellbeing of employees, their families and stakeholders.

NG Australia is supporting the cash flow of its Australian supplier base through the early payment of invoices to suppliers and industry partners. Where possible, NG is working in advance of the Department of Defence's fast-tracked payment process to ensure payments are made within seven days or better.

In partnership with Defence, NG Australia has worked to accelerate a number of Australian defence projects to provide further work packages and economic benefits to Australian industry. Of note, NG has increased the supply of our secure communications systems to ensure that senior defence and government officials can continue to work securely in a remote environment.

NG Australia has also increased the tempo of its sustainment support to the Royal Australia Air Force's (RAAF) KC-30A Multi-Role Tanker Transport and C-27-J Spartan aircraft fleets. This work has allowed NG to temporarily increase its workforce with an additional 100 specialists from Australia's commercial aviation sector, one of the country's hardest-hit industries, to support these program efforts.

NG Australia is working closely with Defence for the development of a defence industry COVID-19 Recovery Deed to manage the impacts of Covid-19 on Defence projects not covered within extant contractual performance arrangements.

NG Australia is an active participant in regular industry meetings with the Minister for Defence Industry, the Hon Melissa Price MP, to ensure defence businesses are appropriately positioned and equipped to withstand the immediate and long term impacts of Covid-19.

IMPACTS OF COVID-19 ON NORTHROP GRUMMAN AUSTRALIA

Covid-19 has caused unprecedented disruptions to global supply chains across a number of critical sectors, including defence industry. The most significant impact on Northrop Grumman Australia's operations has been the availability of spares for sustainment of Australia's KC-30A and C-27J aircraft fleets, the supply chains of which are predominately sourced from Europe. The impact of international and state border restrictions on NG's global workforce has also constrained our Australian operations.

As the European market begins to reengage, NG Australia acknowledges the requirement to work in close collaboration with Defence and the Australian Trade and Investment Commission's newly established International Freight Assistance Mechanism (IFAM) to secure critical aircraft parts. Government freighting support through IFAM will help to ensure such parts are factored into Australia's national freighting and import priorities. In parallel, NG is also undertaking an internal review of the respective supply chains and spares requirements to enhance resilience and integrate more local suppliers into the aircrafts' supply chain solutions.

From a local capability perspective NG Australia has identified opportunities stemming from International travel restrictions. A reduced reliance on expatriate [US] staff, has necessitated the growth of the Australian workforce; concurrently, NG Australia has implemented solutions to undertake the local assessment and approval of suppliers for its Global Supply Chain program. These examples will be used as a baseline for the ongoing development and expansion of local capability across the Australian business in a post-COVID environment.

NORTHROP GRUMMAN

DEFENCE INDUSTRY AS AN ENDURING NATIONAL ASSET

The coronavirus pandemic has emphasised weaknesses in global supply chains and reinforced the need for a greater sovereign and resilient defence industry capability. The value of this capability has often been expressed in terms of economic gain, that is, the contracts and jobs created by developing Australian defence capability.

However, as the coronavirus pandemic has shown, the existence of a sovereign and resilient defence industry is a national asset that can ensure Australia's ability to prosecute its own agenda in the region, and to contribute to allied operations and supply chains in the event of disruptions elsewhere in the world.

NG Australia appreciates this sovereign and enduring defence industry landscape to comprise a strong base of highly capable and resilient Small Medium Businesses nurtured by local Prime contractors. To reinforce this, NG Australia has worked closely with a number of Australian defence industry small medium businesses to foster such an environment.

These include:

- Brisbane-based Ferra Engineering. Partnered with NG Australia on a number of projects over the past decade, Ferra has recently received US$2.2 million of new work related to the MQ-4C Triton program;
- AME Systems, a regional Victorian company, was selected as the supplier for a long-term cable package for the Triton program valued at around US$540,000; and
- Quickstep, a Sydney-based advanced composites manufacturer, is one of NG's largest suppliers and through a strong strategic partnership, the company supplies centre fuselages and other composite components for the F-35 Joint Strike Fighter aircraft and, to date, has supplied in the order of US$97 million in production parts.

The value of these partnerships extends well beyond the headline price of the contracts. For example, Ferra Engineering has a corresponding supply chain that engages over 15 other Australian suppliers, demonstrating the multiplying effect of the meaningful work packages NG offers to our Australian industry partners.

While the 2016 Defence Industry Policy Statement and Australia's broader defence industry policy landscape has made some gains over the past four years, NG Australia acknowledges that gaps still exist in Australia's industry policy settings.

As such, the defence industry sector offers a strong prospect that actions taken now can positively improve national resilience. The Commonwealth, as the ultimate customer, is in an inherently strong market position to drive the resilience outcome it seeks of industry. The work undertaken in regard to Australia's industry policy settings, including the Australian Industry Capability policy and the identification of 10 Sovereign Industrial Capability Priorities, provides a mature baseline for further reforms that will enrich the resilience of Australian industry.

COVID-19 LESSONS LEARNED AND WAYS FORWARD

The coronavirus pandemic has revealed a number of weaknesses in some of Australia's economic, security and strategic arrangements and in turn it has highlighted a number of strengths as the country stepped up to address the crisis, particularly the push to supply healthcare workers with much-needed personal protective equipment and medical devices. Australia is now presented with the opportunity to learn from these lessons to build a more resilient economy through sovereign industry commitments that will support the country in general and certainly in times of crisis.

NORTHROP GRUMMAN

ADDRESSING SUPPLY CHAIN RESILIENCE

The coronavirus pandemic has highlighted the fragility of global supply chains and the vulnerability of just-in-time manufacturing models. While these weaknesses were evident before Covid-19, little action had been taken given the challenges of enhancing and diversifying supply chains. There was a hesitance among governments and Australian policy makers to address the need for diversification as it was simply easier to capitalise on lower cost international supply arrangements. Coronavirus has put an end to such thinking.

In a post-pandemic environment, it is imperative that the government move to assure greater resilience and the expansion of domestic supply chains to achieve increased self-reliance. However, while the coronavirus experience has changed attitudes, the obstacles remain.

As the Australian Strategic Policy Institute has observed: "*Resolving supply chain insecurity is one of the most wicked problems. You start with a simple question like 'How can we ensure there's hand sanitiser on supermarket shelves when we need it?' and soon you're grappling with other questions.*"[1]

Such questions involve deciding between goods that are to be managed and those that can be left to the market as well as deciding whether or not manufacturing needs to be brought back onshore and how the viability will be maintained given the size of the domestic market and complexity of facilitating export opportunities.

Addressing such questions is best achieved through a combined public-private decision-making process that combines the private sector's innovation and flexibility with the public sector's institutional knowledge and policy-making ability. The National Covid-19 Coordination Commission represents an excellent, initial step in such a process.

Prior to the coronavirus pandemic, moves were already afoot to relocate some manufacturing away from China. US firms in particular were starting to see the benefits of a diversified manufacturing base, although this did not necessarily involve bringing manufacturing back onshore and rather, has resulted in expanded manufacturing in countries such as Vietnam and Mexico. Diversifying manufacturing beyond China certainly has its advantages, but there are doubtless benefits to repatriating manufacturing to Australia to remove as much risk as possible.

Securing local supply chains and diversifying the Australian manufacturing base is the fundamental first step in building a resilient industrial base.

> **Recommendation one:** Develop a public-private consultative process that can identify goods that are priorities for domestic production.
>
> **Recommendation two:** Develop a policy framework to facilitate and bolster a viable local and diversified manufacturing sector.

A NATIONAL INDUSTRY MOBILISATION STRATEGY

The coronavirus pandemic revealed the benefits of mobilising national industry. Faced with a shortage of personal protective equipment (PPE) for front-line healthcare workers and ventilators for intensive-care units, manufacturers across the country re-tooled to fill the gap, while 3D printing was also called on. Meanwhile, companies that manufactured field hospitals were drafted in to provide the health system with extra capacity, and others rapidly developed extra beds for an expected surge in patients.

---

[1] Australian Strategic Policy Institute, *After Covid-19: Australia and the world rebuild (Volume 1)*; p. 97

NORTHROP GRUMMAN

While this was a remarkable achievement, a more formalised, coherent approach to mobilising national industry would give Australia the requisite "surge capacity" in periods of crisis. This would involve a recalibration of sovereign industry priorities that encompass a whole-of-nation viewpoint across sectors.

As was seen during the coronavirus pandemic, advanced and additive manufacturing plays a key role in building sovereign capability. A mobilisation strategy would need to consider a stocktake of the nation's advanced manufacturing capabilities that would also identify gaps. The nation's defence industry sector is a rich source of advanced manufacturing, technology know-how and highly skilled workers and should form a central plank of a national strategy.

In addition to manufacturing capability, an assessment of workforce capacity is also required to understand the needs of delivering surge capacity in a crisis. This may need to consider the reallocation of workers from sectors deemed non-essential during the period of the crisis. A barrier to national mobilisation would be the closure of state and territory borders, as has been seen during the coronavirus pandemic, which would prevent – or delay – the free flow of workers and goods to support a national response.

The incapacitation or destruction of Australia's defence industry would have a debilitating effect on our national security and the tens of thousands of highly skilled Australians employed in this industry. Designation of defence as an essential industry that can be mobilised to support national efforts during a time of crisis would go a long way to avoiding this. This designation should include a federal exemption from state orders that may seek to close organisations and workplaces in the event of further national crises.

Recommendation three: Develop a national industry mobilisation strategy that considers sovereign industry priorities that encompass a whole-of-nation viewpoint across sectors.

Recommendation four: Designate defence industry as an essential industry that can be mobilised to support national efforts during times of crisis.

THE IMPORTANCE OF CYBER SECURITY

Australia's digital infrastructure was crucial during the pandemic. Not only did it allow many businesses and government departments to continue operating remotely, it also allowed National Cabinet to meet and make decisions, while the expansion of telehealth allowed the non-Covid-related health system to continue operating safely.

Yet this rapid – and in many cases unplanned – move online has vastly increased the nation's "attack surface", that is, the various communications avenues that can be infiltrated. Corporations that previously had their data locked down behind secured networks were sharing their data via variously secured home computers and tablets using communication technologies that potentially contained security vulnerabilities. Even National Cabinet was making decisions via vulnerable telecommunications technology.

Of concern is the vulnerability of the health system, which is a favoured target of cyber-attack, particularly for ransomware. A cyber-attack on a hospital or the nation's telehealth system would be problematic during normal times, but during a pandemic could have devastating results.

As more Australian businesses and government services adopt an increasingly digitised footprint, there needs to a be rethink of cyber security policy in Australia, with a focus on national resilience and greater cooperation between public and private sectors; in particular, ensuring the cyber-worthiness of critical public infrastructure, government departments and small-to-medium enterprises.

Northrop Grumman Australia acknowledges the work of the Australia government in the development of 2020 Cyber Security Strategy and recommends that lessons learned from Australia's Covid-19 experience be incorporated into this strategy.

Recommendation five: Implement greater cyber protections for Australia's increasingly digitalised business and government services landscape and incorporate lessons learned from Australia's Covid-19 experience into the government's upcoming 2020 Cyber Security Strategy.

NORTHROP GRUMMAN

RECALIBRATING THE DEFENCE WHITE PAPER

Coronavirus is accelerating the pace of geostrategic change, from Beijing to Washington to London and Canberra. As the US and UK reel from the impact of Covid-19 on their communities and economies, their capacity to deal with other issues is constrained; consequently, it is appropriate to reassess Australia's strategic circumstances.

Australia's near neighbours in the Pacific have so far avoided the devastation of the pandemic thanks to their isolation, but that very isolation makes them vulnerable should there be an outbreak. Furthermore, Pacific economies are dependent on the outside world – be it through tourism, trade, migration and aid. Covid-19 will disrupt all of these economic ties and may exacerbate the Pacific's development challenges, increasing state fragility. Australia could well find itself called upon more often to offer assistance or deterrence in the region, and would possibly be doing so without the assistance of its allies.

These changes were under way, in one form or another, before novel coronavirus made its presence felt on the world stage. Its arrival has only sought to fan those winds of change. In this context, there is an urgent need to reconsider Australia's strategic assessments, ideally through a new Defence White Paper.

Integral to this reassessment is a recalibration of Defence's force structure planning and the Integrated Investment Program to ensure Australia has the right force composition to best meet these emerging and accelerated threats. Such a recalibration would need to consider the nation's major defence acquisitions to ensure they will be fit-for-purpose as they come online over the next several decades.

Recommendation six: Develop a new Defence White Paper that takes into account Australia's rapidly changing geostrategic landscape.

Recommendation seven: Ensure Defence's force structure planning and the Integrated Investment Program provides Australia with the right force composition, planning and resourcing to meet the threats of a post-Covid environment.

Recommendation eight: Work towards greater technology and information transfers with allies to ameliorate the impact of travel restrictions and global industry disruptions, and enhance cooperative technology development and industry collaboration to deter and defeat the emerging threats of a post-Covid-19 security environment.

CONCLUSION

In many ways coronavirus has accelerated changes that were already under way around the globe: a move to diversify supply chains and develop sovereign capability; a greater reliance on digital platforms; and rising global instability. So far, however, governments and populations have been content to let their future selves deal with the more difficult aspects of these changes. We can no longer afford that indulgence. Coronavirus has presented us with the need to address these issues in a timely manner, lest we leave ourselves unprepared for the next global crisis.

NORTHROP GRUMMAN