

**Northern Territory Government Submission
to the Senate Economics References Committee
Inquiry into the Future of Australia's Naval Shipbuilding Industry**

March 2017

Key Points

1. The Australian Government's continuous ship building strategy must be complemented by a capable and appropriately located ship refit and sustainment industry.
2. Through-life support of naval platforms is an integral part of capability procurement and should be considered up-front as part of decision-making and planning.
3. In terms of operational availability and reduced logistics costs and savings to the Australian taxpayer, Darwin-based ship refit and sustainment programs for naval platforms offer significant strategic benefits to the Department of Defence (Defence) and its contractors, Australian Border Force (Border Force), the offshore oil and gas industry, and the general maritime sector.
4. Steaming to either Singapore or Perth for sustainment involves a return journey of more than 8000km and 10 days duration, while steaming to Cairns involves a return journey of almost 5000km and 8 days duration.
5. Darwin is the most likely location for mounting military, national security and humanitarian operations to Australia's north and northwest. Darwin is rapidly growing as a key hub for home port maintenance to service Defence, Border Force, the offshore oil and gas industry, and general maritime activity.
6. The Northern Territory Government is making investments in skills and infrastructure to support growth of the ship refit and sustainment industry.
7. Growth of the Northern Territory's permanent Defence industrial base is a national asset, ensuring Australia's capacity to provide long-term, sustainable support to our defence and security presence, and operations in northern Australia.

Introduction

The Northern Territory Government welcomes the opportunity to contribute to the Inquiry into the future of Australia's naval shipbuilding industry.

The security of Australia, in particular the imperative to guarantee the sovereignty of Australia's maritime borders, especially in the north, and to protect significant onshore and offshore critical infrastructure, is a national priority. It is also crucial to the economic and domestic security of Australia's trading partners.

Darwin is the most likely location for mounting military, national security and humanitarian operations to Australia's north and northwest. Darwin is rapidly growing as a key hub for home port maintenance to service Defence, Border Force, the offshore oil and gas industry, and general maritime activity.

The Australian Government's decision to establish a continuous build of naval surface ships provides industry with the long-term certainty needed to secure investment and critical skills. It is essential that this strategy is complemented by a ship refit and sustainment industry. The through-life support of naval ships must be at the forefront of decision-making and planning.

Darwin-based ship refit and sustainment programs for naval platforms offer significant strategic benefits to Defence and its contractors, Border Force and industry in terms of operational availability, and reduced logistics costs and savings to the Australian taxpayer. Steaming to either Singapore or Perth for sustainment involves a return journey of over 8000km and 10 days duration, while steaming to Cairns involves a return journey of almost 5000km and 8 days duration (refer to Figure 1).

There is a well-established Defence maritime industry capability in Darwin with a number of experienced high technology companies currently supporting the sustainment of the Armidale Class Patrol Boats (ACPBs). These companies include prime contractors such as Austal and Penske Power Systems. They are supported by numerous small to medium enterprises, such as Norship, that have appropriate technical skills, technology and expertise.

With this in mind, this Northern Territory Government submission provides comment on the Inquiry's terms of reference relating to the through-life support aspects of shipbuilding; in particular:

- (b) the design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia
- (c) the use of local content and supply chains
- (e) opportunities for flow on benefits to local jobs, skills, training and the economy.

Response to Terms of Reference:

(b) The design, management and implementation of naval shipbuilding and submarine defence procurement projects in Australia.

Through-life support of naval platforms is an integral part of capability procurement and should be considered by Defence up front as part of decision-making and planning.

The acquisition of new naval capability needs to be supported by whole of life planning from the outset with decisions on design, manufacture, through-life support, critical supporting infrastructure and home ports.

Just as the decision to establish a continuous build of naval surface ships provides industry with the long-term certainty needed to secure investment and critical skills, so too does early decision-making around through-life support, critical supporting infrastructure, and home ports support development and growth of the ship refit and sustainment industry.

The acquisition of the Offshore Patrol Vessel (OPV) as the replacement for the ACPB, with the last ACPB to be retired by about 2030, provides the time required to transition the local supply chain that currently supports the ACPBs to the OPVs. This is an important transition and requires early decision-making to support the required investment in infrastructure and workforce development.

Sustainment and through-life support undertaken at home bases located close to areas of operations offers substantial benefit to Defence and its contractors, Border Force, the offshore oil and gas industry, and the general maritime sector in terms of operational availability, reduced logistics and operational costs, reduced impact on vessel life, and savings to the Australian taxpayer.

In relation to Australia's northern maritime borders, Darwin-based ship refit and sustainment programs for naval platforms offer significant strategic benefits to Defence and its contractors, Border Force and industry in terms of operational availability, reduced logistics costs and savings to the Australian taxpayer. Steaming to either Singapore or Perth for sustainment involves a return journey of over 8000km and 10 days duration, while steaming to Cairns involves a return journey of almost 5000km and 8 days duration (refer to Figure 1).

It is vital that Defence has a naval presence and capability for military, national security and humanitarian operations in the Indo-Pacific Region. This requires maritime support infrastructure including wharves, berthing capabilities, ship lift and maintenance facilities, and a skilled maritime workforce capacity.

Figure 1: Distance from Darwin to other potential maintenance ports



Procurement design by Defence, and where appropriate prime contractors, is critical to growing the maturity of ship refit and sustainment industry.

Defence has recognised industry as a Fundamental Input to Capability. It is in the best interests of Defence that northern Australia has the local capacity to competently undertake through-life support of its naval fleet.

It is essential that government and the private sector make the necessary investments to develop capability of the local maritime industry and upskill the local workforce, as required, to undertake this work.

Defence procurement policies are a significant driver of development of a local maritime sector, and can provide the local maritime industry with the certainty needed to secure investment and critical skills. Decisions on the scope and duration of ship refit and sustainment contracts can have lasting impacts on industry development and need to be made with the added objective of industry development. This is consistent with the approach taken in committing to establish a continuous build of naval surface ships.

The Northern Territory is well placed to support Defence and Border Force ship refit and sustainment

Darwin is the most suitable strategic location for sustainment of naval vessels operating in this region. NT Defence Industry, with strong support from its key partnerships and strategic initiatives, has established capacity and readiness to deliver against demand for maritime maintenance sustainment and through-life support. These commitments provide the foundation for a sustainable defence industry regional capability that encourages investment and a commitment to workforce development, skilling and capacity initiatives.

Continued investment in maritime support infrastructure

The current HMAS Coonawarra maintenance infrastructure, including the ship lift, is limited in capability, ageing and not capable of meeting the needs of Defence's future OPV. These infrastructure limitations have often been quoted by industry as a significant contributing reason for the ACPBs having to steam to Western Australia, Singapore or Cairns for maintenance. This comes at considerable additional financial and operational cost to Defence, not to mention the impact on a vessel's life.

In recognition of the increasing demand for marine services and maintenance from Defence, Border Force, the oil and gas and general maritime sectors, the Northern Territory Government announced in late 2015 that it would invest up to \$100 million to support development of a common user Ship Lift and Marine Industries (SLAMI) facility. A competitive process to secure a proponent to deliver the project commenced in February 2016, with negotiations currently underway with the preferred proponent.

The SLAMI facility will meet the current and projected growth in demand for marine maintenance and repair needs of Defence, Border Force and other commercial users. It is intended that the SLAMI will incorporate a ship lift capable of lifting Defence's future

OPVs. The ship lift will be supported by a common user facility. This will provide open access to Defence, the Defence support industry and other sectors of the maritime industry, including marine maintenance, logistics, engineering, fabrication and support services for the oil and gas and related industries.

The SLAMI will provide significant benefits to Defence by providing an alternative location to other Australian ports or Asian ports for maintenance and repairs of Defence vessels. Development of the SLAMI will allow current Defence and Border Force vessels to be sustained in Darwin thereby offering significant strategic operational benefits in terms of time and cost.

Development of the SLAMI will stimulate the marine services and maintenance industry for the future benefit of all maritime stakeholders, including Defence, and catalyse the development of a Marine Industry Precinct to support its operation.

The Northern Territory's Land Development Corporation is continuing to plan and develop sections of Darwin's East Arm Peninsular into an area where marine service and maintenance providers can be conveniently located near the proposed SLAMI facility.

With financial support from the Department of Defence, the Corporation has recently constructed an all-tide multi user barge ramp facility to service the new Landing Helicopter Dock (LHD) vessels. This barge ramp adjoins the proposed SLAMI site and is complemented by nine hectares of hardstand to provide a Common User Facility to meet Defence and private sector needs for marshalling areas, lay down storage, fabrication and logistics purposes.

As noted in the White Paper on Developing Northern Australia (the DNA White Paper), Defence's infrastructure approach aims to promote more efficient use of Defence and civilian infrastructure that is used by Defence, without compromising strategic or operational requirements. The DNA White Paper also states that access to civilian infrastructure is critical to delivering Defence outcomes, and that Defence recognises that investment in select components of civilian infrastructure, fundamental to the delivery of Defence outcomes, has the potential to provide greater regional benefit where a common use environment can be accommodated. The established Common User Facility and proposed SLAMI facility are fully consistent with this concept.

The Northern Territory Government welcomes the opportunity for the Australian Government, including Defence, to partner with the Northern Territory Government and local industry to grow the capability of Darwin, and provide increased capability in the maritime support sector to support current and future requirements.

Continued upskilling of maritime workforce capacity

In preparation for the growth in Defence maritime activity in northern Australia, the Northern Territory Government partnered with the Industry Skills Advisory Council NT (ISACNT) to conduct an analysis of NT Defence Industry workforce capacity to support maritime maintenance sustainment and through-life support.

Findings of the analysis conducted by ISACNT indicate that the NT Defence Industry has an established, credible and sustainable workforce capacity to support current and future Defence maritime operations in the region. Priority occupations and specialisations focusing on project management, support services and technical trades exist within the region. The forecast growth in the commercial marine sector will further strengthen overall workforce skilling demand in northern Australia as Darwin establishes itself as a credible regional maritime maintenance hub.

Commitments to establishing defence industry maritime maintenance workforce capacities will be further enhanced through successful implementation of partnerships between government, industry and training providers. The potential investment in the SLAMI will provide further stimulus to key stakeholders to invest and maintain a workforce capable of supporting Defence's strategic and operational requirements.

Response to Terms of Reference:

(c) The utilisation of local content and supply chains.

There is a well-established Defence maritime industry capability in Darwin, with a number of experienced high technology companies currently supporting the sustainment of the ACPBs. These companies include prime contractors such as Austal and Penske Power Systems. They are supported by numerous small to medium enterprises, such as Norship, with appropriate technical skills, technology and expertise.

The Northern Territory Government is currently working with the Industry Capability Network NT to map the Northern Territory's marine service and supply capabilities. The resulting *Statement of Capacity for Marine Service and Supply in the Northern Territory* will be shared with the Department of Defence.

The co-location of this Defence sustainment capability with other major marine industry support, such as the oil and gas sector and commercial shipping, allows for rapid transferral of skills. The recent retendering of ACPB sustainment in Darwin is an example of this local industry capability.

Darwin can provide a more cost effective source of marine maintenance services for naval vessels operating in Australia's northern waters in comparison to Western Australia, Australia's east coast and offshore locations such as Singapore.

Darwin is located close to the areas of operation for both Defence and Border Force. The Port of Darwin provides easy access to maintenance facilities and services, has quality infrastructure links, access to services and a skilled labour force. It has comparable landside and labour costs to other regional locations.

The East Arm logistics precinct is already home to over 100 businesses including large international operators. Furthermore, development of the SLAMI Project would act as a catalyst for related manufacturing and other industries to be established in Darwin.

Darwin is well positioned to deliver through-life support

Darwin Harbour is six times the size of Sydney Harbour. It is currently undergoing a number of important infrastructure developments. As well as major oil and gas developments, there are significant Defence and commercial maritime infrastructure projects underway or in the final planning stages.

With a four to five day steaming time to the closest maritime maintenance facilities in Cairns, Fremantle or Singapore, the case for developing maritime maintenance facilities in Darwin is strong. The Northern Territory Government has already undertaken a range of actions to unlock and accelerate development of onshore marine industries in the Northern Territory, including:

- (a) establishing the East Arm Logistics Precinct (in the order of \$350 million) which adjoins the Port of Darwin, Darwin Marine Supply Base and is close to the Ichthys LNG Plant and Darwin LNG Plant
- (b) establishing the Darwin Marine Supply Base (\$120 million) to provide logistics services to the oil and gas industry
- (c) planning and design of the 150 hectare Marine Industry Park (MIP), located in Darwin's East Arm Logistics Precinct on premium waterfront land, supported by road, rail and sea transport. The MIP is a game changer for maritime support and will provide maritime maintenance and servicing support to the defence, oil and gas industries and general maritime sectors. The MIP is sited on land owned by the Land Development Corporation, the Northern Territory Government's strategic land development agency
- (d) jointly funding with the Department of Defence, the Multi User Barge Ramp Facility (MUBRF) (\$16 million) at Darwin's East Arm Logistics Precinct. The MUBRF provides Defence with logistics support and a strategic interface between land and sea, including logistic support capability for the Royal Australian Navy's two new Landing Helicopter Dock ships and amphibious vessels. With almost all-tide access and a ramp designed for a variety of coastal barges, the ramp provides close to 24/7 barge access for loading and unloading troops and Defence equipment. The facility is available for commercial use by private barge operators and will build capacity in the local industry to compete for work in the oil and gas, resource, marine and defence industries
- (e) construction of a nine hectare hard surface adjoining the MUBRF to provide a Common User Facility (\$8 million) for the defence, oil and gas and other industries, suitable for marshalling, lay down storage, fabrication and logistic purposes
- (f) the previously mentioned development of the SLAMI facility (Northern Territory Government committed up to \$100 million).

Demand for marine maintenance in Darwin

Given its strategic location, existing amenity and opportunity for ready expansion of marine support facilities, Darwin is the logical location for home port locating and sustaining of current and future Defence and Border Force vessels, and the maintenance of offshore oil and gas industry, and general maritime industry commercial vessels.

(a) Defence

Darwin is the home port for ten active ACPBs and two decommissioned landing craft vessels at HMAS Coonawarra. ACPBs are designed to carry out 42-day missions between resupplies with a range of up to 5600km, with missions typically of 21 days duration. Other Defence vessels also frequent Darwin including amphibious assault ships and their associated landing craft, and landing dock ships.

The current marine maintenance facilities at HMAS Coonawarra are at capacity and very constrained by their location on the coastal edge of Darwin City. There is narrow, difficult road access and proximity to schools and dense residential areas with no room to expand. It is understood that future development plans at the base will require the decommissioning of its existing ship lift and internal redevelopment of the site.

In addition, Darwin is expected to see an increase in United States Marine presence over the next decade following the bilateral defence agreement to deploy up to 2500 US Marines on a six month rotational basis. The US Marine presence will be supported by an Amphibious Ready Group comprising an amphibious assault ship, amphibious transport dock and a dock landing ship. Other visiting foreign navy vessels also call on Darwin during naval exercises.

(b) Australian Border Force

Border Force is expected to base up to 10 of its Cape Class and other cutters in Darwin for security and surveillance operations in northern Australian waters. Border Force also manages a fleet of other specialist vessels in northern Australia, many of which periodically use maritime support capabilities based in Darwin.

Existing East Arm Port and maintenance capacities cannot accommodate the Border Force vessels on a long-term basis. Temporary berthing facilities at East Arm Port, established in 2016, have a life expectancy of only five years. Border Force has been active in researching alternate vessel accommodation along with suitable facilities for a significant portion of their land-based staff. Border Force is exploring potential opportunities and concepts to consolidate and expand its Darwin-based operational, support and training functions.

(c) Oil & Gas industry

Darwin is the oil and gas capital of northern Australia. The Port of Darwin has significant exposure to the Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG) industries, and it is close to offshore oil and gas operations in the Timor and Arafura seas. It hosts the Darwin LNG and Ichthys LNG onshore processing facilities and the operations base for Prelude FLNG.

The recently constructed Darwin Marine Supply Base is a strategic component of the Northern Territory Government's plan for continuing to develop northern Australia as a major supply and service hub to the region's oil and gas industry.

The Marine Supply Base services offshore support vessels (rig tenders) that support oil and gas exploration, construction activity as well as general replenishment of offshore platforms.

(d) Local commercial vessels

There are a number of other vessels whose home port is the Port of Darwin, including coastal barges servicing coastal communities, the fishing, pearling and prawning fleet, working vessels (tugs, pilots and research vessels) and charter vessels.

Existing marine maintenance facilities

There are two heavy marine maintenance facilities in Darwin - HMAS Coonawarra and a privately owned and operated ship lift facility operated by Pearl Marine Engineering.

HMAS Coonawarra is the base for the Royal Australian Navy patrol boat fleet. It accommodates six vessels berthed three abreast, with a Syncrolift ship lift measuring approximately 42m by 14m with a capacity of 750 tonnes. The size and capacity of the ship lift is relatively low and cannot accommodate a significant proportion of Navy vessels. The facility is used for Defence purposes only.

Pearl Marine Engineering (a subsidiary of the Paspaley Group) operates a marine support, ship repair, engineering and maintenance facility in Frances Bay. The facility has a Syncrolift ship lift measuring 62.5m by 22m with a capacity of 2550 tonnes. The facility has six dry and three wet berths and landside workshop and fabrication facilities.

Other light dry dock facilities in Darwin operated by commercial operators are a 50 tonne travel lift operated by Spot On Marine at East Point, a 350 tonne and 80 tonne slipway operated by Perkins Shipping at Frances Bay and a 40 tonne rail slipway at Cullen Bay operated by Darwin Shipstores. None of these smaller light dry dock facilities are capable of providing sustainment services to Defence.

Response to Terms of Reference:

(e) Opportunities for flow on benefits to local jobs and the economy.

Successive Northern Territory Governments have recognised and understood the contribution the Defence presence and activities make to the economy and community of northern Australia.

Serving to highlight the unique circumstances of the Northern Territory are the Federal Government's 2016 Defence White Paper, the 2015 White Paper on Developing Northern Australia, the significance of border surveillance and protection, the US Force Posture Initiative as well as Australia's and the Northern Territory's maturing diplomatic engagement with Asia.

The Northern Territory economy has grown considerably over the past decade, supported by a steady stream of major projects. Defence is a significant contributor to the Northern Territory economy. In 2014-15, Defence recurrent spending of \$1.6 billion accounted for 7.2% of the Northern Territory's Gross State Product.

Early modelling by Deloitte Access Economics, commissioned by the Land Development Corporation, on the Marine Industry Precinct (MIP) indicated that when fully operational the Northern Territory's marine service and maintenance industry will lead to peak employment of 4000 full-time employees and \$3.4 billion in gross state product (net present value from 2050). The exact quantum and timing of these benefits will depend on the final design and implementation of the MIP.

The Northern Territory is well positioned, in partnership with the Australian Government, to attract investment, particularly in the development of nation building infrastructure that could also benefit Defence.

With \$20 billion to be spent over the next 20 years, Defence will be one of the major investors in the Northern Territory. This represents an extraordinary opportunity for participation by Northern Territory businesses in the delivery of major infrastructure projects and sustainment of the Defence effort into the future.

It is imperative that there is careful program planning and coordination to extract real benefits for the Northern Territory. By aligning, where possible, defence infrastructure spending with Northern Territory Government infrastructure spending, there is the strong possibility that Defence and the Australian Government can make considerable savings as well as boosting local industry and employment.

With a number of developing industries such as an expanding cruise ship industry and a growing resources sector on and offshore, Defence has an opportunity to capitalise on existing local capacity for heavy engineering, electrical and control systems skills and logistics networks that are better positioned to support Defence sustainment, maintenance and preparedness into the future. This has the potential to provide significant cost savings for Defence as opposed to shifting major platforms south for maintenance and sustainment activities.

In future years, a maturing oil and gas industry and an increasing agriculture export market will add to this growth. The Northern Territory has the capacity to become a significant global trading node over the next 50 years. As an island continent, Australia requires secure access to the maritime trade routes to our major trading partners. For the Northern Territory, these trading partners predominantly reside in Asia. Instability in the Asia Pacific region would have a detrimental impact on Australia's terms of trade. Due to the Northern Territory's reliance on export markets in oil and gas and agriculture, this effect would be significantly more prominent than the southern states.

Growth of the Northern Territory's permanent Defence industrial base is a national asset, ensuring Australia's capacity to provide long-term, sustainable support to our Defence and security presence and operations in northern Australia. As in the past, with contingencies like East Timor and Aceh, offshore deployments can also be readily and reliably supported from the Northern Territory. Darwin provides, among other advantages, a maritime industrial alternative to the distant options provided in Western Australia and Singapore. Improved engagement between Northern Territory small and medium enterprises, Defence and defence prime contractors and the development of dual purpose and multi user infrastructure are identified needs in developing industry capability and supporting the preparedness of Defence.

Further Information

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