



**Northern Territory Government
Submission to the Joint Standing
Committee on Foreign Affairs, Defence
and Trade**

**Inquiry into Government support for
Australian defence industry exports**

July 2014

Key Recommendations.

- The redesign of Defence procurement policy and practice will better position Australian Small and Medium Enterprises to compete for export opportunities
 - Defence to redesign its procurement policy and practices to include a requirement for prime contractors to provide sub contracts to small and medium enterprises thereby encouraging investment in skills and infrastructure.
 - Defence to outsource work that will grow exportable industry capability wherever possible.
 - Defence to preference industry support 'outside the wire' to enable industry to develop critical mass across industry sectors including export markets.
 - Defence to mandate local procurement of supply, services, maintenance and consumables in agreements with visiting foreign defence forces.
- Defence to co-invest in joint user infrastructure which will support industry growth in the support of foreign forces

Northern Territory Government Submission – Government Support for Australian Defence Industry Exports

Darwin and the Northern Territory have a strategic position in terms of location, a growing economic contribution, and an important role in national and international issues. As an Australian trade, investment, and people-to-people gateway to Asia, Darwin and the Northern Territory are well placed to support Australia's participation in the Asian Century.

Darwin's proximity to Asian markets provides a competitive advantage for exports over its southern and international counterparts. With 485 million people within four hours to the north in comparison to 23 million people to the south, the advantages of a northern focus are obvious for the future. Darwin is closer to Jakarta than to Sydney, and the closest major city to Darwin is Dili, the capital of Timor Leste, one of the 10 fastest growing although volatile global economies in 2013.

Asia's growth is being led by the People's Republic of China, India, Indonesia, Japan, the Republic of Korea, Malaysia and Thailand. In 2010, these seven countries had a total combined population of 3.1 billion, approximately 78% of Asian and 45% of the world populations. By 2020, Asia is projected to have more middle class consumers than the rest of the world combined, with two thirds of the global middle class by 2030. The Asian region's share of the world economy is projected to increase from 34% in 2009, to close to 50% in 2030. The growth of Asia has created a high demand for resources and goods and services.

There are also opportunities for businesses in the north to establish and integrate within international supply chains, increasing their presence in the region and boosting their competitiveness through more cost effective inputs. While there are some industries that are already taking advantage of Asia's proximity, expanding these opportunities across the north will depend on the requisite supply chains, transport infrastructure (air and sea) and business strategies being in place.

Much of the success of northern Australia's economy has been tied to the mining and energy sector, which has delivered major benefits, both to the region and Australia more generally. Improving the skills base in the north helps attract investment and assists industries and businesses to diversify and respond to external economic shocks. It also ensures the north has the skills and capabilities required to realise opportunities for economic diversification and the consequential growth and development of a range of industries that underpins the great potential for northern Australia.

Northern Australia is integral to Australia's long term security and regional stability, particularly through defence and border security. Australia's strategic focus is shifting to the north, with more emphasis on border protection and engagement with countries in the Asia Pacific. This will only increase over the next decade as the region assumes greater global significance.

The day to day Defence presence in the north is considerable. There are more than 15,200 service personnel and public servants working for Defence in northern Australia. The Northern Territory alone is home to approximately 10% of Australia's combat personnel and large quantities of Defence equipment. With complete Air Force bases in Darwin and Tindal (Katherine), naval base and Army bases in Darwin, and Regional Force Surveillance Units, the total defence contribution to the Northern Territory is significant.

The Northern Territory defence support industry is a sustainment based industry at present. In most cases, Defence sustainment activities make up only a small percentage of each business' total revenue, with most Northern Territory based businesses having more extensive commercial interests outside the defence sector but in areas that have skills and capability demands with synergies to the defence sector. As such, workforce skills and capabilities in the Northern Territory defence support industry are spread over a number of sectors. Very few businesses rely solely on defence as a customer, with the workflow too spasmodic for reliance on defence alone as a customer.

Identification of barriers and impediments to the growth of Australia's Defence exports

Although defence support industry in the Northern Territory is not based around manufacturing, the sustainment services that it provides are still deemed as an exportable commodity. With the increased presence of foreign military forces rotating through and visiting Darwin, the export of sustainment services in support is a very real opportunity for local industry. Whether this consists of the provision of ship husbandry services, maintenance of equipment or supply of consumables to international customers, essentially these services are export in nature and prove the capability of local business to support Defence export opportunities.

However, without increased local sustainment for industry the business capacity to grow and realise export opportunities will not eventuate. Domestic businesses require a secure and financially stable base to underpin export ventures. Indeed, to open export markets is difficult, time consuming and expensive. In the Defence Sector, it is also limited by security clearance and strategic allegiances.

Changes to Defence Procurement Policy and Industry Posture

While Defence provides contracts for the prime contractors, there is no requirement for the prime contractors to enter into contracts with small and medium enterprises (SMEs). Without the certainty of workflow, SMEs are unwilling to invest in facilities and workforce which is constraining industry development and, in some cases, resulting in businesses exiting the Defence sector entirely.

Defence has recognised the increasing strategic importance of the Defence presence in the Northern Territory and the need for increased Defence activity in northern Australia. This is evident in the recent Force Posture Review findings and joint Australia-United States (US) force posture initiatives. However, a capable Australian Defence Force (ADF) must be underpinned by a strong and sustainable Defence industry.

Sustainment of the existing and future Defence presence will require a local Defence industry that can effectively deliver support to meet the growing needs of Defence. Attracting and retaining staff in the local Defence support industry is becoming increasingly challenging as the Ichthys Project and other major resource sector projects in the Northern Territory progress and the competition for skilled labour increases. Defence investment in regional industry development is critical to achieving a strong and sustainable defence support industry in the Northern Territory. Changes to Defence procurement policy can play a major role in achieving this. With a change in Defence procurement policy, a number of industry

skill sets could be available in the Northern Territory and create a conducive environment to establish and support export opportunities.

Firstly, Defence procurement policy should mandate the sustainment of equipment close to where it is based. Currently, a large volume of equipment that is based in Darwin is transported interstate for sustainment work at significant cost to Defence. A change in policy requiring equipment to be maintained close to where it is based will encourage industry to invest in a local workforce capable of supporting Defence and other equipment in the region and provide increased capability without the cost of freight.

Secondly, Defence should not require industry to provide support within the wire. Currently, a number of contractors are based behind the wire at the Australian Army's Robertson Barracks and other bases. The requirement for a contractor to position itself on base precludes a contractor building a strong market driven business model which would facilitate workforce growth, investment in the regional industry and growth of work outside the Defence sector. This grows regional industry capability and in the long term delivers greater return to Defence and is more likely to produce export orientated businesses.

Defence, state governments and industry need to work collaboratively to grow the capability and competitiveness of the regional Defence support industries. The ongoing investment in skills development and workforce growth, as well as Defence procurement policy reform, will ensure that the ADF receives maximum support possible from industry and will guarantee the growth and long-term sustainability of the local defence support industry.

The recent ADF Posture Review (ADFPR) should be complemented by a Defence Industry Posture Review to determine whether the current industry posture is appropriate to the needs of a Defence Force which has undertaken a major shift to northern Australia and continually points to its growing activity in the north.

Development of Infrastructure

Northern Australia is also significant in the border protection context, particularly the Government's commitment to halt illegal maritime arrivals to Australia. Many border protection activities are launched from northern Australia, including patrol boats and surveillance aircraft, with Darwin being the hub for the majority of these activities. In recent years, Darwin has served as a staging ground for Australia's assistance missions in Timor Leste and the Solomon Islands, and humanitarian assistance to Aceh (Indonesia) and Tacloban (Philippines).

The Government's 2015 Defence White Paper will consider enhancing Defence presence in northern Australia to meet Australia's long term defence and national security requirements. This could include expanding existing bases and infrastructure, as well as more training exercises and operational activities, planning and civil engagements. Regardless of the size of its presence, Defence, (along with the Australian Border Force) will continue activities in northern Australia, involving patrol boats, maritime patrol aircraft, sealift, airlift and intelligence capabilities.

Trading opportunities into SE Asia need to be a major part of the development of Darwin and the development of infrastructure is a key enabler to consolidate Darwin as a logistics hub for the export of goods and services. New and/or expanded road and rail networks, port facilities and maritime maintenance facilities are essential to this process.

With good cooperation and planning, new infrastructure investments can support shared use, benefitting both industry and Defence. The Marine Supply Base in Darwin and the Australian Marine Complex Common User Facility at Henderson in Western Australia are good examples where infrastructure development has improved industry engagement and output. With the increased commercial and Defence shipping traffic through Darwin, there is opportunity for local industry to engage and support these operations. In addition, the proposed early replacement of the Armidale Class Patrol Boat with a larger vessel creates opportunity for a shared use Defence and commercial maritime maintenance infrastructure to be developed for both local and international maritime maintenance services.

Government, Defence and commercial support for development of such ventures will benefit growth of Australia's Defence exports and the combined export activities in the north. Close cooperation between Defence and governments, industry and communities is essential in planning and funding infrastructure development in northern Australia.

How Government can better engage to assist Australian defence industry to export its products

Australian Industry Engagement with Foreign Military Forces

The US policy to place greater focus on the Asia Pacific region will see up to 2,500 US Marines in Darwin, generating potential economic benefits to local businesses and community services. The ADFPR and US Marine initiative provide a new opportunity for Defence to align defence and industry capability and posture. However, while this activity and strategic focus has led to significant growth in Defence personnel in the north, there appears to have been no tangible benefit to the local defence support industry.

The Northern Territory Government proposes that the storage and sustainment of marine equipment and humanitarian aid stores could be performed by the local defence support industry with warehousing of this equipment in a commercially funded facility within the Defence Support Hub which is located adjacent to Army's Robertson Barracks. Information to date indicates that this proposal is unlikely with a plan for US Marine Tiger Teams to deploy into Darwin to service equipment immediately prior and subsequent to each rotation. Also, it appears that Defence favours a behind the wire solution for warehousing this equipment.

Government policy should mandate Australian industry engagement for intergovernmental Defence agreements on Australian soil. Such policy will assist in defence support industry development by building skills and adding to the economy of scale needed to encourage industry development. This is particularly relevant when many of the weapon systems and hardware are common between the US Marines and Australian Army.

The ADFPR suggest that Australia and the US further invest in training areas such as the Bradshaw Field Training Area in the Northern Territory to provide capacity to address other foreign requests for additional training area access.

Asian countries provided with access to defence training facilities in the Northern Territory could also preposition equipment in the Northern Territory in a similar arrangement to that with the Singaporean Defence forces in Queensland and Western Australia. The prepositioning of equipment will reduce freight and quarantine inspection costs to the foreign force and provide maintenance and support opportunities for local industry.

Progression of these decisions by the Australian Government would create these new opportunities for local industry, potentially increasing industry confidence to invest in infrastructure and workforce capability, and grow export opportunity across the region of operations.

Partnerships for Innovation

Technological improvements and innovation can transform industries and open up opportunities for businesses in the north. An environment encouraging research and development and bringing together industry and researchers to inform and encourage greater adoption of new technologies will be crucial in ensuring opportunities are realised.

Northern Australia has expertise in tertiary education, research and development, and training. There are many opportunities to build on existing work in this area and contribute to northern development including in areas of comparative advantage, increasing linkages with other institutions and industries and expanding the skills base of the local workforce.

Defence and government support for partnerships in cooperative research between the Defence Science Technology Organisation and Charles Darwin University on defence equipment and people in tropical and desert environs could create opportunities for exports to other countries within the region.

Operation of the Defence Export Control Office

Industry Delegations and International Agreements

Northern Australian businesses seeking to take advantage of new export markets, particularly in fast growing Asia, face a range of trade barriers. Many countries still have tariffs that impact Australia's access and competitiveness. Fair and balanced free trade agreements are required to assist in development of export markets. A priority for development of such agreements to access to Asian markets for Australian business exists, prioritising a Free Trade Agreement with China and negotiating with India and Indonesia.

Emerging businesses can lack the capability to engage productively in a complex international operating environment.

Australian defence industry face additional impediments and overheads when engaging in the defence export market. Defence export controls for the export of goods and technologies designed or adapted for use by armed forces, or that can be used in the production of defence related goods and services and International Traffic In Arms Regulations (ITAR) controlling the re-export of US sourced goods, services and intellectual property make it more difficult for defence industry exporters. At times, industry face a journey through Pandora's Box to engage in the defence market internationally with many unaware of requirements, particularly those engaging in sustainment activities that they may not realise is an export commodity.

The Centre for Export Controls does provide training for industry, although much of this assistance is southern focused due to the lack of an economy of scale among defence businesses in northern Australia engaged in the export market. With a large number of SMEs not specialising solely within the defence sector, many local businesses are unaware of requirements and the support that is available to assist them. Also, many businesses are not resourced to implement the management requirements mandated by ITAR.

The Northern Territory Government is very active in pursuing and promoting overseas investment opportunities, including through trade delegations. With the defence export market subject to such tight controls, coordination of appropriate engagement between industry and foreign government/military agencies associated with the defence export market needs to be well coordinated by the Defence Export Unit (DEU) under the Team Australia banner.

Not surprisingly, Team Australia missions to international trade shows seem predominately focused on those defence companies engaged in technology development and product manufacture. Capability to support sustainment and through life support does not feature in such missions. It is suggested that there is a case to focus on defence industry capability in northern Australia to promote local industry engagement on future Team Australia missions to international trade shows. The experience alone may enlighten industry to possible markets and engagement opportunity for their services within the region.

Conclusion

The Northern Territory defence support industry plays a vital role in the sustainment of Defence equipment and facilities located in the Northern Territory. However, the resource sector's growing demand for skilled workers, combined with uncertainty of securing a guaranteed workflow from Defence makes it difficult for businesses to invest and grow within the sector.

Changes to defence procurement policy, inclusion of Australian industry participation in intergovernmental defence agreements, partnerships for innovation and investment in infrastructure will all contribute to developing certainty in local sustainment activities and create the business capacity to grow and realise export opportunities.

An increased focus on marketing existing industry development resources will also alert existing and prospective defence industry participants on what government assistance is available to them to make them export ready to participate in the complex defence export market.

Further Information

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