INQUIRY INTO THE DEFENCE INDUSTRY IN NEW SOUTH WALES

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by
RDA Hunter

Defence industry in New South Wales
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TERMS OF REFERENCE

1. That the Standing Committee on State Development, with reference to the New South Wales: Strong, Smart and Connected Defence and Industry Strategy 2017, inquire into and report on opportunities to incentivise and grow the defence industry in New South Wales to generate economic development and in particular:

   a. maximise opportunities for NSW-based companies from Defence’s growing exports and investment in defence capability – in both acquisition and sustainment

   b. encourage defence industry innovation, research and education including developing the future workforce

   c. identify targets, programs and projects for defence spending in New South Wales

   d. maximise the economic benefits of locating defence force bases and defence industry in the regions

   e. how to establish and sustain defence supportive communities

   f. further enhance collaboration between the NSW Government and Commonwealth agencies

   g. any other related matter.

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RDA HUNTER’S SUBMISSION

Introduction

RDA Hunter welcomes the NSW Government Defence and Industry Strategy. Especially at a time when several factors are combining to create a favourable environment for New South Wales to increase its share of defence activity. These factors include:

1. $195 billion of new capital investment by the Australian government in Defence.
2. Defence industry features in the Prime Minister’s Innovation Agenda.
3. Christopher Pyne, the Defence Industry Minister, arguing strongly to spend Defence dollars in Australia.

Beyond offering constructive thoughts and responses to the inquiry’s terms of reference, we want the Committee to appreciate RDA Hunter’s readiness and capacity to work with Defence NSW, and all stakeholders, to increase the economic development impact of Defence and defence industry in the Hunter.

RDA Hunter’s Chief Executive Officer, Susan Wilson, brings a wealth of national and international business and management experience to the table. Susan’s leadership in business, government and public/private sector R&D, together with a practical focus on strategy, public affairs and innovation is a valuable source of expertise in the region. (See Appendix C for further information about RDA Hunter and the region)

RDA Hunter has a mature relationship with Australia’s Department of Defence through delivery of the STEM focused, skills and workforce development school-industry pathway scheme: the ME Program. (Appendix A has a summary of ME Program activities, partnerships and outcomes)

RDA Hunter links industry with schools to raise awareness of possible career opportunities within defence industries and helps to provide the essential pre-requisite knowledge and skills required to pursue a range of pathways that are valued by Defence and Defence industries.

The ME Program:

- increases Hunter high school student participation in STEM (science, technology, engineering and mathematics) subjects;
- improves teaching quality by linking industry needs to classroom lessons;
- adds to the overall school curriculum through the new integrated STEM (i-STEM) subject;
- increases the size of the pool of skilled workers to strengthen defence industry capacity; and,
- involves Hunter high schools across the Independent, Catholic and Public sectors.

RDA Hunter acknowledges financial support from the NSW Department of Industry during 2016 for the ME Program. (Ref TOR “b. encourage defence industry innovation, research and education including developing the future workforce”)
With an eye on Defence Industry as a global business in which any sized company can contribute to large supply chains, this submission presents:

- A vision of the region as the Hunter Defence Hub in manufacturing and sustainment for the Royal Australian Air Force, Army and Navy; and,
- How RDA Hunter can contribute to the NSW Government’s Defence and Defence Industry Strategy.

1. **HUNTER DEFENCE HUB**

The Hunter’s industrial, research, technical and engineering expertise, as well as the current and planned infrastructure for the region, provide the perfect foundations for the Hunter as a Defence Hub to serve the Nation, with a commitment to Air Force, Army and Navy.  

The Hunter’s local manufacturing skills, export orientation and supporting infrastructure provide fertile grounds for investment in a defence hub that enables a defence industry cluster to develop. An important part of the Hunter’s industry development includes local small and medium-sized companies contributing to large defence contracts within a system of hubs and clusters that enables a local firm to operate at the global level.

Local Hunter-based manufacturing SMEs are well placed to add value to large scale industrial projects, such as building navy ships, by supplying components for combat systems, communication systems, navigation and detection units.

The Hunter region, as presented in the NSW Defence Strategy (see Appendix B), is a vital contributor to Defence and defence industry in NSW. The hub concept for this region is initially developing around the RAAF Base / Newcastle Airport at Williamtown; prompted by the anticipated arrival of the F-35 stealth fighters.

This is an excellent example of the way in which contracting Australian Defence Industry to support Defence programs can have a significant contribution to all areas defined by this Inquiry’s terms of reference.

So far, we know the contracts awarded to Australian suppliers for the F-35 include:

- assignments to Maintain, Repair, Overhaul, and Upgrade (MROU) 64 components for the Pacific region from 2025;
- BAE Systems won the role of Southern Pacific Regional Depot Airframe MROU provider of heavy airframe maintenance and sustainment for the global fleet in the Southern Pacific region; and,
- others to GE, Northrup Grumman, Rockwell Collins and Quickstep.

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1 Ref TOR:

a maximise opportunities for NSW-based companies from Defence’s growing exports and investment in defence capability – in both acquisition and sustainment

d maximise the economic benefits of locating defence force bases and defence industry in the regions
BAE Systems is building a “Vendor Village” at Williamtown to create a physical hub, or Common User Facility (CUF) as a centre of high quality aerospace facilities, including premium test equipment, to ensure operations are conducted to the highest standards and with reduced duplication; thereby keeping costs down. The specifications for the MROU components, will require construction of a new, stand-alone, and high-tech building.

The aerospace hub at Williamtown will also have a virtual component, making it a proof-of-concept and a template for other hubs for Navy and Army in the Hunter.

There is an expectation that a maritime precinct at the Port of Newcastle will be reinvigorated, in part due to by the nation’s Naval Shipbuilding program. A naval shipbuilding industry briefing in Newcastle is scheduled for the 6th of July, at which information will be provided on the Future Frigate and Offshore Patrol Vessel Programs.

Newcastle has a long heritage as a shipbuilding centre, with over 300 vessels built, specialist module constructions and hundreds more ships repaired and maintained in the region. There is significant infrastructure around the working harbour to support the re-establishment of this industry and land available for further development. With businesses, such as Civmec’s riverfront heavy engineering and shipbuilding facility, Forgacs Marine and Defence, the region has a demonstrated partnership approach to major Naval shipbuilding contracts.

Hunter TAFE’s Maritime College is highly regarded in the industry and offers hands-on training in Marine Engineering and Maritime Operations. An active maritime precinct at the Port of Newcastle, with contracts for private industry and defence, will develop a skilled workforce, including collaboration with the national Naval Shipbuilding College.

RDA Hunter has commenced consultations with leaders in the Army to understand the specific needs of the Army and to explore opportunities for an increased presence of the Army in the Hunter. The Defence White Paper presents a long timeframe for the program and through industry leaders, such as the Varley Group, the Hunter can look to Land 400 as having the potential to transform Army training and principles into the future. Clustering Hunter industries in support of Army will harness more of the region’s manufacturing skills base and resources to further these opportunities, build stronger businesses with export potential and create jobs.

**Hunter Industry Development**

RDA Hunter is taking a long-term view of industry development across the full range of economic sectors. Defence in the Hunter will increasingly be a significant contributor to industry development, research collaboration, innovation and employment.

Supporting terms of reference “a. maximise opportunities for NSW-based companies from Defence’s growing exports and investment in defence capability – in both acquisition and sustainment”.
In support of terms of reference, “c. identify targets, programs and projects for defence spending in New South Wales”. The region, and NSW Government, needs to be attuned to Federal Government defence acquisition and sustainment expenditure timetables, for instance (but not limited to):

Army – land based vehicles, Varley and Phase 3 of Land 400.
Navy – continuous shipbuilding programme and development of skilled shipbuilders.
Airforce – Joint Strike Fighter

Hunter skilled workforce
RDA Hunter’s economic development agenda for the Hunter starts with developing a better, smarter, skilled workforce, minimising skills shortages in the future and increasing STEM capabilities. As described earlier, RDA Hunter has a track-record of improving the defence readiness and capability of the Hunter's skilled and STEM-literate workforce.

The Committee is reminded that the Hunter has a workforce in transition. There will be unacceptable outcomes if the Hunter loses the skills that have been developed during mining construction boom and skilled workers at soon to be mothballed Liddell and Bayswater power stations.

The future of work in the Hunter can be built on existing expertise in manufacturing, advanced manufacturing, construction and engineering, in collaboration with knowledge-based industries, research, entrepreneurship, innovation and increasing levels of business acumen.
(Ref TOR: b. encourage defence industry innovation, research and education including developing the future workforce).
2. **CO-ORDINATING THE HUNTER’S DEFENCE ECO-SYSTEM**

RDA Hunter is committed to bringing together the existing elements of defence interests in the Hunter to:

- create a fully functioning Defence Eco-system;
- deliver innovative solutions for Defence;
- lock into long-term strategies for Australia’s Defence Forces and industries; and,
- build markets while attracting international investment.

RDA Hunter co-ordinates on-the-ground resources and policy implementation across three levels of government, local and State-wide industry/business organisations, research institutions, and education and skills training bodies. The Hunter Strategic Defence Group is the start of this work to build the relationships required to form a coherent defence eco-system.

The Hunter Strategic Defence Group (HSDG)\(^2\) is a consortium of organisations with an interest in Defence and defence industry at:

- the global / Asia Pacific region / national levels (includes Defence department, CDIC and ‘primes’);
- the state level (such as DPC, DP&E, ORD and, of course, DoI); and,
- Hunter region level (i.e. SMEs, RDA Hunter, Hunter Business Chamber, HunterNet, AiGroup, UON and Hunter TAFE).

As a meeting point for co-ordination of the Hunter Defence Eco-system, the HSDG engages with the processes, drivers, frameworks and areas of discourse that impact on Defence, defence industry, regional economic development and communities with jobs and workforce as the baseline reference point for society-government-industry interactions.

A Whitehall paper from 2011, described the defence industrial eco-system in this way:

“There are three core elements, namely ‘defence’ (policy formulation and implementation through decisions), ‘industries’ (providers of goods and services) and society (the source of manpower, other resources, discourses and permissions), which are culturally interdependent as they combine to generate the defence industrial ecosystem. The formation of the ecosystem’s constituent parts and the transactional processes among them are shaped by a multiplicity of internal and external drivers and relationships. These are dynamic, creating the potential for conflict and uncertainty, but also present significant systemic impetus for innovation and reform.”\(^3\)

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\(^2\) Refer to terms of reference: further enhance collaboration between the NSW Government and Commonwealth agencies

Figure 1: The Defence Industrial Ecosystem
AREAS FOR NSW GOVERNMENT & RDA HUNTER COLLABORATION

a. maximise opportunities for NSW-based companies from Defence’s growing exports and investment in defence capability – in both acquisition and sustainment

1. Research the issues Hunter region businesses face when acquiring Defence contracts.
2. Design and launch supportive programs that enable Hunter businesses to: join global supply chains for defence prime systems; diversify their business portfolio; and, prepare business cases. (also supports TOR d.)
3. Collaborate with the CDIC (Centre for Defence Industry Capability) to provide advice and opportunities for Hunter companies, especially small companies, to diversify and expand, enabling approval as a recognised defence supplier and increasing the level of local procurement. (also support TOR f.)

b. encourage defence industry innovation, research and education including developing the future workforce

4. Commit to actions that support sustainability of defence ready companies, SMEs as well as Primes, and the growing defence skilled workforce of the Hunter region.
5. Establish a framework for Defence to inform industry and research partners in the Hunter to encourage collaboration that will define new solutions to meet the operational needs of the end user, within the risk boundaries of Army, Air Force and Navy leaders.

6. Define the target for New South Wales’ share of $195 billion, 10-year national investment in Defence.
   6.1 Breakdown how much economic growth will flow to the Hunter and other regions identified in the NSW Defence and Industry Strategy 2017.

d. maximise the economic benefits of locating defence force bases and defence industry in the regions

7. Work directly with local member associations to introduce partners that are equipped to provide niche capabilities needed to be nationally and internationally competitive.

e. how to establish and sustain defence supportive communities

8. Research, in partnership with local government, the support requirements of local defence communities to inform development of mechanisms, construction of facilities and implementation of activities to improve well-being and investment attractiveness.
9. Reward local leadership. In the Hunter, examples of leadership include: skilled workforce development (RDA Hunter’s ME Program); regional planning for defence as an area of growth (RDA Hunter’s S3); business engagement plan (HunterNet); defence forum (HunterNet); and, Hunter Defence Conference (Hunter Business Chamber).

f. further enhance collaboration between the NSW Government and Commonwealth agencies

10. NSW, through the Department of Industry, to continue to financially support RDA Hunter to co-ordinate the Hunter Strategic Defence Group and add NSW Government weight to recognition of authority of this Group as the Hunter’s unified voice on defence and defence industry matters.
APPENDIX A: RDA HUNTER’S ME PROGRAM

ME Program and Defence employment pathways
In 2016 – 2017 there was a total of 16,132 student contacts (not including over 5,000 in iSTEM) in STEM intervention activities provided by the ME Program. Compared with previous year, this is an increase of 45.7% in the number of students exposed to employment pathways to Defence and Defence Industry jobs.

ME Program’s Defence Industry Partners
- 2016 – 17 12 more Defence Industry partners than in 2015-16: total 18
  ATSA
  BAE Systems
  Blue Zone Group
  Boeing Defence Australia
  Bohemia Interactive
  Civmec
  Forgacs Marine and Defence
  ipsy
  Lockheed Martin
  Obelisk Systems
  Orica Australia
  RAAF Williamtown
  Red Arc
  Robotic Systems
  Thales
  UAVAIR
  Unitronix
  Varley Group

ME Program Schools and Practical Careers engagement
Overall, in 2016 – 2017 there was a 31% increase in the number of schools participating in the following practical careers experiences:

1. Aerospace Careers Days
2. Industry Visits
3. Career Expos
4. STEM Careers Days
5. STEM Ex Work Experience
6. Defence STEM Mentoring
7. STEMship
Highlights 2016 – 2017: ME Program and Defence Industries

Impact at career expos, festivals and events:

- 50% increase in number of Defence Industry partners at local careers expo's.
- 78% of respondents indicated they were ‘more aware of the employment pathways into STEM industries, including Defence Industries, because of their visit to a ME Program stand at a careers expo.
- 80% of respondents indicated they were ‘more aware of how they could find opportunities for hands on experiences in STEM and Defence Industries, such as STEM Ex work experience.
- 81% of respondents indicated they were ‘more aware of where they could find information about STEM careers, including Defence Industries.
- 88% of students indicated that because of their participation in the Tomorrow’s Engineers event, they have a greater awareness of engineering careers, including Defence Industries.
- 91% of respondents indicated that because of their participation in the RoboCup junior competition they are more aware of STEM employment options, including Defence and Defence Industries.

Defence STEM Scholarship & Mentoring Program
The Defence STEM Scholarship and Mentoring Program is a scheme for students who are currently working on, or who are about to undertake, a STEM based project that may have future Defence applications. This program assists students to complete major projects related to STEM and is open to students from Years’ 9 to 12 at ME Program schools.

Hunter Aerospace Days
The Aerospace Days (June 22 and June 23 in 2017) are an initiative of BAE Systems Australia, Boeing Defence, RAAF and RDA Hunter’s ME Program. Schools can visit Boeing Defence, RAAF Base Williamtown and BAE Systems’ Williamtown facility to see aeronautical engineers and technicians working on sophisticated aviation equipment and to learn about aerospace career pathways.

ME Program Schools, STEM enrolment trends
44% increase in the number of schools endorsed for iSTEM
60% increase in the number of Year10 students enrolled in iSTEM
19.2% increase in overall participation in STEM subjects for ME Program schools since 2010.

By subjects at ME Program Schools:

- Biology, 13%;
- Chemistry, 30%;
- Engineering Studies, 22%;
- Mathematics 2 Unit, 7%;
- Mathematics Extension 1, 32%;
- Software Design and Development, 12%.

Comparison rate: NSW state average enrolment in STEM over the same period: -0.5%.

Source: Final Milestone Report from RDA Hunter to Defence. May 2017
APPENDIX B: HUNTER IN NSW DEFENCE STRATEGY

The Hunter Region hosts
- key RAAF and Army bases, including RAAF Base Williamtown, Australia’s premier jet fighter base.
- A diverse industrial base servicing a range of sectors including Defence and defence projects.

The Joint Strike Fighter (JSF) or F-35, will be introduced at Williamtown from 2019, catalysing $1 billion of investment in the base.

Development of the Williamtown Aerospace Centre (WAC) is maturing; will see investment and jobs come to the region.

BAE Systems Australia has been assigned the role of Southern Pacific Regional Depot Airframe Maintenance, Repair, Overhaul and Upgrade (MROU) provider for the F-35, supporting not only RAAF aircraft, but aircraft of other nations in the region. Also maintenance of the Hawk 127 fleet.

Prime contractors in the region
- Thales, Mine Hunter;
- Boeing, in-service support of AEW&C aircraft, deeper-level maintenance on the RAAF’s fleet of F/A-18 Classic Hornet aircraft
- Lockheed Martin,
- Northrop Grumman,
- Raytheon, in-service support of the F/A-18 Hornet Aircrew Training System
- TAE, maintenance of F404 jet engines
- Forgacs/Civmec, modules for warships and
- Varley, builder of modules for Land 121 Phase 3 (a) and 3 (b)

Also, Bohemia: simulation software for tactical training and mission rehearsal

Investment opportunity the Port of Newcastle
Options to return navy to the region. The Carrington site in the Port of Newcastle has existing infrastructure that was originally constructed in the 1990s to facilitate construction of the Royal Australian Navy Mine Hunters. This and other local sites are capable of redevelopment for both defence and commercial marine purposes and could relieve some of the pressure on existing facilities such as Garden Island.

There is a large skilled workforce to support manufacturing and sustainment in aerospace, specialised vehicles and ship building. The University of Newcastle, TAFE and local schools all support engineering, commercial, industrial and defence-focused education and training.

Page 35: The innovative ME Program operates in the region’s high schools to increase the take up of science, technology, engineering and maths (STEM) subjects, to support the future skills needs of manufacturing and defence projects.
Strategy 3: Provide Defence and industry with their future workforce

NSW: Strong, smart and connected commits the NSW Government to promoting defence industry career pathways and encouraging and developing educational opportunities and incentives to stimulate the uptake of science, technology, engineering and mathematics (STEM) subjects at schools and the transfer of STEM-skilled employees to NSW.

Initiative 3A
promote interest and accessibility of STEM in NSW’s secondary and tertiary institutions, and promote careers paths in defence industry and technology through industry partnerships and incentive programs.

Initiative 3B
work with Defence and industry to build on the training and education strengths in the Riverina, Hunter, Sydney and Capital regions.

Strategy 4: Sustain and grow existing and new Defence and defence industry activity across regional NSW

NSW is home to more bases and more Defence and defence industry personnel than any other state. Regional strengths have developed as a results of base requirements, for example … fast jet sustainment in the Hunter.

Initiative 4C
grow and connect regional networks to enhance collaboration and develop business opportunities.

Initiative 4D
assist specialist SMEs to better access local and global supply chain and export opportunities.

Initiative 4E
facilitate regional opportunities for the defence industry to invest and expand.

Source:
The NSW Government Defence and Industry Strategy 2017:
New South Wales: strong, smart and connected. NSW Department of Industry. PUB17/60
APPENDIX C: RDA AND THE HUNTER REGION

RDA Hunter

Regional Development Australia in New South Wales is a partnership between the Australian and State Governments created to strengthen regional communities. RDA Hunter is part of a national network of 55 RDA committees. These committees are made up of local leaders who volunteer their time to work with government, business and community groups to grow and strengthen their communities.

RDA Hunter is an autonomous organisation that fosters economic development for the Hunter region of NSW by building partnerships between governments, regional organisations, local businesses, community groups and regional stakeholders.

Susan Wilson is RDA Hunter’s Chief Executive Officer. Susan is an executive and non-executive leader with an international career across business, government and public/private sector R&D, who delivers economic impact through innovation, investment, industry and regional development. Her career highlights include the establishment and expanded role of Innovation & Science Australia; advisory and governance of the National Innovation & Science Agenda; leading NZ’s $10B Bioeconomy economic development portfolio; and mentoring start-up to scale-up entrepreneurs through DIIS, CSIRO, Austrade & Slingshot programs/accelerators.

RDA Hunter has a mandate to provide independent and impartial advice directly to governments on priorities and to provide strategic and targeted responses to issues affecting the Hunter. By taking the lead role on initiatives and collaborating with local stakeholders, RDA Hunter supports:

- Economic growth and Productivity gains;
- Jobs and a Skilled Workforce for the future;
- Federal and State programs at a regional level;
- Integrated long-term regional planning; and
- Local businesses and industries developing globally competitive advantages.

Our activities and initiatives support three strategic areas: investment; infrastructure; and innovation. Actions by RDA Hunter that cultivate inter-connections between these three strategic themes help to meet the regional development goals of Commonwealth, State and Local governments.
Strategic planning by RDA Hunter

RDA Hunter collaborates with Hunter stakeholders to:

- Identify funding opportunities. From January 2010, funding commitments totalling over $850 million for the Hunter directly secured by RDA Hunter advocacy and projects.
- Lead regionally significant projects and partner on planning and service delivery programs.
- Promote the region’s comparative and competitive advantages and attract investment via the Hunter Investment Prospectus.
- Identify infrastructure priorities and facilitate delivery of business cases for projects that will deliver efficiencies and support productivity improvements.
- Partner industry development activities.

The Hunter – A Region of Economic Strength

The Hunter is located north, north-west of Sydney. For statistical purposes, the Hunter is often represented as two regions: Newcastle and Lake Macquarie and Hunter Valley exc. Newcastle.

At a government level, the Hunter currently contains 6 Federal electorates, 10 State electorates and 10 local government areas.

*Figure 2 Hunter Region, NSW Planning & Environment*

Hunter Regional Plan 2036, page 62
Hunter’s Population

The Hunter is home to over 860,000 people; around 9% of NSW population. Most of the population of the region lives within 25 km of the coast, with 54.4% of the Hunter’s population living in the Newcastle and Lake Macquarie Local Government Areas (LGAs).

In the year to 30 June 2016, the significant urban areas of the Hunter generally experienced population growth slightly below the 1.4% state average. Highest growth was in the southern parts of the region; Morisset – Cooranbong, up 1.7% on 2015 numbers. This was followed by Muswellbrook, up1.5%, three areas with an increase of 1.3% for the year (Cessnock, Forster - Tuncurry and Nelson Bay – Corlette), hen Newcastle – Maitland, up 0.9%. Almost zero growth around Kurri Kurri – Weston (0.3%) and negative growth in Singleton, -0.2%.

This follows the national pattern of population losses in mining areas and mining service centres. Fourth largest growth for a NSW SA2 area outside of Sydney was Maitland – West, with 550 new residents.

Hunter Comparative Advantages and Economic Highlights

The region’s natural comparative advantages, include proximity to Sydney, deep water sea port, fresh water rivers, productive lands and a diverse supply of resources.

The Hunter is the major region for economic activity in New South Wales:

- Gross Regional Product for 2016 of $41.3 billion, ranking above Tasmania, NT and ACT;
- Contributing more than 8 per cent of Gross State Product and 2.6 per cent of GDP;
- Around 130,000 additional people are expected to be living in the region by 2036;
- In 2013-14, the Port of Newcastle’s total trade value was $15.5 billion from 159.6 million tonnes in throughput, including 154.4 million tonnes of coal exports, and
- Producing upwards of 60 per cent of the electricity for the State of NSW.
- Significant investment in Defence facilities particularly at RAAF Base Williamtown and Infantry Army Barracks and Special Forces Training Centre at Singleton.

The Hunter is widely known as a major centre for mining and resources with a history of large-scale heavy industry, coal exports and shipbuilding. However, it is the small and medium enterprises (SMEs) sector which constitutes the majority of businesses in the region.

RDA Hunter commissioned Deloitte Access Economics to analyse economic data and report on possible impacts of various trends and scenarios on the Hunter’s future. In Prospects and Challenges for the Hunter Region – a strategic economic study it is forecast that by 2036, the Hunter’s economy will have grown by about 75 per cent, to be delivering a Gross Regional Product of $64.8 billion.

The Hunter’s positive economic development will be built on the region’s capacity to:

- Grow through the attraction of investment and talent;
- Construct the economic infrastructure required to maximise its comparative advantages;
- Secure smart partnerships to overcome challenges and commercialise opportunities; and,
- Energise its innovation system to support internationally competitive businesses.

– End –

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4 Reference: 3218.0 - Regional Population Growth, Australia. ABS. March 2017