



Hunter Defence Strategy

Emerging Excellence

February 2013

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Executive Summary

The Hunter is proudly the most diverse regional economy in Australia with extraordinary potential to accommodate further growth across a range of industries. The ongoing economic success of the Hunter region is integral to returning the NSW economy to a position of strength. The key to this success lies in the ability to promote economic diversity and creating the right investment climate in the region.

The defence industry is a crucial component of the Hunter economy. The region is home to a strong concentration of innovative defence manufacturers and service providers, both large and small, that have established themselves as industry leaders. Despite this, the capacity to further develop the sector remains unrealised and the time is right for a commitment to build and promote the Hunter as a centre of excellence for defence.

More must be done to attract key industry players to the region. There is a clear imperative upon the New South Wales Government to proactively engage and commit resources to the defence sector in a manner that has never been done before in this state. In short, in partnership with the NSW government, it is time for business to think outside the box and build on our strengths.

The Hunter Business Chamber will champion the needs of the defence industry in a collaborative and ongoing basis. This strategy is the culmination of input from a range of informed stakeholders and it clearly outlines what needs to be done and by whom. It details the following key actions as critical to the success of our region in securing further defence industry growth and promoting an even stronger, nationally and internationally recognised presence.



Three actions have been identified as crucial to the sustainment and growth of the defence industry in the Hunter.

- 1. Set the groundwork for success;**
 - a. DEVELOP A COMPREHENSIVE NSW DEFENCE INDUSTRY ACTION PLAN
 - b. PROACTIVE BUSINESS ENGAGEMENT WITH DECISION MAKERS
 - c. REGIONAL REPRESENTATIVE IN DEFENCE INDUSTRY PLANNING

- 2. Build on our strengths & grow regional Defence presence**
 - a. SKILL DEVELOPMENT & WORLD CLASS DEFENCE RESEARCH
 - b. CHAMPION RAAF BASE WILLIAMTOWN
 - c. BOOST LONE PINE BARRACKS - SINGLETON
 - d. EXPLORE PORT OF NEWCASTLE POTENTIAL
 - e. RECOGNISE HUNTER AS STRATEGIC GROWTH LOCATION FOR DEFENCE
 - f. PROMOTE THE HUNTER AS DEFENCE FRIENDLY

- 3. Assist Hunter business to win defence contracts**
 - a. HUNTER REGION DEFENCE PROSPECTUS & MONITOR PERFORMANCE
 - b. HUNTER DEFENCE & TEAM HUNTER
 - c. SMALL TO MEDIUM ENTERPRISE SUPPORT

Through close collaboration with the NSW Government and key industry stakeholders, the objective of the Hunter Business Chamber's strategy is to support at least 10% growth in the Defence sector for NSW and to maintain the Hunter region's share of this business at 35% or better.

If the above actions are adopted by the NSW Government in collaboration with key industry stakeholders the Hunter Region could secure 35% of NSW Defence expenditure for this region with 10% annual growth.

Potentially this is a boost of \$32.5 million per annum for the Hunter region.

Background

The Hunter Business Chamber is the largest regional business chamber in Australia and is over 127 years old. The Chamber represents approximately 900 member businesses to all levels of government and is the Hunter region's peak representative body for business and industry.

The Hunter Business Chamber works as an integral part of the Chamber network in NSW and represents our members' interests at local, State and Federal level to advocate for an improved operational climate for business.

NATIONAL

Australia's 2012 – 2013 federal budget was released in May 2012 and clearly flagged a reduction in defence spending from 1.8 per cent of Gross Domestic Product (GDP) to 1.56 per cent of GDP. Despite the recent budget cuts, Australia will still outlay around \$24 billion on defence each year roughly for the next five years.

The Australian Defence budget represents the second largest component of Commonwealth Government expenditure behind health and education combined.

Across the defence budget, (personnel and operations programs) around \$18.7 billion is planned for expenditure within Australia. Of this amount, an estimated \$5.5bn will be spent on materiel (equipment).

NSW currently secures about 17% of in-country materiel expenditure behind South Australia and Queensland who both achieve about 25%.

Defence modelling estimates that over the next ten years, the NSW share of the Defence materiel expenditure will grow to about 28%, ahead of Queensland at 20% and Victoria and South Australia at about 17%.

Defence has not revealed the basis for their modelling, however, this estimate can be assumed to be based on forecasts for major capital projects and growth already evident within various materiel sectors.

In the absence of any official data, the Australian Strategic Policy Institute (ASPI) estimates that about \$5.5bn of the annual Defence budget is spent offshore.



HUNTER REGION

The Hunter region plays an important role in securing Defence expenditure for NSW. The strong Defence presence in the region, particularly the RAAF base at Williamstown and the Army presence at Lone Pine Barracks, Singleton, provides a solid basis for ongoing growth.

Obtaining accurate estimates of the contribution of Defence and Defence Industry to the Hunter economy is difficult. A combined presence of some 4000 Defence personnel generates spending in the order of \$310 million per annum.

Beyond the direct Defence presence, major defence contractors are also active in the Hunter Region which undoubtedly provides a major contribution to the regional economy.

It is important to note that the defence industry, in recent years, has undergone significant consolidation, with a small number of large defence companies dominating the global defence market. The majority of Australian owned firms are considered to primarily be small to medium enterprises.

The Hunter region is a natural cluster for both the large and small to medium enterprises and they include;

- BAE Systems;
- Boeing;
- Raytheon;
- Lockheed Martin
- Thales

Local prime contractors such as Varley Group and Forgacs are leaders within the sector and a further 200 plus Hunter entities are also key contributors to the Hunter defence industry.

A reasonable estimate for the percentage of NSW Defence expenditure secured by the Hunter region is 35%. This is based simply on an estimated 40% secured in the Sydney basin and a further 25% elsewhere in the state.

This estimate would suggest Defence expenditure in the Hunter of about \$325m. Following Defence estimates, that contribution could rise to \$540m over 10 years.

THREATS AND OPPORTUNITIES

Securing our current share of Defence expenditure is not assured and should not be taken for granted. South Australia, Victoria and Queensland Governments sponsor active campaigns in the Defence sector that achieve strong results and will continue to challenge our position. Similarly, growth projected by Defence will not be delivered without significant challenge.

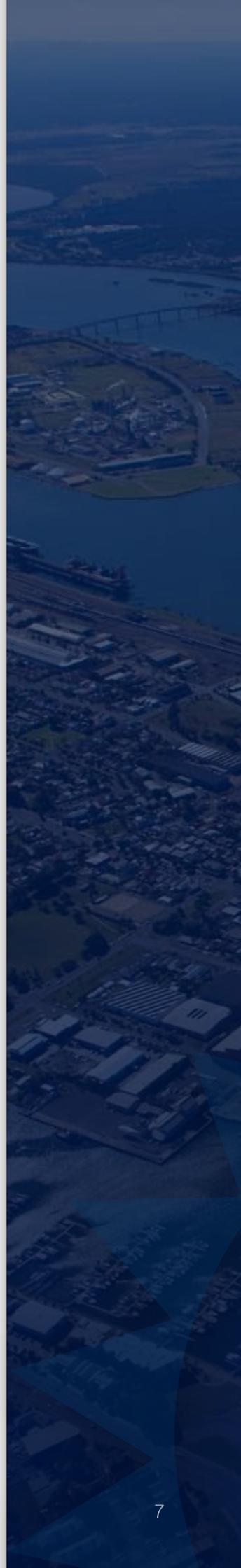
The NSW Government, traditionally, has not been a strong player in the defence industry arena and is not viewed as proactively engaged in defence industry attraction at the same level as the other key states. There is a clear opportunity for renewed and genuine industry engagement and the time is right for statewide industry and government collaboration on this matter.

The Hunter Business Chamber has identified the Defence sector as a focus for regional growth. Aiming to maintain at least 35% of NSW Defence expenditure and the 10% growth anticipated by Defence for NSW, should be our minimum objective.

This growth projection is based on knowledge of major defence programs such as the New Air Combat Capability (Joint Strike Fighter) and the Hunter region should be striving for industry growth in this area. A modest 5% growth in expenditure secured by the Hunter region would contribute an additional \$16.5m to our economy annually.

Accordingly the Chamber's Defence Industry Strategy is based on four inter-related actions that focus on securing our current position, leveraging our existing capabilities and winning new business.

The Hunter Business Chamber has partnered with HunterNet and refreshed the 'Hunter Defence' brand to ensure this region is positioned as a strong and 'defence friendly' area. Through its defence industry committee, the Chamber has engaged with local defence industry experts to develop this strategy to ensure the growing capabilities of this region are harnessed for the success of both regional and national economies.





Action 1: Set the groundwork for success

Success in the Hunter will be facilitated by the execution of a winning NSW Defence Industry strategy and effective engagement between State and Commonwealth governments.

- **DEVELOP A COMPREHENSIVE NSW DEFENCE INDUSTRY ACTION PLAN**
NSW lacks a comprehensive Defence Industry Action plan. There is an urgent need for the NSW Government to commit resources to develop such a plan and, further, to resource an ongoing engagement program between the Commonwealth, defence primes, business and industry. This plan should include:
 - o A clear focus on existing regional areas of defence industry strength (such as the Hunter) and the capacity for growth across the state
 - o Commitment to strategically increasing the amount of defence spending in NSW (and highlight the Hunter as an area of strong growth capacity)
 - o Facilitate an increased regional Defence Industry presence through industry assistance packages and targeted investment
 - o Promote defence basing capacity (such as Army, Navy and Airforce)
 - o Ensure any regional JSF support centre and/or capabilities are located at RAAF Williamtown
 - o Ensure any future aircraft capabilities are based at RAAF Williamtown
 - o Coordinate planning for skills development to achieve an outcome that is tailored to Defence industry needs. In the Hunter, a strong focus must be on the collaboration between NSW TAFE – Hunter Institute and the University of Newcastle
 - o Grow the defence industry workforce by skills pathway development and promotion of regional work/life balance attractions to experienced Defence industry workers
 - o Improvements to strategic infrastructure, particularly transport infrastructure and also detail the delivery of greater efficiencies and connections on existing transport options.
- **PROACTIVE BUSINESS ENGAGEMENT WITH DECISION MAKERS**
The Hunter Business Chamber will commit to working with the NSW government to develop policies and strategies that will secure an increased percentage of in-country defence expenditure.
- **REGIONAL REPRESENTATIVE IN DEFENCE INDUSTRY PLANNING**
The Hunter Business Chamber will provide strong regional representation in the development of the NSW Defence Industry sector planning, subsequent strategies and Commonwealth submissions.

It is readily apparent that latent capacity to house Defence industry growth resides outside of the Sydney metropolitan basin. As such, it will be vital to develop genuine collaboration with organisations such as the Chamber and HunterNet.

Action 2: Build on our strengths & grow regional defence presence

The existing defence infrastructure and presence in the Hunter provides an attractive basis to further build the defence industry as a crucial component of the NSW economy.

It is important to note that planning for the F35 Joint Strike Fighter to be home based at RAAF Williamtown is mature, but this capability is also planned to be deployed to RAAF Amberley in Queensland and RAAF Tindal in the Northern Territory. The Hunter's capabilities should be recognized with the basing of any future aircraft at RAAF Williamtown.

The Chamber will provide a strong local voice for the expansion and retention of existing defence capabilities. In addition, our education institutions are second to none and are also well placed to secure additional defence related growth and provide world class training and skill development pathways.

Through collaboration, government, business and education institutions must build on our existing strengths by the following actions:

- **SKILL DEVELOPMENT & WORLD CLASS DEFENCE RESEARCH**

The Hunter Region is poised to become a world class defence industry research and skills development centre. No such centre exists on the east coast of Australia and NSW could lead the way in this area.

NSW TAFE – Hunter Institute and the University of Newcastle are renowned, trusted and innovative institutions that have expressed a strong desire to further develop training and research in the defence industry sector.

Both institutions have the expertise and infrastructure to advance work in this industry, however, assistance will be required from governments (both Federal and State) and business to see the full realisation of potential in this area.

The Hunter Business Chamber will actively partner with NSW TAFE – Hunter Institute and the University of Newcastle to advocate the development of a collaborative centre of excellence in this field.



- CHAMPION RAAF BASE WILLIAMTOWN

The NSW Government is in a prime position to further facilitate defence and business growth from RAAF Williamtown. This can be achieved through;

- Supporting the development of collaborative solutions and approaches for Newcastle Airport/RAAF Williamtown.
 - Development plans to ensure ongoing defence needs are satisfied such that Williamtown remains the home of Air Combat Group for the foreseeable future.
 - Development plans should also accommodate growth in civil traffic. The Chamber will support staged development that ensures effective co-existence for defence and civil traffic. Development could include:
 - duplicated runway access for RWY 30
 - parallel taxiway to allow duplicate access for RWY 12
 - ILS capability for RWY 30
 - a future parallel runway (subject to associated environmental planning)
- Promote the development of an aerospace industry cluster in the Williamtown precinct. In conjunction with key stakeholders such as the RAAF base, Newcastle Airport Limited, Port Stephens Council, business and landowners, the NSW Government could lead the development of integrated land use strategy in the area immediately adjacent to the base.

- BOOST ROLE OF LONE PINE BARRACKS - SINGLETON

Engage with Army to identify further opportunities and promote Lone Pine Barracks' critical role in providing land support through the School of Infantry and Special Forces Training Centre.

- EXPLORE PORT OF NEWCASTLE POTENTIAL

Advocate for increased role for the Port of Newcastle in the construction, basing and support of Navy.

- RECOGNISE HUNTER AS STRATEGIC GROWTH LOCATION FOR DEFENCE

The existing Defence presence attracts more than \$1 billion to the Hunter region economy with an associated direct benefit for local business and communities.

With increasing pressure on the Defence Estate budget and ongoing cost savings challenges, the opportunity exists for the Hunter region to host more Defence units and personnel.

To facilitate this outcome, the Chamber will advocate for an increased Defence regional presence, including:

- A defence role for Port of Newcastle,
- Co-location of Hawk operations at RAAF Williamtown,
- RAAF Williamtown as the preferred site for Headquarters Air Command,
- JSF supporting capabilities and infrastructure, and
- Army options for Lone Pine Barracks.

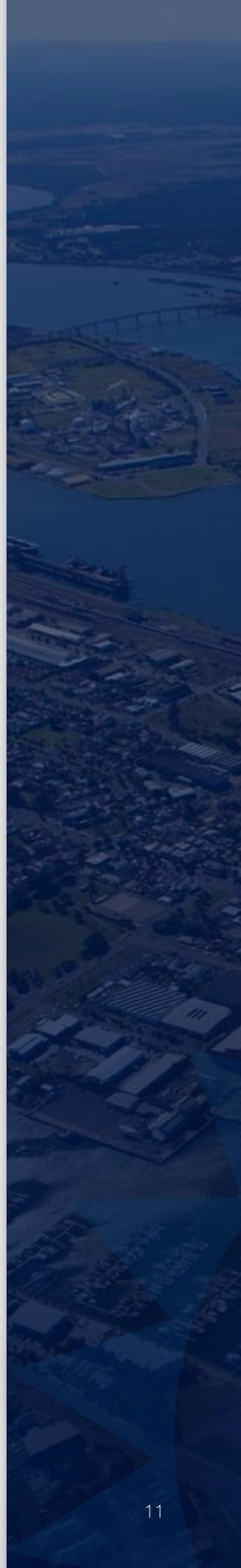
- PROMOTE THE HUNTER AS DEFENCE FRIENDLY

Provide an active community voice to build understanding of the benefits of a strong Defence presence.

Engage defence leadership to better understand future plans and options for the region.

Promote the Hunter region as “Defence Friendly”

- Promote the Defence Reserves Support program to our members
- Facilitate Defence Support Programs with regional councils, with a particular focus on supporting defence families.





Action 3: Assist hunter business to win defence contracts

The Hunter Business Chamber recognises that state government cannot champion the defence industry alone and is ready to be an active participant in partnership with government and business and industry associations.

The Chamber commits to generating opportunities and assisting our membership to secure new business.

The Hunter Defence project is a collaborative initiative of the Chamber and HunterNet and provides a genuine assistance platform for businesses in this industry.

The Hunter Defence web site identifies in excess of 200 firms or entities that have commercial objectives with Defence. While advocating for an improved context and business environment, the Chamber also has a role to play in providing clarity and attracting the attention of Defence on behalf of our members.

Crucial to this action are the following sub actions;

- HUNTER REGION DEFENCE PROSPECTUS & MONITOR PERFORMANCE

As a key investment attraction strategy it will be vital to more clearly communicate the advantages of investing in the region, this can be progressed by the following initiatives;

- o The Chamber, in conjunction with key partners is developing a regional prospectus that promotes regional capabilities. The Chamber will seek to present a business case to the NSW Government and seek assistance with the funding of this prospectus.
- o While no mechanism currently exists for measuring our performance in the Defence Industry sector, the Chamber will work with NSW Government and agencies such as the Hunter Valley Research Foundation to develop key indicators to monitor the region's performance in this sector.

- HUNTER DEFENCE & TEAM HUNTER

The Hunter Business Chamber values highly our partnership with HunterNet and will continue this genuine collaboration and develop a clear memorandum of understanding. This agreement will include tangible programs such as;

- Initiatives such as Hunter Defence and “Team Hunter’ representation of the Hunter region at selected defence and defence industry trade expositions.
- Engage with Defence leadership to establish what is required or desired from Hunter Defence members.
- Foster relationships with and between political leadership and defence industry CEOs.
- Canvass our membership for feedback and guidance on those areas where Hunter Defence could advocate in a strategic manner.

- SMALL TO MEDIUM ENTERPRISE SUPPORT

The Hunter Business Chamber commends HunterNet and NSW Trade and Investment for the tireless work in providing assistance to SMEs in the region. The Chamber endorses this work and recommends the following;

- Commitment to fund the Project Manager – Hunter Defence position (based in HunterNet) on a full time ongoing basis. At this current point, this is a contract position and is subject to bidding for funding each year. The Chamber is strongly of the belief that this position must be a long term commitment to the development of defence industry in the region.
- Through the Defence Industry Committee, identify DCP opportunities that represent greater opportunity for the region or have alignment with regional capabilities.
- Cross-promotion with HunterNet around information and assistance programs for SMEs to:
 - assist SME bidding,
 - facilitate consultant support,
 - promote Defence events,
 - provide a reference service through local agencies for doing business with Defence, and
 - sponsor information sessions.

Conclusion

There is no denying that governments are under increasing revenue pressures and there is a heightened need to cut expenditure and deliver operational efficiencies, particularly during difficult economic times. Striking the desired balance between supporting industry growth and reigning in expenditure is a challenge not to be underestimated.

Yet, the ongoing growth and sustainment of the defence industry is essential to Australia's national security. A resilient and innovative national defence industry must be a high priority for both federal and state governments. There are indisputable and serious reasons for taking a long term view of the importance of the defence industry in Australia.

This particular industry development priority should be underpinned by an open and genuine partnership with business and highlight key geographical areas of primary consideration, such as the Hunter region.

This strategy presents an argument for a regional focus to be a headline item in a comprehensive NSW Defence Industry Action Plan.

The Hunter Business Chamber unashamedly promotes the Hunter as the foremost defence region in the state. This stance is clearly based on the substantial and existing defence presence in the region and well as the unsurpassed capacity to house further growth in this industry within the Hunter.

The Hunter Business Chamber commends this strategy to the NSW Government and outlines three recommended actions to ensure the development of the defence industry as a long term crucial component of the NSW economy;

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