

# Defence Industry in NSW - Discussion Paper

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Standing Committee on State Development

February 2018

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## Introduction

This submission has been made jointly by the Hunter Business Chamber and HunterNet as the key collaborators driving the successful Hunter Defence Project.

The Hunter Business Chamber is the largest regional business chamber in Australia and was established in 1886. The Chamber independently represents almost 2,000 member organisations to all levels of government and is the peak industry association in the region, reflecting the interests of all business sectors.

The Hunter Business Chamber works as an integral part of the NSW Business Chamber network and represents business at local, state and federal levels to advocate for an improved operational climate for businesses in this region.

HunterNet is widely recognised within Australian manufacturing and academia as the most successful industry 'cluster' of its type nationally. The organisation involves over 200 companies, active in national and international infrastructure and asset management, energy and resources, defence and advanced manufacturing supply chains. Through its membership, HunterNet represents over 70,000 employees.

The Hunter is well recognised as home to Australia's most resilient and diverse regional economy. The Hunter region in NSW just north of Sydney covers over 31,000 square kilometres and has over 660,000 people or 9% of the state's population.

The Hunter region has a strong regional defence and defence industry presence. The Hunter is home to RAAF Base Williamtown, Singleton Military Area and other bases such as Myambat Ordinance Facility and Adamstown Barracks.

This presence is supported by the activity of prime contractors to Defence within the Region and the capability of the many small to medium-sized enterprises that service and deliver to the defence industry.

Defence activity within the region has an extensive history of completed defence contracts.

The long-term demonstration of past performance and proven success is integral to the region's capacity to win a greater share of defence expenditure in the future. Physical assets are retained at Carrington and Tomago that boast a ship building and repair capability. It is estimated that more than 4,000 Defence and contractor personnel are employed within the region with the industry contributing to around 10% of the gross regional product, with input from support industries.

The Port of Newcastle and Newcastle Airport support this industry with significant amenity and untapped capacity.

## Terms of Reference

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 NSW Government and Commonwealth agencies
- (g) any other related matter.

## What is Hunter Defence?

Hunter Defence is a joint initiative of the Hunter Business Chamber and HunterNet. It is a strong and well respected brand supporting a strong regional defence presence and the defence industry.

Hunter Business Chamber has registered the following logo and the words "Hunter Defence" as a trade mark under the Trade Marks Act 1995 (Cth) as part of the branding of Hunter Defence with HunterNet;



Hunter Defence provides significant advocacy and collaboration outcomes across the region and developed the first Hunter Defence Strategy delivered in 2013.

It has a track record of advocacy in support of the defence sector in the Hunter and at State and National levels. Examples of this track record include;

- Release by the Hunter Business Chamber in February 2013 of its Hunter Defence Strategy
- Input from both Hunter Business Chamber and HunterNet in the development of the NSW Position Paper on Defence released in September 2013
- Input from both Hunter Business Chamber and HunterNet in the development of the NSW Government Defence and Industry Strategy released in February 2017
- Input from both Hunter Business Chamber and HunterNet provided to the NSW Department of Industry in the preparation of bids by the NSW Government for key defence projects for NSW
- Annual Hunter Defence conference, which attracts delegates and keynote speakers from the defence sector nationally and internationally

Hunter Defence also provides the following:

- Coordinates opportunities for businesses to win defence contracts being aware of all key defence projects (land, sea, air, joint and infrastructure) and align with regional capability and capacity
- Improve the skills of small-to-medium enterprises (SMEs) by providing workshops, training and education to ensure that they are “defence ready”
- Share information and work closely with NSW Trade & Investment, Regional Development Australia–Hunter, Industry Capability Network (ICN), Austrade, Enterprise Connect
- Markets the region’s defence capability to a global market
- Develops opportunities with the University of Newcastle and Hunter TAFE for research and skills

## **Response to Summary of Questions**

We have limited our responses to those questions most relevant to the submissions and evidence already presented to the Inquiry on behalf of Hunter Defence.

### **Chapter 1: The defence industry in New South Wales**

#### *Question 1*

*What additional measures, if any, should the NSW Government implement to improve coordination across government agencies, to support the delivery of the New South Wales: Strong Smart and Connected, The NSW Government Defence and Industry Strategy?*

The establishment of Defence NSW is an important and long overdue initiative, however, it needs to be resourced appropriately if it is to effectively drive collaboration across government departments and deliver on the NSW Government Defence and Industry Strategy.

When you consider the apparent commitment and resources allocated by other States to similar bodies, the question arises as to whether the NSW Government is as committed to supporting the Defence industry as might be suggested in the Strategy released in February 2017. For example, the Board of Defence SA comprises ten members, including the Premier. Defence SA has an executive leadership team of three people and four sector directors, all of whom are no doubt supported by other employees, Defence Victoria has a governing Council of eight members chaired by a former Federal Minister for Defence Materiel. When you compare these examples with the resourcing of Defence NSW it becomes apparent that the NSW Government must allocate greater resources to the delivery of a truly effective Defence and Industry Strategy if it is serious in its attempts to do so.

It is also critical, particularly from a regional perspective, that there is a structure within Government, to ensure that different Government departments and agencies are not working in silos in developing Government plans and strategies. An example of where it can be counter-productive became known in the drafting of the NSW Government Defence and Industry Strategy. The initial draft made no mention of the Hunter Regional Plan 2036 and the strategies and objectives in that Plan to support the defence and aerospace industry in the Hunter Region. Fortunately Hunter Defence representatives were invited to comment on the draft plan before it was released in February 2017 and that oversight was corrected.

Similarly, plans and strategies being developed by Government need to recognise existing capabilities and resources within the Regions and ensure that they are supported in continuing to maximize the opportunities they present to the overall State economy rather than “reinventing the wheel” in other Regions for reasons of political expediency – individual Regions should be supported to “play to their strengths” in a collaborative and cooperative approach for the overall benefit of the State’s economy.

Government should also ensure it is engaging with industry to understand the impact of various government policies on the defence sector and gaining a greater understanding of how regions such as the Hunter can help government in realising its defence objectives. Hunter Defence can play a crucial role in this regard.

## Question 2

*Should the NSW Government establish a whole of government Ministerial Council to provide effective governance of the New South Wales: Strong Smart and Connected, The NSW Government Defence and Industry Strategy implementation? If so, what form should this body take, and who should it be comprised of?*

If the question is suggesting the formation of a Ministerial Council within the COAG process Hunter Defence would support that approach on the basis it should give the NSW Government a seat at the table in promoting defence capability in NSW at a federal level. It should also be advocating the critical role the Defence sector in NSW plays in contributing to national defence needs in a coordinated and collaborative approach with other states and territories.

The formation of a Ministerial Council would support and lead a collaborative ‘Team Australia’ approach as referred to in Question 7d.

Alternatively, if the question is suggesting that a Ministerial Council be established within the NSW Government to better coordinate the development of plans and strategies by NSW State Government departments and agencies, then Hunter Defence would also support such an initiative although would recommend that an alternative to a purely Ministerial Council would be a structure similar to the Board of Defence SA which included at the least the Premier, The Minister for Trade and Industry, the Minister for Skills and the Minister for Planning together with industry representatives.

## **Chapter 2: Supporting defence industry growth**

### *Question 3*

*What more can the NSW Government do to ensure that its commitment to Defence and the defence industry is clear to stakeholders?*

Government should demonstrate its commitment to Defence and the industry through the establishment of a Board represented by the NSW Premier as well as industry experts and former senior defence personnel, similar to the Defence SA process. This is canvassed in greater detail in our responses to questions 1 and 2 above.

Defence NSW should further partner with existing bodies such as Hunter Defence to drive industry capability and capacity development as well as support collaboration and cooperation in defence critical regions such as the Hunter.

### *Question 4*

- a) *What are the potential benefits of an aerospace precinct at the Western Sydney Airport and how can the NSW Government support this initiative?*

Stakeholders in other parts of the state should have a working understanding of what the strategy is for the precinct in Western Sydney with opportunity to provide response to initiatives under investigation for this area. The development of an aerospace precinct in Western Sydney should be undertaken giving due regard to existing aerospace assets (Williamstown). The two aerospace precincts should complement each other rather than compete.

Hunter Defence understands the Department of Industry is developing an industry action plan for the aviation and aerospace sector with a consultation draft to be released mid-March and the strategy finalized by May 31. Hunter Defence representatives have been involved in a stakeholder workshop with Department representatives at which it was acknowledged that any industry action plan should recognise respective strengths of the Hunter and Western Sydney regions and ensure government plans and investment reflect the contribution from both regions in a complementary, rather than competitive, manner.

- b) *What further steps can the NSW Government take to support New South Wales' strengths in critical defence capability areas?*

The NSW Government should leverage from its existing defence assets across land, sea and air. All State strategies should align with regard to common defence land use and capabilities and acknowledge the goals of the Hunter Regional Plan 2036 in developing advanced manufacturing, defence and aerospace hubs.

Further to this, initiative 4E of the NSW Government Defence and Industry Strategy 2017 supports the development of economic opportunities around established and emerging industry clusters, including the aerospace precinct around Williamstown.

#### Question 5

- What steps can the NSW Government take to support the enhancement of Australian sovereign defence capability?*

Government can achieve this in part through the support and expansion of existing industry programs (e.g Hunter Defence) but commitment through appropriate resourcing is required.

#### Question 6

What further steps can the NSW Government and the defence industry take to optimise its chance of success in securing Future Submarine basing and accompanying sustainment work on the east coast of New South Wales?

The NSW Government should partner with existing defence primes (eg Cvmec and Thales) to develop a NSW basing and sustainment strategy.

#### Question 7

- a) *What steps can the NSW Government take to increase understanding of New South Wales defence industry capability with potential for export?*

There are currently a large number of SMEs investing in the development of capabilities to access domestic and export defence contract opportunities. Defence NSW needs to be aware of these initiatives and develop a state and regional based capability matrix.

- b) *How best can the NSW Government support and lead a collaborative 'Team Australia' based culture to maximise the economic benefits for all states and territories from Defence expenditure?*

The formation of a Ministerial Council would support and lead a collaborative 'Team Australia' approach. See Question 2.

## Question 8

- a) What steps can the NSW Government take to better understand defence industry capabilities in New South Wales?

There are currently a large number of SMEs investing in the development of capabilities to access domestic and export defence contract/opportunities. Defence NSW needs to be aware of these initiatives and develop a state and regional based capability matrix.

What role should Defence NSW have in building connections between local industry and primes?

Defence NSW should provide support to existing structures that provide efficient and effective connection models. In its submission to the Defence Industry Inquiry (2017) Hunter Defence *“urges the committee to include in its recommendations support for reasonable recurrent funding from the Department of Industry to supplement the existing investment by Hunter Defence and thus to support the ongoing work of Hunter Defence in the implementation of the 2017 Strategy and its ongoing advocacy and support for the defence sector in partnership with Defence NSW”*.

- c) Is the development of a Defence Capability Directory, such as that developed in the ACT, a useful model for the NSW Government to consider and adopt?

See 8a

## Question 12

- a) What benefits have been delivered by the ME Program to date? Based on this evidence, what steps should the NSW Government take to support the program and explore its roll out across the state?

In its submission to the Defence Industry Inquiry Hunter Defence notes:

*Hunter Defence draws the Committee’s attention to the very successful ME Program conducted by RDA<sup>1</sup> Hunter with funding from the Department of Defence.*

*The ME Program began in 2010 as a Hunter initiative to halt the decline of students studying STEM subjects and to boost the growth capacity of the Hunter’s STEM sensitive industries including Defence. To date the Program has provided over 25,000 high school students with innovative educational and industry based experiences that reflect the skills they will require in the future.*

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<sup>1</sup> RDA Hunter 2017 Hunter Investment Prospectus, page 16

*The ME Program focuses on developing a smarter workforce by developing student knowledge and skills in future technologies in areas such as Robotic Systems, 3D Design and Printing, Virtual Reality, Unmanned Aerial Vehicles, Coding and Embedded Systems.*

*Participating schools work closely with local industries to develop the enterprise skill sets which are required in order to pursue careers in the STEM based industries and Defence.*

*The Hunter based program is supported by over 50 innovative businesses who allow schools access to resources.*

#### Question 14

Should the NSW Government help facilitate increased coordination between government, the defence industry, and universities in the creation of university courses that meet the needs of defence industry businesses? How can the NSW Government achieve this?

Government plays an important role in improving coordination between these bodies but skills gaps are at least in part attributable to the reduction in funding and course availability through the TAFE system. While work is currently progressing to address skills and training needs of young people in schools and universities it should be acknowledged that TAFE is also an important pathway to a defence industry career and this model should be reassessed for its contribution and ability to contribute going forward.

Government should take a holistic view of how defence industry skills are being delivered in regional areas so that gaps can be identified and addressed across all educational institutions.

### **Chapter 3: Supporting Small and Medium Enterprises (SMEs)**

#### Question 23

- a) What enabling infrastructure projects should the NSW Government target to support defence industry start up and growth?

It is important that transport and infrastructure corridors that support defence are identified and preserved.

In its submission to the Defence Industry Inquiry 2017 Hunter Defence notes the following:

*In relation to supporting development in the area surrounding the RAAF Base Williamtown and Newcastle Airport, that submission referred to the following as essential enabling infrastructure;*

- *M1 to Pacific Highway upgrade plus the upgrade of Tomago Rd/Cabbage Tree Rd and the upgrade of Nelson Bay Rd from the Stockton Bridge to the Airport. The upgrade of Cormorant Drive from the Tourle St Bridge to the Stockton Bridge is already underway - \$35m was allocated in the 2016 Budget for this specific project, jointly funded with the Federal Government.*

*The economic benefits of these works are directly linked to improving access to and from Newcastle Airport and the Port bringing benefits to tourism and growth opportunities for the industrial land in the Tomago/Williamtown precincts. It improves access not just from the south on the M1 but also from the north on both the New England Highway and the Pacific Highway.*

*In the 2016 State Budget an amount of \$7m was allocated for planning works for the M1 to Raymond Terrace extension. The Tomago Rd/Cabbage Tree Rd sections are certainly an important part of the Airport and Port precincts access solution.*

*This project is listed as a proposed initiative in Infrastructure Australia's Infrastructure Priority List published in February 2017 as having a "near term problem timescale" which suggests the project would also gain Commonwealth support.*

*Hunter Defence takes this opportunity to draw this Committee's attention to this key piece of enabling infrastructure, which is important to attracting defence related industries to the Hunter and maximising the economic benefits of locating defence industries in the Hunter region.*

- b) What measures can the NSW Government take to help attract defence industry workers to regional areas? For example, should the NSW Government establish a community development fund to help create defence supportive communities in regional towns?

In its submission to the Defence Industry Inquiry 2017 (pg 17), Hunter Defence notes the following:

*The Hunter has well established local and defence friendly communities surrounding Williamtown RAAF base and Singleton Army barracks. Businesses have been established to support training skills for Defence and there is a strong defence reserve support network across the Hunter.*

*In September 2016 the Hunter Defence Support Network launched its Honorary Commander Program. This is a program designed to connect businesses in the region with ADF personnel based in the Hunter in order to provide additional support to ADF families through various community activities and events and to grow the awareness of businesses in the region with the defence operations in the Hunter. The program draws on the example of the Fighter Country Partnership with Luke Air Force Base in Arizona.*

*The launch saw 12 Hunter businesses partnered with different squadrons or units based at RAAF Williamtown.*

*Hunter Defence therefore urges the Committee to consider recommendations in its findings for financial support and commitment from the NSW Government for this initiative in communities, which are home to significant Defence establishments. This is an opportunity for a whole of Government approach to supporting Defence personnel and their families.*

Hunter Defence appreciates the opportunity to make submission to the Discussion Paper and would welcome any further engagement around this matter.

### Contact

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