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Whither Upper Hunter?

Alan Rai – Principal Economist

FUTURE OPPORTUNITIES AND THREATS

- **Focus on our competitive advantages**
  - Agriculture, tourism, equine, energy
  - Gas?

- **Free-trade agreements (FTAs)**
  - Significant opportunities for us
  - But also threat from foreign rivals

- **Diversity in land use:**
  - Conflicting and competing uses of land
  - Compare longer-run costs and benefits of alternative uses of land

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COMPETITIVE ADVANTAGES

WHAT ARE THEY?

- **Comparative advantages:**
  - Energy (e.g. renewables)
  - ‘Agritourism’
  - Wine
  - Equine
  - Advanced manufacturing

- **Where are our comparative disadvantages?**
  - Unskilled, cheap labour
    - Mass production
    - Standardised manufacturing
  - Our high (labour) costs resemble Germans and Swiss
    - Yet they have a vibrant manufacturing sector. How?

ChAFTA AND OTHER FTAs

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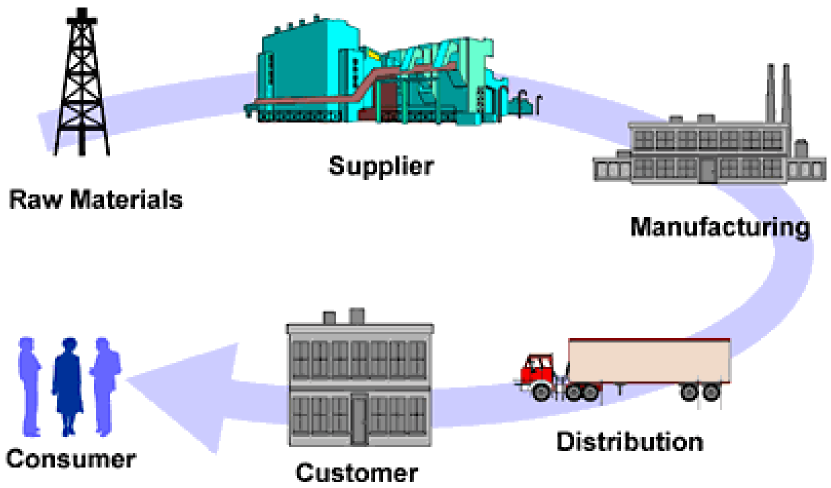
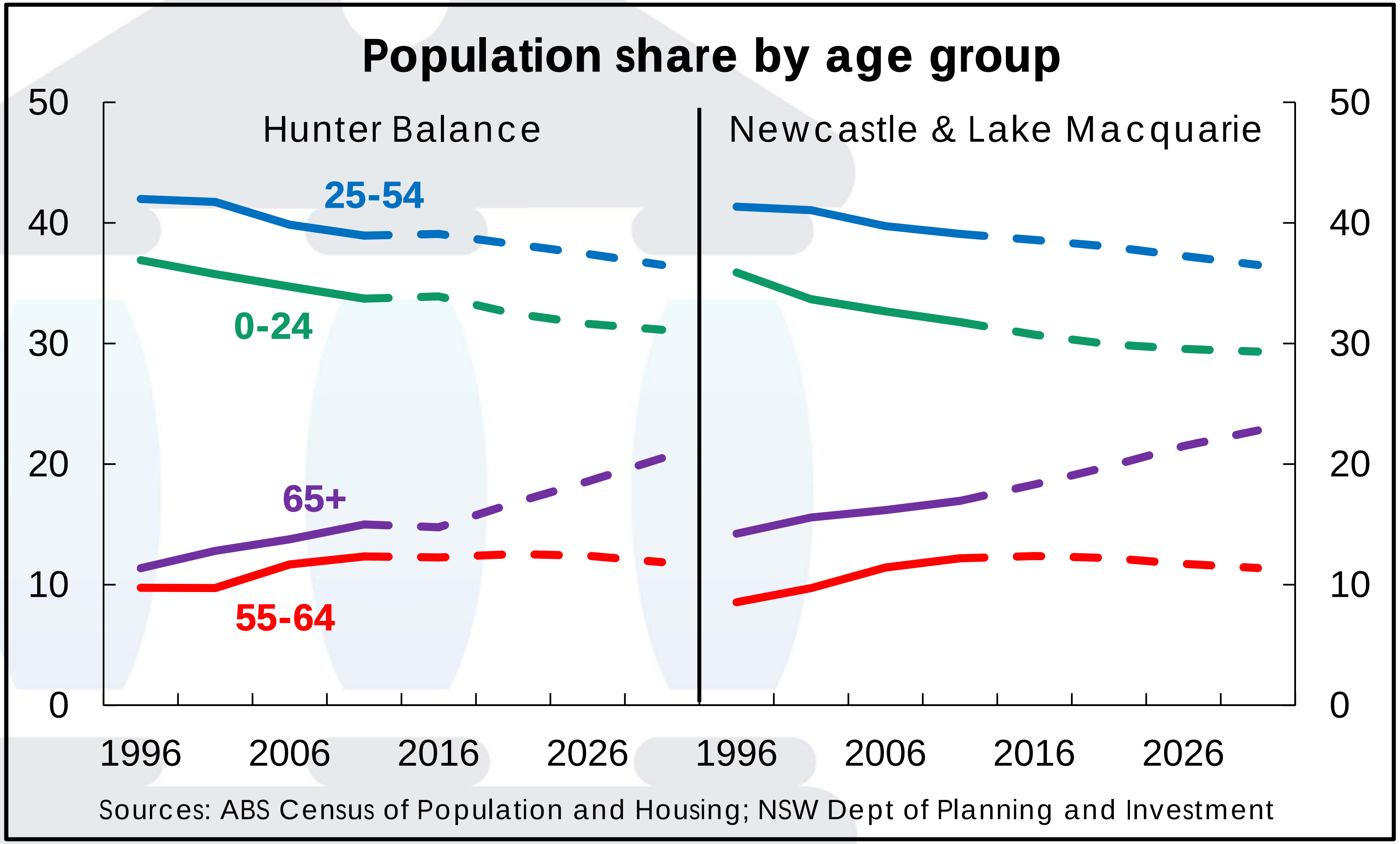
PLAY TO OUR STRENGTHS – BUT ALSO POSE THREATS

- **Our skilled workforce employed in:**
  - Health and Aged Care services
  - Advanced manufacturing (renewable energy, medical equipment)
- **Our arable land:**
  - Agritourism, wine, equine
- **FTAs also represent threats**
  - ‘Low-value’ manufacturing
- **We must focus on where we are most productive**
  - Accelerates ‘servitisation’ of our industries



OUR DEMOGRAPHIC TRENDS

ENHANCE OUR ECONOMY'S 'SERVITISATION'



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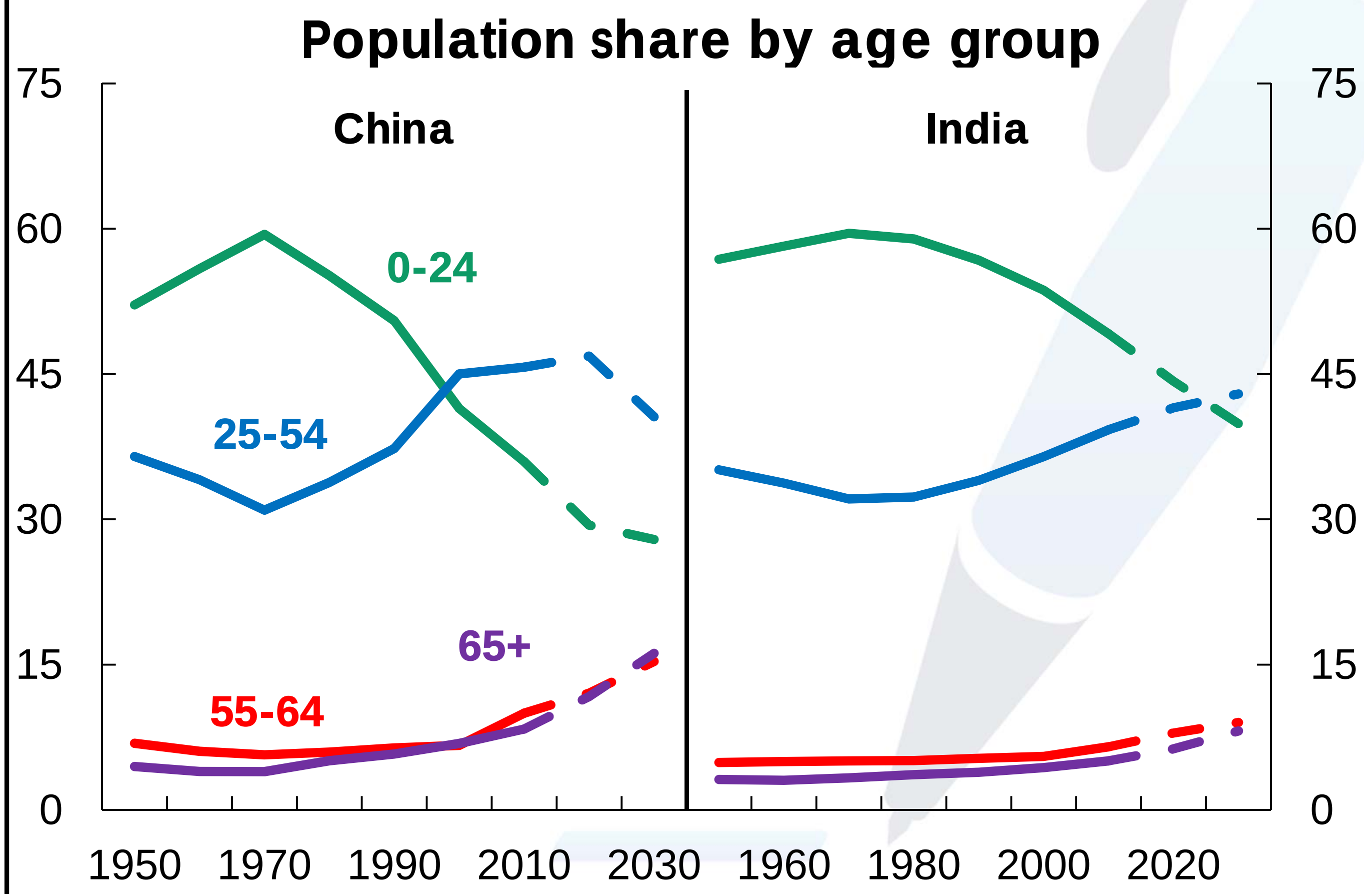
ASIA'S DEMOGRAPHIC TRENDS

FURTHER BOOST TO 'SERVITISATION'



Source: United Nations *World Population Prospects - 2012 Revision*

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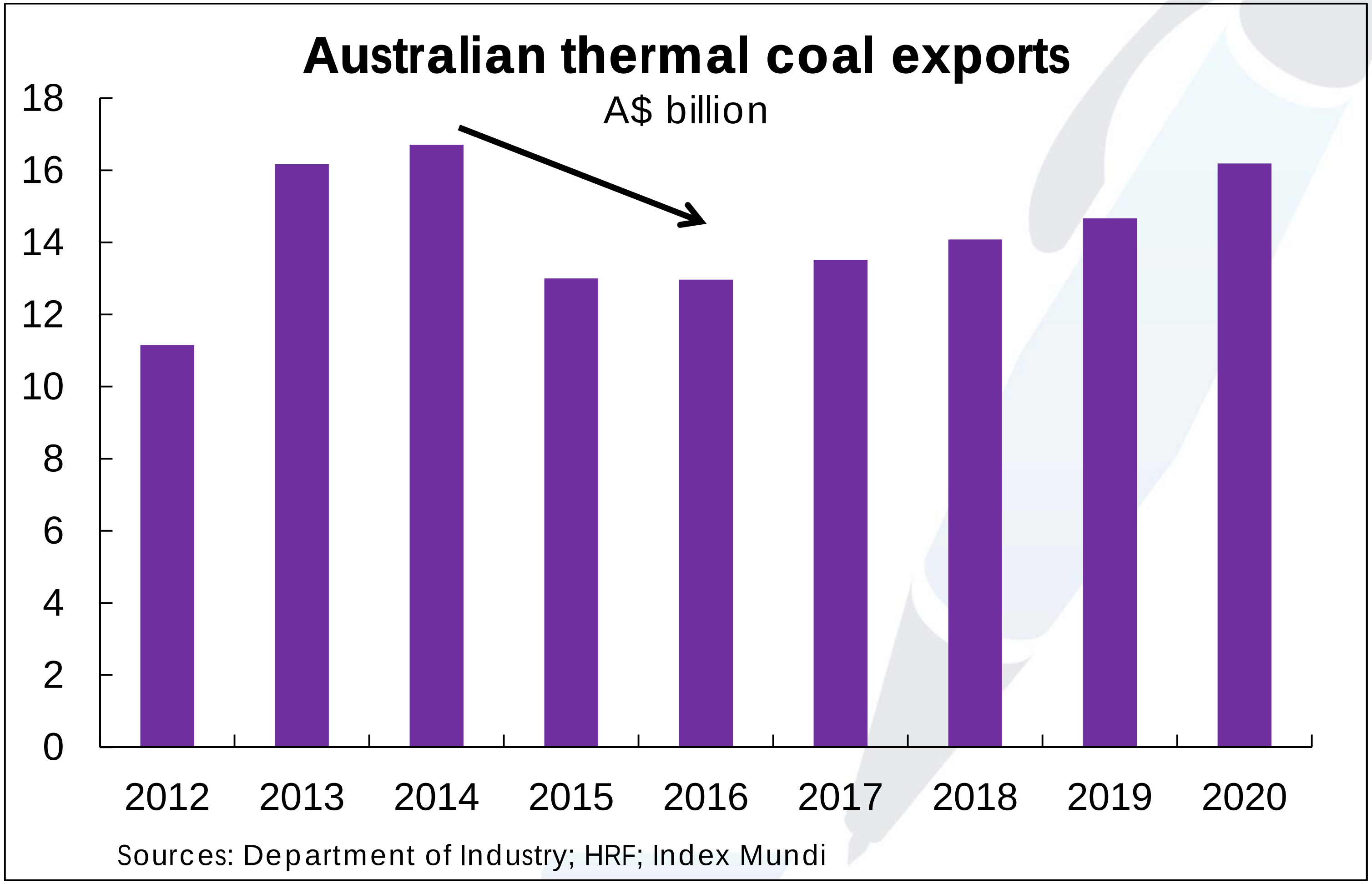
SOME COAL HARD FACTS



Falling export earnings despite surging tonnage

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THERMAL COAL
COOLING

- **Coal industry: from investment to production**
  - Latter 80% less labour intensive than former!
  - Lack of employment exacerbated by falling prices: no incentive for new build
- **Why are prices falling?**
  - New supply coming online + lower demand
- **(Global) oversupply will take time to reduce**
  - Take-or-pay contracts is one barrier
- **Why is demand falling?**
  - Short- and longer-term trends
  - Longer-term: falling carbonised-energy intensity

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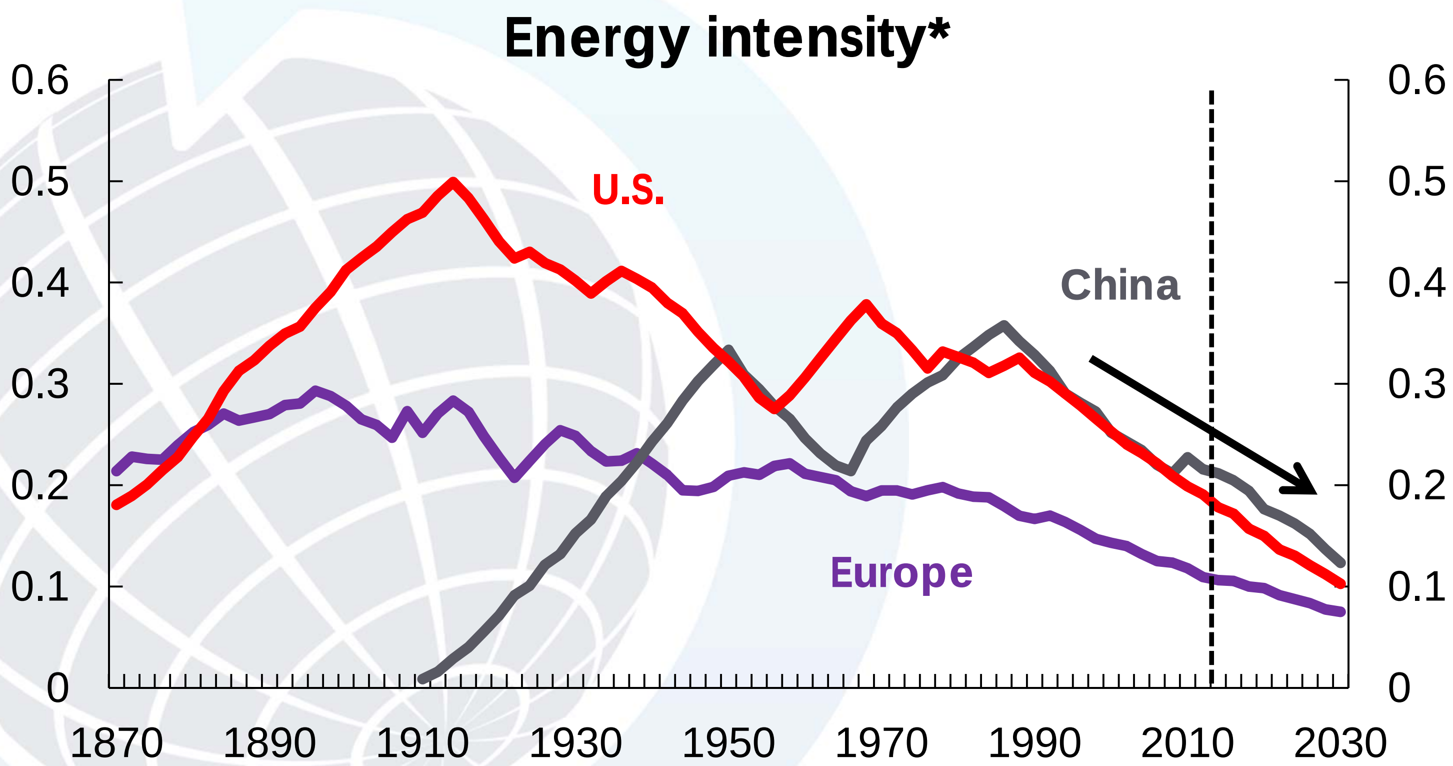
LONGER-TERM ENERGY TRENDS

ENERGY DEMAND TRENDS

NOT SO INTENSE



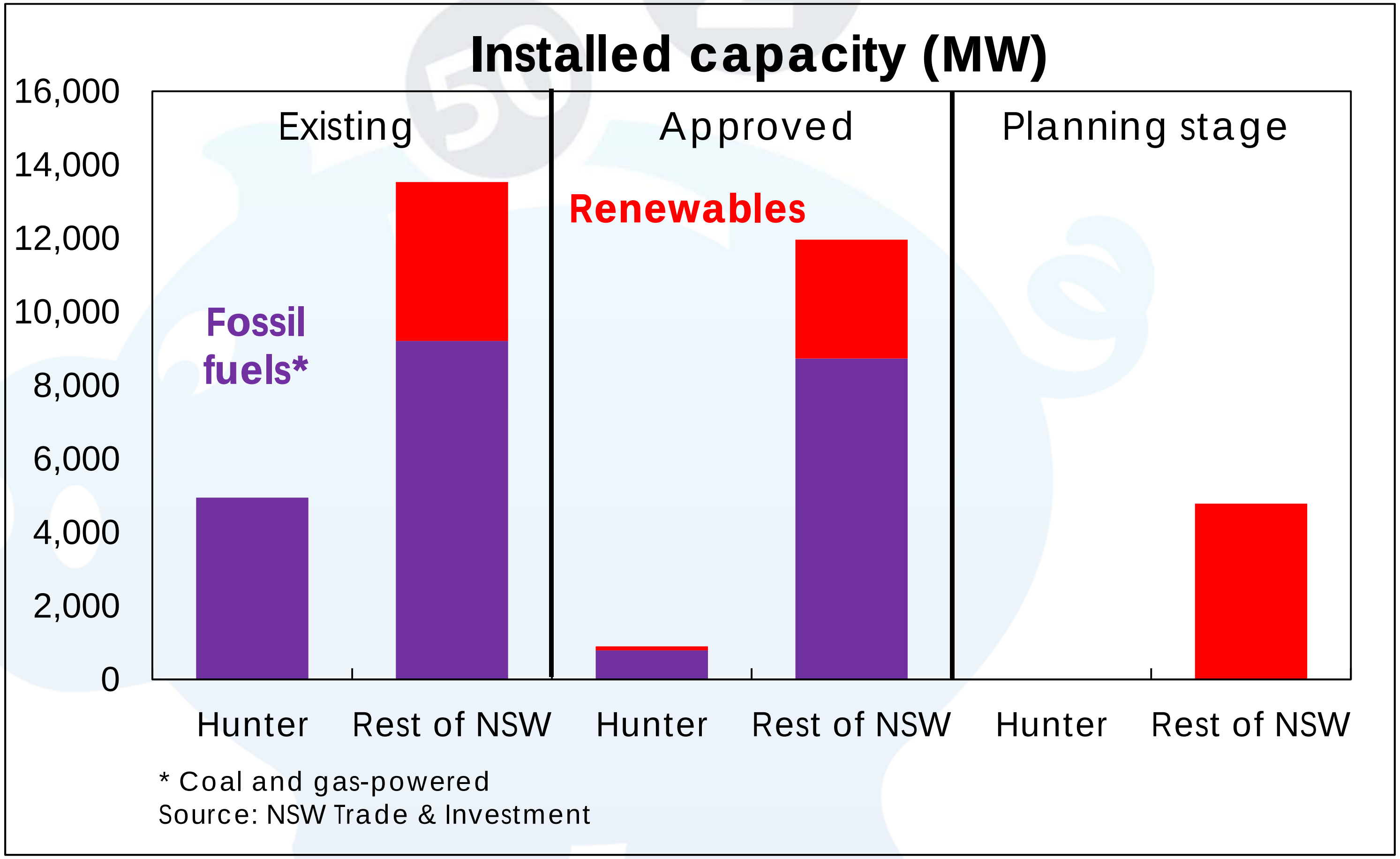
* Amount of oil (in tonnes) used to produce one unit of output
Source: BP

(1) Economic development + (2) climate concerns

ELECTRICITY: WATT ABOUT IT?

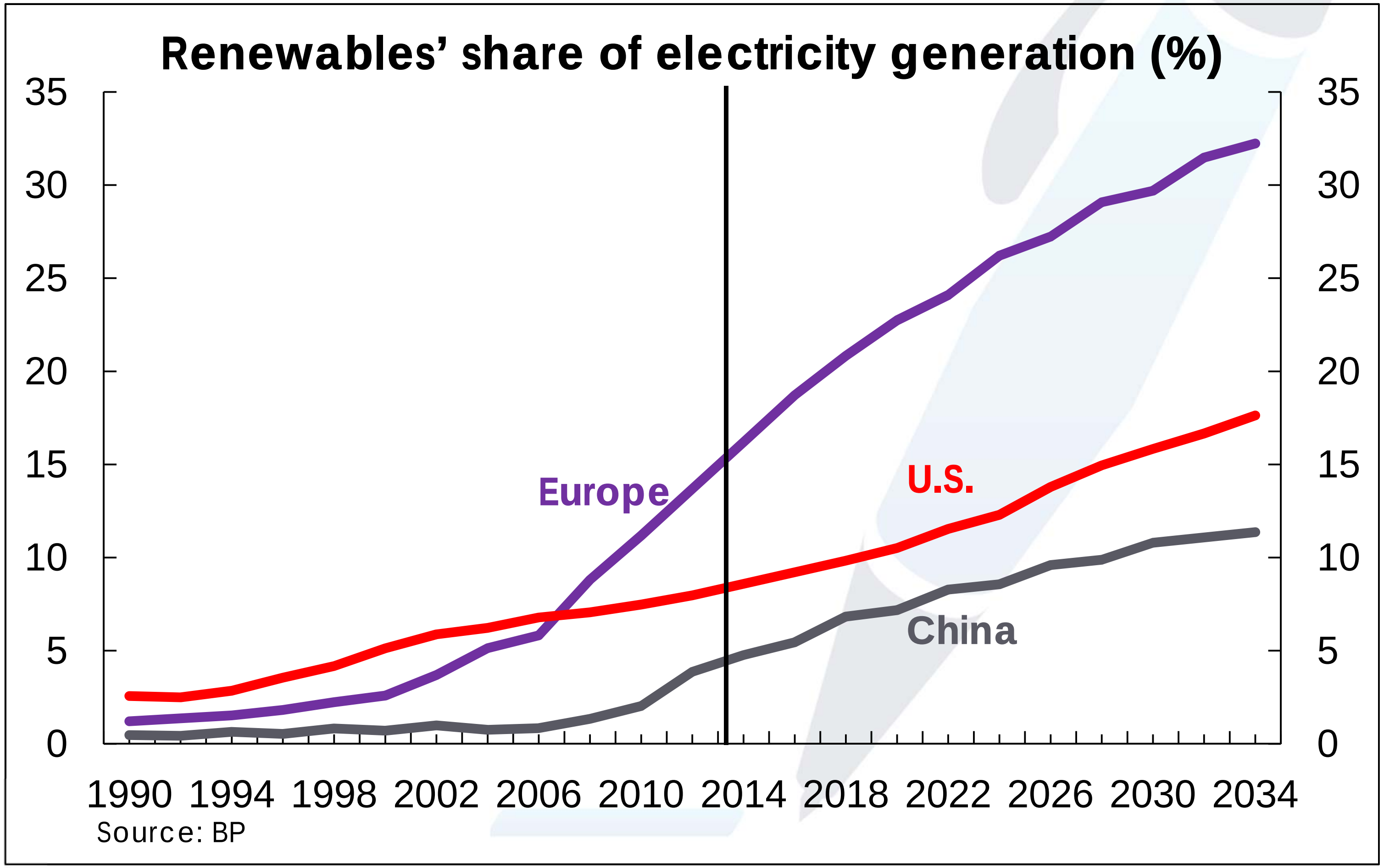
- **Renewable electricity generation**
  - New generation is unprofitable (for now) due to low demand
  - But longer-term ‘currents’ support renewables investment
- **Longer-term currents**
  - We all agree our manufacturing needs to be ‘advanced’
  - We all think more may be needed to limit global warming
    - To keep the rise in global temperatures below 2-2.5 degrees
- **An opportunity to invest in these trends**
  - We have the resources in our own backyard to do this!

INVESTMENT
'SHOCKINGLY' LOW

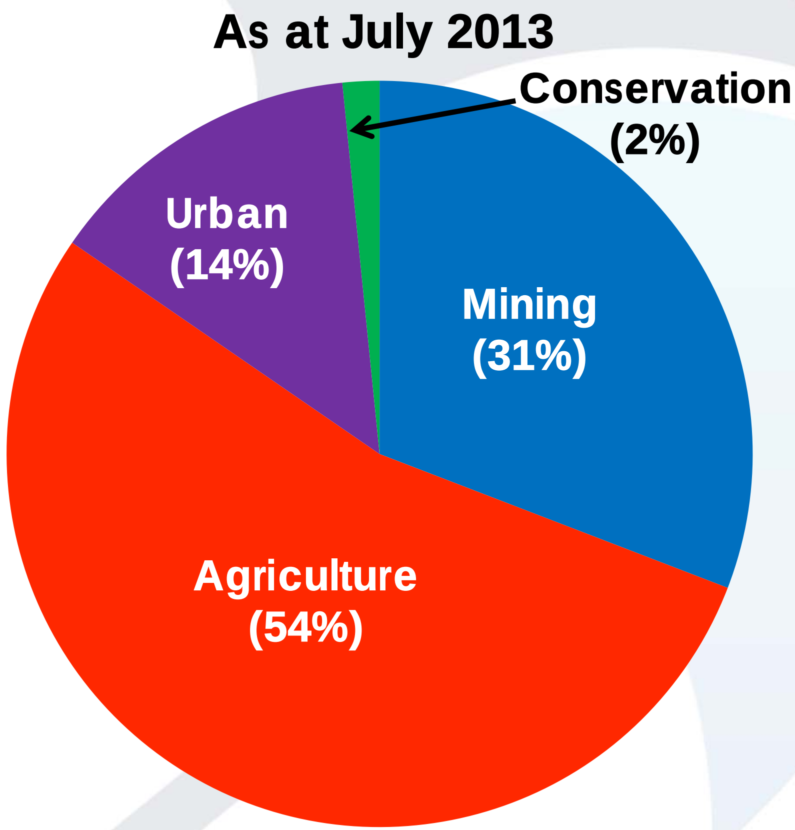


RENEWABLES

A POWERFUL SURGE



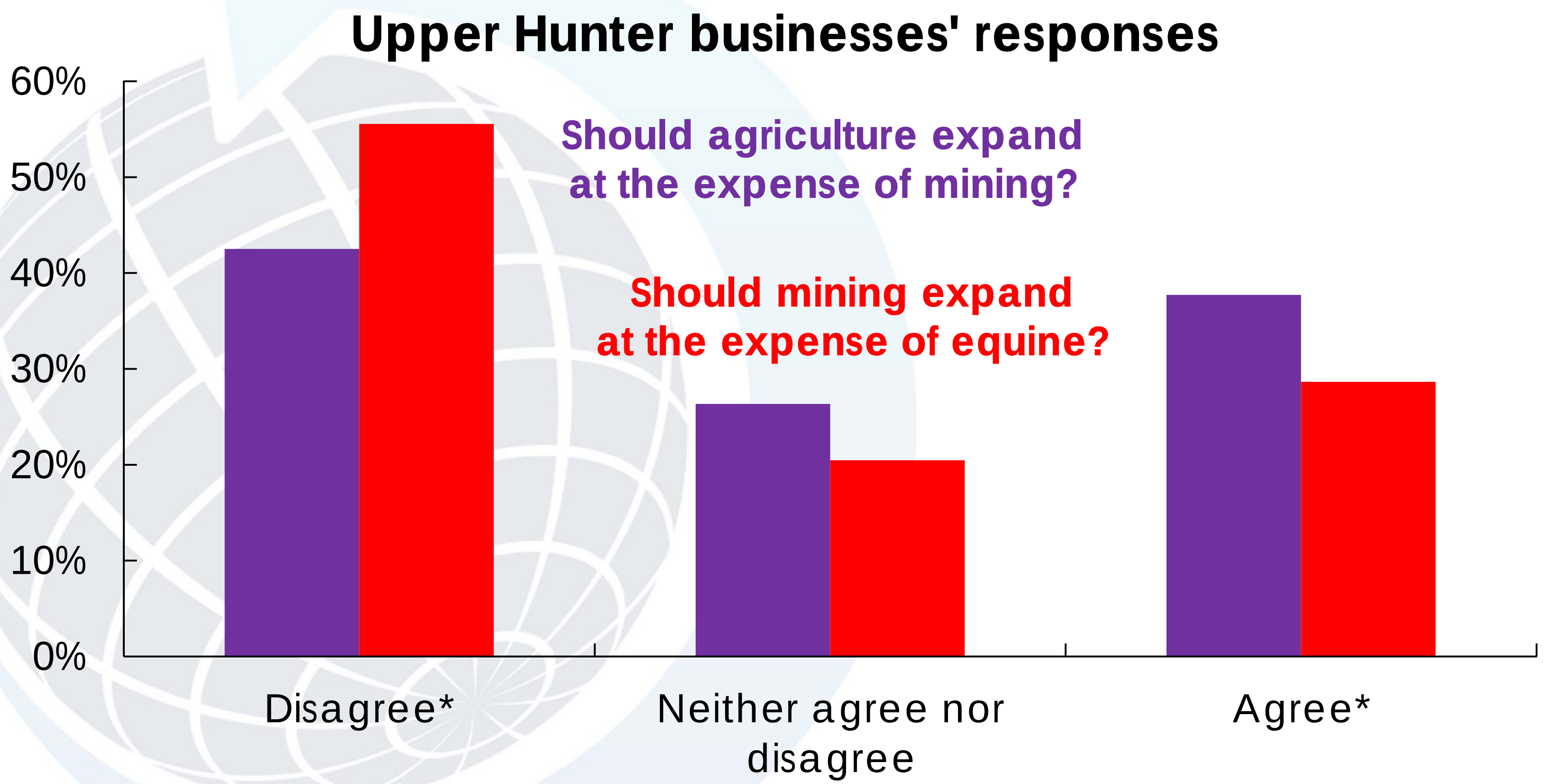
LAND USE IN THE HUNTER BALANCE



Sources: Australian Bureau of Statistics; HRF

WHAT DO BUSINESSES WANT?

A BALANCE



* 'Disagree' includes "strongly disagree"; 'Agree' includes "strongly agree"
Source: HRF Upper Hunter Business Omnibus Survey

HRF's business & consumer surveys: a unique Regional asset

LAND USE CLAIMS

A BALANCE MUST BE STRUCK

- **Conflicting, diverse land use claims**
  - Mining, equine, wine, agritourism
  - How to compare & contrast these?

- **Cost-benefit analysis *over the life cycle***
  - For each (genuine) proposed use of land
  - Cumulative impacts; include costs of remediation
  - Balance short-term benefits over longer-term costs
  - (Opportunity) cost of forgone alternatives
- **Not easy to do....but is vitally important!**

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- **One-on-one, interviews of 54 Hunter manufacturers**
- **600+ senior researcher hours**
- **12 advisory group stakeholders**

CARPE DIEM!

NEEDS STRATEGIC THINKING

- **HRF's *Manufacturing Our Future* project**
  - Example of HRF's regional research capabilities
  - Q: what differentiates improving from declining manufacturers?
- **What is the recipe for success?**
  - formal strategic business plans
  - hooked into global supply chains and networks
  - focused on design and other high-value segments of the supply chain
  - are innovative (e.g. technology adoption; a focus on 'servitisation' and customisation)
- **'Ingredients' are not unique to manufacturers**

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Delivering insights that move the Hunter forward

Thank you