Identification of opportunities to support Structural Adjustment in the Latrobe Valley

Briefing Report One – Assessing current knowledge

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About this Report

In January 2012, the Commonwealth Department of Regional Australia, Regional Development and Local Government commissioned the Centre for Sustainable Organisations and Work (based out of RMIT University) to examine opportunities for investment and job growth in the Latrobe Valley. Utilising existing data from key reports and research, this briefing report establishes a contextual overview for this study by answering the following questions:

- What has been said about economic diversification in the Latrobe Valley Region (Baw Baw, Latrobe City and Wellington)?
- Where are the job opportunities (current and projected) in the Latrobe Valley Region and wider Gippsland?
- What are the conditions for realising these opportunities? Seeks to identify the roles and the skills of workers in industries likely to be impacted by a transition to a low carbon economy.

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Introduction

In January 2012, the Commonwealth Department of Regional Australia, Regional Development and Local Government commissioned the Centre for Sustainable Organisations and Work (based out of RMIT University) to examine opportunities for investment and job growth in the Latrobe Valley. Utilising existing data from key reports and research, this briefing report provides a contextual overview for this study by answering the following questions:

- What has been said about economic diversification in the Latrobe Valley Region (Baw Baw, Latrobe City and Wellington)?
- Where are the job opportunities (current and projected) in the Latrobe Valley Region and wider Gippsland?
- What are the conditions for realising these opportunities? Seeks to identify the roles and the skills of workers in industries likely to be impacted by a transition to a low carbon economy. This Briefing Paper aims to answer the following questions with currently available data from key reports and research:

Key findings

1. There is a lack of consistency in available reports as to where growth areas are located.
2. There are different understandings about the generation of jobs in the region.
3. There are likely to be very different outcomes depending on whether there is active government intervention or not.
4. The choice of policy approach appears to be either one that is comprehensive and integrated or a series of ad hoc interventions; the outcomes are likely to be different.

Implications

1. Policy must be very clear about the approach that is advocated to generate jobs.
2. Decisions should be taken about the focus of intervention.
3. Consideration will need to be given to how the different levels of government and all relevant interest groups are involved in the process of transition.
4. Attention should be given to encouraging an agreed approach for the Latrobe Valley region, involving a range of social actors (e.g. employers, unions, local government, community organisations) across the three LGAs.
Background and Scope

For the purposes of this project the Latrobe Valley region is defined as the three local government areas (LGAs) of Latrobe City, Baw Baw and Wellington. The estimated population of this region in 2010 was 162,700 people (KPMG, 2011) up from 146,567 in 2006 (Fairbrother et al., 2012).

The Latrobe Valley has a primarily resource-based economy, with key propulsive industries currently identified as energy, mining and construction, agriculture and forestry and manufacturing. These industries, along with oil and gas in East Gippsland, make significant contributions to Gippsland’s employment, export earnings, and value adding activities. Some of the most skilled and best paying jobs in the region are also found among these industries. Changes in investment and/or economic activity in any of these sectors will have an impact on other sectors (e.g. retail, hospitality, health and community services) and the broader regional economy. In terms of employment, a growing service sector should also be noted.

There is considerable interest and concern surrounding the future of the Latrobe Valley. The region is thought to be especially exposed to changes resulting from climate change and policies addressing climate change, in particular, the carbon pricing associated with the Commonwealth government’s Clean Energy Future package. Therefore, there are expectations that the region will undergo significant economic and social change in the near future.

Current growth areas

The Gippsland Regional Plan (2010) identifies the following areas as those which have experienced growth in the period 2006-2010:

- Construction
- Health and Community Services
- Government Administration and Defence
- Retail Trade
- Education

However, not all of these are applicable to the Latrobe Valley region. In the Valley specifically, there is evidence of growth in the health and community services, retail trade and education over this period, but there is some debate over the current strength of construction industry and its potential for growth going forward. The areas of growth are complemented by areas of decline, although the profile is not necessarily symbiotic. These areas are identified and discussed in a set of key reports. These reports inform the analysis presented below (see also Table 1).
Economic diversification

There has been some economic diversification in the Latrobe Valley over the last decade as a result of both demographic shifts and considerable economic restructuring. There has been a move away from the extreme dominance of the coal-based electricity sector, particularly in terms of employment. The most often noted trend of the last decade is the growing importance of the retail and services sectors (including health and aged care). Economic diversification and economic stability in the Latrobe Valley is expected to confront additional challenges with the further contraction of the coal-based electricity sector under carbon pricing and proposals to bring about the early closure of one or more the region’s brown coal-fired generators. Identifying new opportunities for growth in other sectors and the appropriate means of transition for displaced workers, including appropriately targeted skills and training, should underpin economic diversification objectives.

Debates about Diversification

There is some debate about the genuine prospects for economic diversification within the Latrobe Valley. These differences hinge, somewhat, on whether or not the so-called “clean-coal” technologies are viable in the shift to a low carbon economy. The Gippsland Regional Plan (2010), for example, predicts that a shift to clean coal technologies could create growth and help offset employment losses in the coal-based electricity sector. As Table 1 shows, none of the other major reports emphasise this possibility (although “clean coal” technology is mentioned in the Positioning Latrobe City for a Low Carbon Emission Future report produced by the Latrobe City Council in 2010). There are also considerable differences between approaches in terms of amount and type of government intervention in the region, and understandings of the Valley’s ability to achieve resilience and growth after the expected contraction of the electricity generation sector and associated job losses.

There are also considerable differences in terms of methodology and modelling. Reports based on standard economic modelling generally predict growth on the assumption that, aside from the introduction of carbon pricing, most other factors remain stable. So the areas of growth predicted by such reports are put forward on an “as is” basis. They do not predict, for example, the impact that active government intervention may have in stimulating other sectors of the economy. Weller and colleagues (2011) also claim that standard economic modelling is likely to be both simplistic and optimistic when dealing with situations of economic decline and, as a result, such predictions tend to suggest populations will be better placed to recover from significant economic restructuring than is actually the case in the real world. The last significant difference is between those reports which advocate a mid- to long-term, market-driven shift towards a service based economy (e.g. Gippsland Regional Plan, 2010; KPMG, 2011) and those which advocate more active government interventions to promote green manufacturing, construction, technology, investment, research and education (e.g. Climate Works, 2011; Weller et al., 2011).
Projected challenges and opportunities

Table 1 outlines the basic predictions for areas of growth and decline in the Latrobe Valley Region over the next 20 years, according to five major reports dealing with the issue of economic diversification and the transition to a low carbon economy.

<table>
<thead>
<tr>
<th>REPORT TITLE</th>
<th>AUTHOR / YEAR</th>
<th>PREDICTED AREAS OF GROWTH</th>
<th>PREDICTED AREAS OF DECLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIPPSLAND REGIONAL PLAN</td>
<td>Gippsland Regional Plan Control Group (2010)</td>
<td>Tertiary education, Tourism, Aged Care, Possibly “clean coal” related industries</td>
<td>Coal-based electricity generation, Coal-based electricity generation, Manufacturing</td>
</tr>
<tr>
<td>LOW CARBON GROWTH PLAN FOR GIPPSLAND</td>
<td>Climate Works (2011)</td>
<td>Construction (retro fitting and eco-construction)</td>
<td>Coal-based electricity generation, Manufacturing, Agriculture (medium term before returning to modest growth long term)</td>
</tr>
<tr>
<td>GIPPSLAND TERTIARY EDUCATION PLAN</td>
<td>Dow et al. (2011)</td>
<td>Aged care and health, Education and Training, Construction, Retail and Tourism (lesser)</td>
<td>Brown coal related industries, Education and training</td>
</tr>
<tr>
<td>LATROBE VALLEY INDUSTRY GROWTH PROJECTIONS</td>
<td>KPMG (2011)</td>
<td></td>
<td>Mining and Electricity, Agriculture (medium term before returning to modest growth long term)</td>
</tr>
<tr>
<td>THE REGIONAL EFFECTS OF PRICING CARBON EMISSIONS</td>
<td>Weller et al. (2011)</td>
<td>Oil and Gas (capital only – not employment), Service sector, Mining (for Wellington only), Manufacturing (capital only – not employment)</td>
<td>Green manufacturing (only with govt. intervention), Research and development (only with govt. intervention), Education and Training (only with govt. intervention), Gas-fired electricity production</td>
</tr>
</tbody>
</table>

Table 1
Areas of agreement and contention

There is clearly widespread agreement about the decline in coal-based electricity generation and many of the reports take this as a starting point. There is also widespread agreement about predicted growth in demand for health and aged care services. There is, however, significant disagreement, as the table shows, with regard to projected areas of growth and areas of decline outside of the coal-based electricity sector. While the Gippsland Regional Plan (Gippsland Regional Plan Control Group, 2010) and the Gippsland Tertiary Education Plan (Dow et al., 2011) suggest tourism as a potential growth sector, both the Latrobe Valley Industry Growth Projections (KPMG, 2011) and The Regional Effects of Carbon Pricing (Weller et al., 2011) report, caution against optimism with regard to the potential to significantly expand tourist operations. Construction too is an area of contention. The Gippsland Regional Plan and the Low Carbon Growth Plan for Gippsland (Climate Works, 2011) promote construction as a potential growth area, partly as a result of population growth and, in the case of the Low Carbon Growth Plan, partly as a result of the likely demand for retrofitting and eco-construction (e.g. installation of solar panels) in the future. The Latrobe Valley Industry Growth Projections, however, suggest that the population growth of the Latrobe Valley Region will still be less than the Victorian average and that any increase in construction will be unevenly spread across the Latrobe Valley.

Furthermore, some predictions are completely at odds. While the Gippsland Tertiary Education Plan and the Gippsland Regional Plan, for example, suggest education and training will be a growth area, the Latrobe Valley Industry Growth Projections report asserts that there will be a slowing of growth and even potential contraction of the education and training sector, particularly given the aging population. In addition, the Gippsland Tertiary Education Plan predicts a decline in manufacturing while The Regional Effects of Carbon Pricing report is optimistic about the potential for growth in green manufacturing relating to renewable energy.

Causes of contention

Many of these differences can be attributed to divergent understandings of government intervention. The Gippsland Tertiary Education Plan argues for significant government intervention to boost participation in post-secondary education. Such intervention is especially important in a region which has some of the lowest year 12 retention rates in Victoria. It is implied, therefore, that growth will follow if there is some kind of intervention to boost demand for and supply of tertiary education options. Under an “as is” model, however, demand for education and training generally could be expected to fall as, given the aging population, there will be less people of typical school and university age living and working in the region.

1 The Gippsland Regional Plan does make mention of Defence and Aviation as a potential growth sector, but not in relation to the Latrobe Valley. None of the other reports mention defence and aviation as potential growth sectors.
Government intervention

As shown in Table 2, there are some points of general agreement between the reports on prospective employment growth in the Latrobe Valley Region in the next 10 to 20 years, depending on whether or not there is appropriate targeted government intervention in the region to assist the transition to renewable energies. Targeted government intervention is likely to shape the emerging economy in ways that are distinct from the situation without this form of intervention.

<table>
<thead>
<tr>
<th>PREDICTED AREAS OF EMPLOYMENT GROWTH</th>
<th>WITH TARGETED GOVERNMENT INTERVENTION</th>
<th>WITHOUT TARGETED GOVERNMENT INTERVENTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green manufacturing</td>
<td>Health and Aged Care</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>Tourism (limited)</td>
<td></td>
</tr>
<tr>
<td>Education and Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and Aged Care</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism (limited)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction (limited)</td>
<td></td>
<td></td>
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</tbody>
</table>

Table 2

The importance of government intervention is most prominent in The Regional Effects of Carbon Pricing report. The authors warn against the assumption that without any intervention the economy of the Latrobe Valley Region will, as a result of market forces, eventually become a service-based economy. Weller and colleagues (2011) argue that, while the Valley may be able to move towards a service-based economy, the process is likely to cause significant hardship. Firstly, because in the main area of contraction – coal-based electricity and mining – there are limited transferable skills with the areas of tourism, retail, health and aged care. If it is even possible, it will certainly not be easy for displaced workers from heavy industry to simply transfer to the services sector. Secondly, the services industry is heavily feminised and relies on a considerable part-time workforce with wages which do not rival those currently offered in the masculinised areas of energy and mining sectors. The Regional Effects of Carbon Pricing report, therefore, contends that the only way forward to secure the Latrobe Valley’s economic and social future is to implement plans which actively promote the region as a green manufacturing and renewable energy hub, a centre for green manufacturing, research and development, as well as education and training. A similar argument has been made by Bill and others (2008) with regard to the transition towards a renewable energy economy in the Latrobe and Hunter Valleys. While a carbon price will help limit demand for coal-based electricity, the growth of the renewable or green energy sector will need government help, and this should be directed to areas likely to experience economic disadvantage as a result of the decline in coal-based electricity.
Defining growth

The final differentiation is in terms of defining growth. Not all of the reports draw a distinction between a sector’s growth of employment, growth in output, or growth in percentage of value added. The Latrobe Valley Industry Growth Projections report does make these distinctions in its predictions, however, and such an analysis shows that while there may be possibilities for growth in terms of value added and output in the manufacturing, and oil and gas sectors, these are likely to come from technological change and capital investment, and thus are unlikely to promote employment opportunities for those in the region. It is therefore important to be clear about what types of opportunities that growth in different sectors creates.

Conditions for capitalising on opportunities

The main condition for capitalising on potential employment opportunities in the Latrobe Valley Region is appropriate and active government intervention and support. Several reports (e.g. Bill et al., 2008; Fairbrother et al., 2012; Latrobe City, 2010; Weller et al., 2011) have made recommendations about the nature that government intervention in the region should take in light of the transition towards a low carbon economy. Bill and colleagues (2008) argue for a “just transition” for workers and regions most affected by the shift to a low carbon economy, particularly those such as the Latrobe and Hunter Valleys with economies still heavily reliant on coal-based electricity generation. This approach is primarily about ensuring that the costs of environmental change are shared fairly through the population (Bill et al., 2008). To this end, they argue for a variety of interventions including:

- Assistance for displaced workers and contractors
- Consultation with and full engagement of unions
- Support for innovation and partnerships for local industries
- Investment in research and development, and infrastructure
- Training for alternative employment
- Special targeted support for older, disabled and less educated workers
- Relocation assistance for displaced workers
- Income maintenance, redundancy entitlements and retraining allowances
- Subsidies for new industries and employers
- Compensation and equipment buy-outs for contractors
- Investment in training a “green workforce”
- A “Job Guarantee” for displaced workers

Many of these recommendations are echoed in reports by Fairbrother and colleagues (2012) and Weller and colleagues (2011) with the notable exception of the “job guarantee” which is not replicated elsewhere. This scheme is based on the concept of the state providing employment, at minimum wage, for workers
displaced by closures and downsizing associated with the shift to a low carbon economy. This would be a safety net which encouraged active employment rather than a potential shift to the welfare dependency that has often been associated with the regional-based closure of heavy industry in other industrialised nations (Bill et al., 2008).

A holistic approach to renewal

International comparisons suggest that there has not yet been a wholly successful transition program put in place in industrialised economies to compensate regions experiencing downturns as a result of a dominant industry closure or sector decline. Many areas of the industrialised West that have experienced significant economic restructuring still struggle with higher than average unemployment as well as underemployment and associated negative social consequences. Weller and others (2011) contend that in such circumstances in Australia (e.g. automotive plant closures in South Australia, steel plant closures in New South Wales, privatisation of electricity and downsizing in Victoria) the outcomes remain fairly consistent. About a third of those workers directly affected (generally those who are younger, more skilled and socially connected) will find jobs fairly quickly. About a third of those directly affected will eventually find inferior employment (for example, part time, low paid and /or insecure work). The final third (mainly older workers who opt for early retirement or give up looking for work after a period of unemployment), will not work again. If these outcomes are to be improved, new approaches must be sought.

Fairbrother and others (2012) in addition to Weller and colleagues (2011) point to the renewal strategies put in place in the Ruhr region of Germany as creating one of the most successful transitions away from old energy and manufacturing sources to a new green technologies, research and training. This transition has involved significant state intervention, facilitated by all levels of government, as well as intense collaboration between employers, unions and education facilities. The process is therefore an active form of restructuring rather than a more passive, market-driven restructuring and it has been associated with more positive outcomes than comparable restructuring efforts in the UK and the US.

The approach taken in the Ruhr has been much more holistic than simply offering support to workers directly affected by the closure or decline of a particular industrial sector. It is a regionally based renewal program which aims to assist existing industries to “adapt to the new market conditions created by changes in regulatory mechanisms, such as the introduction of emissions trading schemes” (Weller et al., 2011: 72) and to “regenerate the area in line with ecological and sustainability concerns” (Fairbrother et al., 2011: 99). Like the Latrobe Valley, the Ruhr region has seen an increase in the service sector but, instructively, this has not fully offset the employment losses from heavy industry. While active government intervention has been seen to help improve the region’s prospects, it has not been a cure-all and the area still suffers from higher than average unemployment. One of the improvements suggested by Fairbrother and colleagues (2011) is that government interventions should be made prior to significant economic restructuring rather than focusing only on amelioration strategies after the planned decline or closure of a particular industry.
Another important element of the Ruhr regeneration program has been the collaboration between all levels of government and across interest groups and sectors, including labour unions, industry groups and education and training providers. It is therefore a holistic strategy for change. At this stage a similar level of collaboration is not evident in Australia. There is not yet a coherent understanding and policy approach to generating jobs and support for industry in the Latrobe Valley region which incorporates federal, state and local government as well as training and education bodies, unions and employers. Indeed, one of the most notable absences at this stage in all the reports on the Latrobe Valley’s economic future is the voice of unions.

There are also significant gaps in terms of LGA planning for the Valley. While Latrobe City has produced a more detailed plan of their aims for transition towards a low carbon economy, the shires of Wellington and Baw Baw lag significantly behind. Indeed, there is no mention of the transition to a low carbon economy in the Wellington Council plan 2011-2015. The Baw Baw Council Plan 2011-2015 does mention the need to “assist the development of a future, strong, vibrant low carbon economy” but this comes under “valuing our environment” rather than the economic section on “managing growth”. There is, however, some evidence of attempts to move towards a more integrated plan for the Valley’s future, for example in the Positioning Latrobe City for a Low Carbon Emission Future report and the stated aims of the Latrobe Valley Industry and Employment Roadmap. These efforts will need to be consolidated in the near future for the potential opportunities outlined here to be realised.
References


Climate Works (2011) **Low Carbon Growth Plan for Gippsland.** Melbourne: Climate Works.


