**Centre for Sustainable Organisation and Work**

**RMIT University**

10 April 2015

Hon. Ms Jaala Pulford, MP Minister for Regional Development

Parliament of Victoria

Melbourne. Australia. Dear Minister

Please find attached a submission to the review which you have established into Victoria's regional economic development strategy and service delivery model.

This submission is submitted on behalf of the Centre for Sustainable Organisation and Work (RMIT University) and the Gippsland Worker Transition and Support Centre (Gippsland Trades and Labour Council). Staff and members in both centres have worked together for a number of years focusing on transition within the Gippsland region. This work has been done with the support of State and Federal departments as well as research council funds and the equivalent.

Yours sincerely



Professor Peter Fairbrother Director

###### Review of Victoria's Regional Economic Development Strategy and Service Delivery Model

# Summary of Submission

1. The prosperity and future of Gippsland depends largely on its natural resources.
	1. coal (and electricity)
	2. oil and gas
	3. forestry (paper and timber)
	4. agriculture (agrifood / agribusiness)

2. Trends in the four resourced-based sectors also affect the broader, multi-sector industries of construction and manufacturing.

## Sector Transition for the region

1. Promote the region as an Energy Hub
2. Develop key implementation strategies for natural gas utilisation, taking into account regionally-based companies and households.
3. Develop a plan that identifies the forest and agricultural resource for the area and sets out the parameters for the sustainable use and replenishment of the resource.
4. Provide support - expert advice, links, finance - to local government to promote the region as a 'Food Hub'.

## Considerations in relation to regional transition

1. Consideration One: Improving Infrastructure that meets Resource-based Industry Needs

1. Consideration Two: Support for Value-adding and diversification in the use and processing of resources within the region
2. Consideration Three: Presenting a revitalised Gippsland
3. Consideration Four: Improving Governance and Authority
4. Consideration Five: Ensuring the sustainability of resources
5. Consideration Six: Maintaining the Skills Edge
6. Consideration Seven: Research and Development

# Review: Department of Economic Development, Jobs, Transport and Resources - regional economic development strategy and service delivery model

**Submitted by the Centre for Sustainable Organisations and Work (RMIT University) and the Gippsland Worker Transition and Support Centre (Gippsland Trades and Labour Council), 10 April 2015**

1. The analysis of the economic and labour situation of Gippsland identifies the opportunities and barriers to economic revitalisation, and proposes the key considerations and priorities for the future of Gippsland as a whole.

Map ES.1The Gippsland provincial region

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Source: DPCD (2010)

1. The prosperity and future of Gippsland depends largely on its natural resources. Thus, an understanding of both the resources (strengths and limitations of each resource) and their value-adding potential is vital.
2. The project adopts a resource and organisational approach to investigate the economic prospects of the region by considering the following resource sectors:
3. coal (and electricity)
4. oil and gas
5. forestry (paper and timber)
6. agriculture (agrifood /agribusiness)

Each of these sectors is strategically important to the region's economic output.

1. Dominant organisational networks and companies have shaped each sector. These relationships change over time and operate in many cases as 'flexible organisational networks'- lead firms and layered suppliers, contractors and associated organisations providing goods, services and maintenance.
2. These four sectors are recognised as being inter-connected in a number of ways. Each competes for labour, land and water resources and has a reliance on transportation infrastructure as well as markets located outside the region.
3. Trends in the four resourced-based sectors also affect the broader, multi-sector industries of construction and manufacturing. Having the capacity to deliver construction underpins how and/or if future investment into the four resource-based sectors takes place.

# Opportunities, Barriers and Priorities for the Four Sectors

The four sectors face particular issues in relation to the opportunities and barriers to their future development.

##### **Coal**

**Opportunities**

* 'Clean Coal' technologies: These technologies range from upgrading and improving existing coal-fired electricity plants to so-called 'near-zero' emissions technologies such as carbon capture and storage (CCS).
* Diversification: The prospects for diversification are extensive, e.g. coal to fertiliser, coal to liquid, coal to gas.
* Export: Technological advances in drying, de-watering and stabilising brown coal have contributed to a renewed interest in processing the coal ready for transportation for export.
* Transition to an Energy Hub: Currently the region is primarily a coal resource hub comprising the resource itself, a skilled workforce, grid infrastructure and land. The region is therefore well positioned to be developed into an energy hub, with coal as one (declining) energy resource and where there could be an incremental substitution of alternative energy resources. These alternative resources could include gas-fired power stations and renewable and recycling energy facilities.

**Barriers**

* Transport infrastructure: Export arrangements for coal depend upon effective transport arrangements including port facilities, most of which are not in place and will take a number of years to develop. The result may be developmental dislocation: without coal export it is unlikely that road-rail-port upgrades will occur; without transport upgrades there can only be limited coal export.
* Feasibility of new technologies: Many technologies for clean coal and related developments are in the process of being developed and evaluated, although there is little evidence that they will come to fruition as commercial facilities in the short-term.
* Environmental concerns: The social licence for the use of coal for generating electricity is limited and likely to be further reduced over the next few years. Unless there are significant advances in clean coal technology, the export of brown coal is also likely to confront significant opposition from environmental organisations.
* Political uncertainty and inaction: Uncertainty surrounding energy policy and the treatment of carbon emissions because of the ongoing political debate between the major political parties and state and federal governments continues to constrain investment and clean energy technology decisions.

#### **Priorities**

**Priority One:** The business case for the export of coal (lignite) should be developed. While led by private interests, it should, however, be subject to the condition that any export of lignite should have a threshold standard that is equal to gas emissions, for C02 pollution reasons as well as for the integrity of the business case.

**Priority Two:** There are distinct possibilities for the alternative uses of coal (lignite). Major businesses, including the generator and mine owners should be encouraged to take focused, small steps, to re-engineer current practices as well as develop new products. These measures should involve deliberate experimentation and the promotion of small-scale commercial trials.

**Priority Three:** Continue to promote the region (focusing on the Latrobe Valley) as an Energy Hub through government support at the State and Federal level for locating alternative electricity generation technologies and facilities in the region.

##### **Oil and Gas**

**Opportunities**

* Increasing demand: with the shift away from coal use in electricity production, gas fired generators are now being built and commissioned. There is also an increasing use of gas industrially and domestically, as well as a continuing and growing demand for oil. Strong demand for natural gas and natural gas derived products is expected under carbon pricing, which is helping to underpin investor interest in these sorts of projects.
* Similar skill sets for displaced workers from coal and electricity: Already there is evidence that many workers who have lost their jobs in the power generation sector have been able to secure employment with the major contract companies that service the oil and gas sector, although prospects for jobs growth are limited.
* Construction of new projects in the Gippsland Basin: There are limited opportunities to continue the development of the oil fields and associated facilities, creating potential work in the construction and maintenance field, for specialised and highly skilled labour. Contract and labour hire firms are responsible for the bulk of employment in this area.

**Barriers**

* Low prospects for job growth: The oil and gas industry is capital intensive, with limited prospects to increase the workforce, unless linked to employment in construction and maintenance.
* The end of locally-based construction by the major company: the lead company appears less inclined to carry out major platform construction work locally as has been the previous practice. Increasingly, it commissions companies interstate and overseas to construct various components for offshore platforms, with installation becoming the major activity to occur in the region. Thus, a corporate decision limits job opportunities for the regional workforce within the sector.
* Maturity of the fields in the Gippsland Basin (declining reserves in the medium term, despite current expansion): The issue of declining reserves exacerbates the issue of the high-risk nature of investment in the sector.
* Gas reserves are now threatened by the prospect of export and stockpiling, with the prospect of higher prices for domestic users, such as major regionally-based companies (eg., Australian Paper) as well as households, and an accelerated run-down of the gas fields.

## Priorities

**Priority One** The establishment of targeted worker transition assistance packages for displaced power generation workers to acquire work in the oil and gas industry.

**Priority Two** Maintain the Latrobe Valley as an Energy Hub by commissioning and locating all future gas-fired power stations within the region.

**Priority Three** Open up access to the natural gas infrastructure across the region.

**Priority Four** Develop key implementation strategies for natural gas utilisation, taking into account regionally-based companies and households.

# Forestry, Timber and Paper

**Opportunities**

* Expansion and diversification: The region is already home to a network of key businesses in forestry/paper/timber that are well-established and either considering or under the appropriate circumstances would consider expansion and diversification within the region.
* Improvements to value-adding through new technology: internationally significant amounts of investment have been committed to research and development into technologies to produce high-value wood-derived products, with the prospect of access to new markets.
* Bioenergy/Biomass for fuel and energy production: The bioenergy potential of the region is well established. The region's forestry and timber/paper industries are a major potential source of fuel for commercially viable bioenergy generator(s) and related biofuel innovations.
* Recycling material to form new products: Different types of industrial or domestic residues and by-products are also considered a potential source of fuel/fibre for bioenergy generation and other uses. Projects of this nature have the potential to improve economic linkages between metropolitan Melbourne and Gippsland.

## Barriers

* Supply limitations: The region's forest and plantation resources are limited and declining, further undermined by problems of capital and land availability.
* Limited prospects for capital investment: The investment climate does not provide the level of stability required for long-term resource security. This partially stems from changes in licencing arrangements and logging quotas, which may or may not be influenced by environmental concerns and opposition. The problem is not demand but supply and the conditions that would secure investment in relation to supply. While there is a relationship between investment and demand, in the face of declining supply, purchasers of timber and related products have little choice but to look elsewhere for these goods.
* Diminishing social licence: The politicisation of the sector and its industries is severely handicapping the sector in terms of government willingness to support its expansion, not only in relation to increasing the fibre source but also in terms of developing its biofuel potential.
* Ownership and acquisition: in an industry characterised by a few large employers the issue of ownership is critical. It affects the flow of investment into the sector, continued operation of specific plants, and the willingness to expand their product base.
* Narrow industry base: Ownership patterns limit the access of non-industry specific enterprises, such as bio-facility operators, into the sector. Complementing this feature is the way resources are locked into a particular production chain by time specific contracts.

## Priorities

**Priority One** Develop a plan that identifies the forest resource for the area and sets out the parameters for the sustainable use and replenishment of the resource.

**Priority Two** Develop a supported programme to establish at least one biomass facility in the region, one that can use forest waste (at least from plantations), metropolitan timber waste and agricultural waste.

**Priority Three** With timber manufacturers, the State government should promote feasibility studies for a programme of investment for further value-added timber production in the region, either through or associated with the existing timber facilities.

**Priority Four** With other sectors, attention should be given to promotion and support of focused research and development programmes that build on sector-based research capacities for the region as a whole.

# Agriculture and Agribusiness

### **Opportunities**

* Establishing food and/or dairy processing 'clusters': the cluster concept is based on the East Gippsland Food Growing and Processing Cluster, which is considered to demonstrate the way forward for the agribusiness sector in Gippsland. This cluster has been successful in attracting and retaining food processors in the East Gippsland region, and in improving the connection between local farmers and these processors. The success is largely attributed to its collaborative approach and organisational structure. There is potential for a similar cluster in dairy or food production in the region, given the proximity and concentration of primary producers across Gippsland.
* Diversifying existing operations: The food and dairy processing industries have the potential to diversify through technological innovation, product diversification and opening up new and sometimes niche markets (e.g. organic foods).
* Using new farming techniques and technologies: The region is at the centre of a major agricultural hub that includes dairy and beef, vegetables and viticulture. There are opportunities for the sector to extend its activity and increase its workforce. Expansion of the hydroponic industry in Baw Baw Shire and intensification within the Macalister Irrigation District may increase the availability of locally grown local produce for processing.

## Barriers

* Land access and usage: Competition in relation to land use is creating problems for agriculture .There is particular concern surrounding the absence of adequate planning laws to protect the region's prime agricultural land.
* Water access and usage: Water is critical for the 'intensification' of agriculture. It sets a limit to growth in primary production, in broadacre and dairy farming as well as in horticulture and cropping. At present, agribusiness in the region is essentially at capacity in terms of what can be produced from the water available.
* Labour shortages: Agriculture faces on-going labour shortages in a range of areas including relief work, seasonal work and specialist technical staff.
* Entry into the sector, particularly in relation to dairy and broadacre farming, is becoming more difficult due to increased capital costs (including land), declining profit margins and negative perceptions about farming as a career path.
* Transport infrastructure: At present, food processors in the region are reliant on roads to transport their products for domestic consumption and export, with a major destination for companies being the Port of Melbourne. There appears to be a very mixed, overlapping and inefficient set of arrangements in relation to supply and exit of products into and out of as well as across the region, particularly in dairy processing but also in other areas.

## Priorities

**Priority One** The skills and labour shortages that mark this sector require consideration of comprehensive outreach work to support the ageing workforce, facilitate generational change and encourage entry into the sector.

**Priority Two** Develop of a plan that identities the agricultural resource for the area and sets out the parameters for the sustainable use and protection of the resource.

**Priority Three** The farming industry is increasingly moving towards an intensification of mechanisation and equipment use, via technical development and economies of scale. There are, however, major deficits in relation to technical support, installation, maintenance and repair of such technology. Governments, and particularly the Commonwealth, should take steps to ensure that technical support and capacities are readily available to farmers and to the organisations servicing the sector.

**Priority Four** Develop a cooperative plan in relation to collection, storage and distribution of farm products, particularly in the dairy industry but also taking into account the requirements of other sub-sectors. This plan should include steps to develop the transport and logistics infrastructure projects that are critical to the future of Gippsland.

**Priority Five** State and Commonwealth governments should review and systematically promote the use of biomass and recycling facilities across the region.

**Priority Six** The appropriate government should provide support - expert advice, links, finance - to local government to promote the region as a 'Food Hub'.

## General Considerations and Priorities

Some of the general considerations that apply to all sectors are:

## Consideration One: Improving Infrastructure that meets Resource –based industry Needs

Infrastructure upgrades and development (including intermodal hubs) are a critical precondition for continued growth in the region. Without an integrated, comprehensive and multi-sector infrastructure programme, it is unlikely that the region will be able to engage in effective structural adjustment. Promoting and developing such steps and formulating programmes are the responsibility of the State and Commonwealth Governments working in conjunction with LGAs.

**Priority One:** Commission the formulation and presentation of an integrated, public and costed programme (i.e. communications, transport, business and economic services) detailing required investment across the entire region.

**Priority Two:** As a matter of urgency, all levels of government should co-operate to develop and publicise the business case for transport alternatives.

## Consideration Two: Support for Value-adding and diversification in the use and processing of resources within the region.

While there may be uncertainty about the future within and across the resource sectors, viable value-adding opportunities continue to be largely under developed. A number of companies, however, are confronting significant market changes and have taken steps to strengthen their business, through diversification. Targeted business assistance for these companies as part of the contract of closure process is important to minimise job losses and expand the value-adding activity in the region. Of note, this assistance should go beyond the assistance provided when there is market failure; after all it is amply demonstrated with reference to Australian industry, as well as internationally, that anticipation usually provides more satisfactory and equitable outcomes in relation to regions undergoing hardship.

**Priority One** A more comprehensive and strategic approach is needed to capture appropriate (economic, environment and social) investment opportunities.

**Priority Two** Establish an integrated and coherent investment strategy and policy for Gippsland as a whole, initially under the auspices of the Latrobe Valley Transition Committee.

**Priority Three** Continue to support the Latrobe Valley as Victoria's energy hub, particularly through the diversification of energy sources and technologies to incorporate biofuel and renewables.

**Priority Four** Develop more integrated ways to facilitate inward investment and company relocation.

**Priority Five** Commission and fund a time specific job creation and industry development approach to value-adding within and between the resource sectors in the region.

## Consideration Three: Presenting a revitalised Gippsland

The dominant perception of the Latrobe Valley as part of Gippsland is as an old industrial area, a place of smoke stacks and 'militant' industrial workers. In this view other sectors, such as forestry and agriculture are often overlooked when considering the Gippsland economy. Such imagery is often drawn upon to explain and justify a lack of inward investment.

**Priority One** The major industrial associations for employers and unions in the region should be encouraged to sign a renewed Memorandum of Understanding committed to the principles and practices exemplified by the Latrobe Valley Transition Committee (a classic tripartite committee 2011- 2013).

## Consideration Four: Improving Governance and Authority

Governance is structured in relatively ad hocand fragmented ways, with limited authority. There needs to be greater clarity about who should be responsible (and to whom they should be accountable) for the economic revitalisation of the region. This issue should be addressed via a number of specific steps focused on economic development and revitalisation of the region.

**Priority One** Create a funded (per capita levy) Economic Development Commission for the region with authority to promote economic development across the sectors and the region.

**Priority Two** Ensure that the primary mandate of a Regional Economic Development Commission is the development of partnerships between LGAs, local employers, and other non-government actors for the purpose of securing funding, facilitating inward investment and developing linked economic sustainability programmes across the region.

**Priority Three** Enable the Gippsland Local Government Network to take steps to resource and empower such a Commission, with a clear recognition that there should be equality of involvement and benefit from the Commission.

## Consideration Five: Ensuring the sustainability of resources

Gippsland is subject to planning uncertainty and fragmented policy development. Long-term planning principles for the whole region need to be put in place, with a single accountable authority.

**Priority One** Develop a coordinated and inter-linked planning and regulation process for the utilisation and availability of resources in the region.

**Priority Two** Establish a body modelled on the Latrobe Valley Transition Committee with the authority to approve and implement planning decisions.

**Priority Three** Establish a small but permanent support unit comprising staff from the three levels of government to ensure that all sector reports and reviews are coordinated within sectors and between them, as well as to facilitate policy approaches that take the integrity of the resource base into account.

## Consideration Six: Maintaining the Skills Edge

Any successful structural adjustment programme will require a skills policy focused on developing a comparative advantage via a skilled workforce. One way of promoting this is to encourage the development of a 'next generation' workforce development strategy involving major industry actors, training providers, higher education institutions, State Government Industry Link Officers and trade unions.

**Priority One** Formulate and implement a 'Next Generation' Workforce Development Strategy.

**Priority Two** Support the Local Learning and Employment Networks to develop 'pool' apprenticeship arrangements in at least two centres in the region.

**Priority Three** Develop and resource career awareness events as well as further develop work experience programmes in the resource sectors, including forestry and agriculture.

## Consideration Seven: Research and Development

Investment in research and development has proven effective in other regions as a means of promoting economic diversification. Such investment, including support for universities and tertiary education would also have substantial social benefits within and beyond the region.

**Priority One** Improve policy by monitoring what works, including all structural adjustment programmes, and what has already been done.

**Priority Two** On production of a business case that includes an appropriate research focus and cross-institutional involvement, the Centre for Sustainable Industries should be funded and developed in Gippsland.

**Priority Three** Steps should be taken to ensure that suitable sector research is undertaken by a range of research bodies (industry research associations, universities and other research organisations) as well as by local industries and related industrial organisations.

The realisation of these considerations and priorities requires a shift in approach involving the development of comprehensive policies and practices, rather than reactive and dispersed ones.