

**Mary Aldred
CEO
Committee for Gippsland**

Address to the Australian Regional Development Conference

**5 September, 2016
Canberra**

Introduction

Thank you it's a pleasure to be here today and talk about a transformation underway in the Latrobe Valley, Gippsland.

I want to start off by telling you why Gippsland's the best place in Australia to live, work, invest and play. And I know that's a big call to make at a conference of Australian regions!

The lifestyle is like no other. Where else can you wake up in the morning for a surf on a pristine beach, ski in the afternoon on a snowfield like Mt Baw Baw, and be close enough to a capital city to be in Melbourne for dinner that night.

And while I'm here to talk about energy, it is one among five of Gippsland's top resource driven sectors. We have a nearly \$7 billion agribusiness sector, producing about 23 per cent of the nation's milk output, and 26 per cent of Victoria's beef production.

In tourism, Gippsland is home to the largest inland lakes system in the Southern Hemisphere, and our penguins at Phillip Island entice over 1 million international ticketed visitors each year.

Gippsland produces about 60 per cent of Melbourne's water, our gas off Bass Strait has fuelled Victoria's homes and industries for decades, and our people are innovative, highly skilled and are renowned for their can do attitude.

Back to why I'm here though.

Overview

No announcement has been made as yet. No power station has been named. But with government regulatory bodies making it an increasingly harsh investment environment for Latrobe Valley power stations, ageing infrastructure, changes in the electricity market, the impetus of climate policies and long-term investment planning decisions being made by energy businesses here and internationally, it is not hard to read the tea leaves.

As a region we do not want to be caught on the hop scrambling for a response when it does happen.

The Committee for Gippsland spent six months working with hundreds of local businesses and community organisations to prepare a 100 page strategy on how we navigate through the closure of at least one coal-fired power station in the near to medium term. A number one priority is to come out of it with the stable, dynamic economic future Gippsland is capable of, and has a right to realise.

Our Region Our Future – securing an economic future for Gippsland and Latrobe Valley is the result of that work. It's a strategy that sets out a locally driven and informed path forward.

Former Federal Energy, Resources and Tourism Minister Martin Ferguson officially launched the report in July this year. There is no one who understands Australia's energy market better than Martin, he has a knowledge and passion for tourism, and even after his parliamentary career still visits the Latrobe Valley regularly and cares deeply for its future.

The report was politically embraced by both sides and that is important to its success and implementation. Also at the report launch we had the Industry, Employment and Resources Minister Wade Noonan representing the Victorian Labor Government, the Nationals State Member for Morwell Russell Northe, and the Federal Liberal Member for McMillan Russell Broadbent.

The Committee for Gippsland initiated this report for two reasons.

One, on the premise that one of the four power stations in the Latrobe Valley would likely announce a closure in the near period of time. Ironically, all four power stations are among the cheapest and reliable generators of electricity, and could continue running on that basis alone. They are Hazelwood, Yallourn, Loy Yang A and Loy Yang B.

But of course that is no longer the only determinant of operating a stationary energy business.

Two, there has been a lot of noise about our region from people who have no stake in its future. We're told by vocal activist groups that the Latrobe Valley should be shutdown overnight.

There's far too little respect or understanding about the history, value and future opportunity that exists in Gippsland. Mostly, from people who don't fully realise how much they actually depend on this region for their power, food, gas and water.

I argue this issue has become such an ideologically driven agenda for some who think carbon transitioning is no more complicated than flicking a hypothetical off switch to a power station and watching it come to a whirring stop.

Or sitting through Al Gore's movie. There's so much more to it. We are talking major economic and employment structural adjustment for the Gippsland region. And the state of Victoria.

Carbon transitioning is a complex process requiring vision, investment and long-term policy and business planning from government, industry and the community. They must all work in concert.

Part of the broader problem is this, I believe. There remains a divide between our Australian cities and regions.

People who do not live in regions like Gippsland don't have skin in the game required to understand the impact of transition, until it reaches the point of rising power bills or rolling blackouts. It's not just power stations either.

Take the dairy industry, a major employer and generator of economic activity in Gippsland.

Adding 20 cents to every litre of milk in the supermarket might make people in our cities feel better about the problems currently afflicting the dairy sector, but it doesn't fix them.

We need to identify structural ways that will actually generate substantial economic growth and activity – whether it be the dairy sector or other industries in our regions. Economic and employment growth has to remain the main aim of the game in regions like Gippsland.

In July this year I was privileged to study *Infrastructure in a Market Economy* at Harvard's Kennedy School of Government in Boston. One of Harvard's energy and climate change senior lecturers and I discussed the Latrobe Valley and our impending challenge. He did say to me after reading our report; *y'all have your work cut out there!*

The Harvard lecturer raised with me the simplicity of the Al Gore analogy to this topic. He said his problem with Al Gore was not the climate change message he had – in fact he agreed with him about the imperative need to act.

The trouble is that Al Gore's message about what needs to be done, and its impact on carbon intensive industries is sold as a supposedly a simple process and one that costs very little to implement.

On both counts, my lecturer said, Al Gore and those who think like him that the process is easy, pain free and cost-free are patently wrong. It is a necessary process, my lecturer said, but let's not kid ourselves about the cost or complexity.

Power station closure impacts

Based on changes to the electricity market, carbon reduction policies and an uncertain regularly environment, it is highly likely that at least one power station will close in the near future.

If it does, having one major player exiting the market will constrict supply further, push up power prices, and make the remaining three even more viable to continue to operate. It's not just our report that makes this point.

No less than Danny Price, Managing Director of Frontier Economics, has said that the closure of a large power station in South Australia would provide an indication of the impact on electricity prices.

Danny Price said the closure of the Northern power station pushed prices up more than 30 per cent. Removing a power station like the Latrobe Valley's Hazelwood would bump prices by between 25 and 30 per cent, depending on the year and where you live. As you can already see these changes introduce a range of consequences.

Report priorities

Working on this basis, the Committee for Gippsland has been focussed on ensuring that the region was not caught wrong footed or under-prepared for when an announcement on a power station closure is made.

There are 5 key points underpinning this imperative in our report's proposed strategy:

- 1) That the least number of jobs possible would be lost, even though this figure will likely be in the hundreds

- 2) That there is a phased transition over a period of around two years, so that existing employees can potentially find work in the decommissioning stage and that the impact to the local economy and national energy market is buffered

- 3) That state and federal governments work in tandem as equal partners to the region, and invest in infrastructure and a ready to go pipeline of projects that can help Gippsland enhance investment attraction in other industry sectors
- 4) That the focus of the discussion is on decarbonisation – that as a region we are moving away from carbon, not coal. I'll go into why this is. But it's a very important point.
- 5) And finally, that through this report, Gippsland gets an informed and structured say in the way that this process occurs. Hence the *Our Region Our Future* title of the report.

Gippsland has had enough of FIFO activists bussed into the region from Melbourne and beyond who have no stake in how or when changes are made. Their jobs, their livelihoods and their communities are not impacted by these changes. Ours are.

The Committee for Gippsland looked around Australia to other regions that have undergone industry transitioning, across a range of sectors. Geelong offers some good lessons in the automotive and manufacturing sectors, likewise interstate examples like Wollongong and its steel the Hunter region's coal.

But we didn't want to apply a cookie-cutter approach to a proudly unique region like Gippsland either.

Gippsland's four Latrobe Valley based power stations are just under a two hour drive from Melbourne, in southeast Victoria.

Sustaining those power stations is around 500 years of brown coal resource, the largest deposit in the world. Gippsland's coal powers nearly 85 per cent of Victoria's electricity needs.

There are many small businesses in the region that rely on the industry for their own customer base. Think of the local recruitment business, components and parts business, the corner coffee shop, the car dealership.

The six months that the Committee for Gippsland invested in the *Our Region Our Future* report meant that we were able to speak to a lot of local businesses and individuals.

The 200 small to medium businesses that we spoke to all had either an indirect or direct customer relationship with the power stations. Including the local beautician that said power station workers were a major customer base for her business!

There are so many others. The local footy club for sponsorship. The café selling bacon and egg sandwiches to power station workers on their way to a morning shift. The car dealer and small town butcher. Not to mention community organisations who have a steady stream of volunteers on tap.

Two power stations provided us with a list each of contractors they spend \$50,000 or year a more on. Both lists exceeded 50 businesses and community groups.

There will be job opportunities on the other side of this carbon transformation. In the area of low emission coal projects there are good employment prospects, albeit fewer ones than power stations offer.

They can require similar technical skills and pay well. It is simplistic to argue though that a whole workforce of power station workers, many paid well over \$100,000 can simply transfer to jobs in tourism or professional services, which often pay far less. There needs to be a diversity of skills, wages and industry in any economy, and Gippsland is no different.

Many of the employees that work in these power stations are highly skilled and highly paid. That's why I get frustrated when people say whimsically that every power station worker can just go and work in tourism or a *new industry* of the future.

Telling someone to go from a \$150,000 a year job as a power station unit controller to a \$60,000 a year job in a call centre not only has ramifications for them but the money they spend in their local economy.

Likewise, the harsh reality is that renewable energy opportunities in wind and solar farms simply don't require the number of jobs that power stations do.

Jobs and job losses matter in this. It is inevitable that they will happen in this necessary transition, but they have to matter.

As well as getting local input to inform the report, the Committee for Gippsland also commissioned economic and employment modelling on the impact of a power station closure.

Report findings

I'm very grateful to GHD's Gippsland office for the tremendous work they invested in this part of our report.

The findings are:

- There are nearly 3,000 direct jobs and an additional 1,500 contractors working across the four Latrobe Valley power stations.
- That's about 10 per cent of the Latrobe Valley's workforce, and it injects nearly \$500 million into the Victorian economy every year through wages and other input.
- If two Latrobe Valley power stations were to close there would be a direct loss of nearly 1,500 jobs, plus a further loss of 1,700 indirect jobs, like the ones I mentioned above.

- If these workers can't find new jobs locally, they will take their families out of the region to seek work elsewhere.
- This could mean an overall number of 7,000 people leaving the Gippsland region, because to each of those workers you apply the Australian Bureau of Stats multiplier that accounts not just for an individual but partners and children as well.

These figures aren't meant to present doom and gloom. But it would be naïve and reckless to expect a closure to have no impact on the Victorian economy, let alone Gippsland.

The stakes are high in this process and we need to understand both the opportunities and impacts. We can't afford to get it wrong.

SME business feedback

The Committee for Gippsland also received some clear messages back from the 200 small to medium businesses we interviewed for this report. In a nutshell, the resounding themes are:

- There needs to be a coordinated government-led response to any closure announcement and subsequent transition plan – in particular, State and Federal Governments working in tandem together as equal partners to the region
- There has to be a pipeline of infrastructure investment, higher education and community assets to offset the impact of transition in the community; and
- Local businesses are keen to be involved proactively in any transition, but are time and resource poor to coordinate activities. This has previously led to a vacuum that has been filled by activist protest groups who are not considered representative of the wider community or conducive to good outcomes for the region.

Many people have strong views about the future of coal fired power stations in the Latrobe Valley. Fewer people are prepared to engage in a fact-based, practical approach on a future direction. There are plenty of activists intent on winning a 'shut it and run' trophy for a power station closure. They seem less committed to what happens after that.

The need to transition to a low carbon economy is not up for debate. Most people are agree on that score. But the impact and a sensible way through it needs to be scrutinised, as does the way it will effect people's lives and livelihoods.

For example, if there's going to be a power station closure, a phased shut down over a period of time is far preferable to a virtual overnight switch off over several months, so the region can absorb the impact and plan for the future, not to mention allowing the electricity market to adjust.

It's pretty likely that one power station will announce its closure in the near future. It's absolutely certain that this will mean large-scale jobs losses not just to direct employees, but to other areas of the economy like small businesses as well.

To paraphrase Bill Clinton just a little, there's nothing wrong with Gippsland that cannot be fixed by what is right with it.

We've got a really proud history to follow. Sir John Monash, noted for his strategic brilliance as a general and an engineer, was the inaugural Chairman of Victoria's State Electricity Commission.

It was Monash's brilliance that borrowed German technology to ensure the Latrobe Valley's power stations were built on top of the coal reserves they were to generate electricity from.

You'll note many times elsewhere coal has to be transported long distances. Not in Gippsland. And it's that kind of embedded ingenuity that will see us through this next phase.

Reference committee input

The Committee for Gippsland established a project reference committee to help steer this report. It included representatives from both union and employer groups, local government, all four power stations, the university and TAFE, small business and community groups. I've never seen a more credible, representative and informed group of people in the one room.

It was a real achievement because separately some of those organisations may approach issues with a different perspective, but in driving the aspirations of this report, everyone was absolutely on the same page.

The Committee for Gippsland called this report *Our Region, Our Future*, because any plan for carbon transitioning in the Latrobe Valley has to live up to that name. The report has carefully analysed the economic and employment impact of a power station closure.

Looking around the world, particularly to the United States where there are many coal communities, it's been pleasing to note similar themes come through both in response actions and research.

United States examples

The US Brookings Institute released a report on coal communities in April this year with a number of findings. One of the findings it cites about retraining employees for new jobs is that;

On average it could take two years of full-time training to bring a worker's wage back to their pre-layoff level. A comprehensive assistance program should involve income support, and carefully matching training to labour market demands. For those workers nearing retirement age, training for a new job does not appear to be a productive eye of time and a bridge to retirement should instead be looked at.

In Gippsland, this will have to be taken into account in any properly considered retraining and retirement structure, especially given the average power station worker is into their mid 50s.

This year's United States federal budget provided \$2 billion in refundable investment tax credits to new and retrofitted electric generating units that deploy carbon capture technology.

In Australia, the focus on carbon capture and storage technology is still on development and deployment, and beyond that eventual commercialisation.

The excellent work that organisations like the Global Carbon Capture and Storage Institute and the CO2CRC Institute have a natural home for projects and partnerships in Gippsland, including with willing and capable organisations like Federation University.

The full realisation of CCS will be essential in being able to achieve the deep emission cuts necessary in the carbon intensive stationary energy sector.

Looking to what one of the United States' presidential candidates has to say on this, Hillary Clinton's *Plan for Revitalising Coal Communities* has a number of ideas that could be a point of reference in a Gippsland context:

- The Clinton policy notes that decline in coal production also impacts employment in other sectors – for example a decline in railroad workers, and community impact. It's not just one sector.
- Clinton has pledged a \$30 billion commitment to coal miners and investment in economic diversification, and job creation as part of her carbon transition plan.
- A focus on investing in new infrastructure like roads, bridges, transmission lines, as part of a transition. This is something the Committee for Gippsland's report also reflects in our infrastructure priorities

- Repurposing of power plant sites and mines. Clinton's policy provides the example of Google's plans to build a data centre on the site of a recently closed coal plant in Alabama.
- An expansion of broadband access. This is picked up on strongly in the *Our Region Our Future* report. It's a big vein of feedback from businesses in Gippsland and they see it as instrumental to business capability.
- There's a strategy to attract private investment through tax incentives and innovation support for small businesses.
- And, there's a pairing of education and training with job creation focus in the Clinton policy, as well as CCS technology development.

Likewise with our report we see Federation University as an essential driver to higher education in Gippsland.

Moving away from carbon, not coal

If one power station closes in Gippsland, the current oversupply in the electricity market will constrict. Currently marginal energy businesses will suddenly have more demand for their product if one energy supplier exits the market. Energy prices could increase.

This will impact on household budgets. As a statewide response, governments need to particularly take into consideration how this will impact on hardship energy customers and low income families already struggling with utility bills.

Our Region Our Future provides a strategy to move away from carbon, not coal. The emphasis is on decarbonisation and a low emissions future.

It's about developing technology, not ideology as the way through this.

It is important to separate the discussion on a declining use of coal for electricity generation, and new low emissions uses for it as a by-product.

There are an increasing array of low emission uses for coal as a product in fertiliser, hydrogen, fuels and potentially even coal to diesel, which Australia currently imports to the tune of around 60 per cent each year.

On current usage rates, there's still 500 years of Latrobe Valley coal to sustain these projects in a smarter, more innovative way. The Victorian economy cannot afford to leave this resource stranded beneath the earth.

Through the process of our report, we engaged with businesses looking to use Latrobe Valley brown coal for non-electricity generation projects. The interaction with a number of companies was encouraging, and we want to see Gippsland viewed nationally and internationally as a welcoming and investment focussed region ready to grow jobs and do business.

Infrastructure

There needs to be a serious plan for transition. Infrastructure and investment attraction are key in this. For example, V/Line passenger rail is critically important. Many of these workers may have to travel to other parts of Gippsland like Warragul or beyond the region to areas like Dandenong for new jobs.

If we want to enable people to keep living in Gippsland even if they have to work elsewhere, we need to give them reasonable means to do that.

That's why passenger rail upgrades join the need for increased freight capacity and other infrastructure projects that our report calls for as part of this process, which needs to be seen less as a transition and more as a transformation to the future.

Some of these infrastructure projects include full duplication of the Princes Highway from Traralgon to Sale increasing efficiency and safety, and full rollout of the National Broadband Network to all parts of the Latrobe Valley and broader Gippsland to help businesses.

Our Region Our Future also includes the recommendation for a third major airport for Melbourne's southeast to proceed, which already has strong commercial interest and won't require significant government funding, development at the Port of Hastings and the assurance that other major employers in the region like Australian Paper have the business environment they need to survive and thrive in Gippsland.

Conclusion

Turbo-charged investment attraction and a commercially minded business environment is critical for Gippsland.

Decentralisation of government offices and the like are great opportunities when they do arise, but it is business not government that is the generator of jobs and economic value, and we need to keep our eye on the prize in that pursuit.

Gippsland has a diverse economy, rich resources, abundance of water supply and a skilled workforce. It's an ideal location to base and build a business. It's the best region in Australia to live and raise a family.

Gippsland has powered Victoria for nearly 100 years with its brown coal reserves. We've had our share of major structural reform in the region through this time. A carbon transformation in the Latrobe Valley is going to be one of our toughest challenges yet. With rich resources, iconic businesses and an abundance of human talent, our best days are ahead of us.

Victoria needs Gippsland to come through this impending transformation with its resource and economic capacity intact, and Gippsland is relying on the rest of the state not to let it down. But we have to work together.

Our Region Our Future is not just another report. It's a blueprint on how Gippsland can transform to a world-beating region.

Thank you

----ends----