ITEM-27 LMM //2022 - A ROBUST, RESILIENT REGION – THE NEED FOR A 'HUNTER VALLEY AUTHORITY'

MOTION:

That City of Newcastle:

1. Acknowledges the many Novocastrian workers, families, unions and businesses in traditional heavy industries who have brought great prosperity to our City, region, State and nation over many decades.

2. Notes the concerning current and future global economic indicators as well as energy market security and those potential impacts on the local Newcastle and Hunter economy and employment.

3. Notes the need for a cohesive and evidence-based plan to ensure the future prosperity of the Newcastle and Greater Hunter economies, by maximising opportunities for affected workers, diversifying the local economy, committing to a Just Transition as well as celebrating the Hunter Valley's history whilst promoting its new, renewable future.

4. Reaffirms its long-standing commitment to taking significant action on climate change, demonstrated by various actions which enables the management of climate change risks and opportunities, and supporting our local community and businesses to transition towards net zero emissions.

5. Calls on the NSW Government to establish a statutory authority recognising that the transformation is underway in our energy industry. This authority will be charged with mitigating the adverse impacts of coal power station closures on Hunter Valley workforces and communities, as a priority. The authority will, as a minimum, have the power to implement job transfer schemes for workers in coal power stations and associated mines allowing for voluntary redundancy and redeployment opportunities to be shared across sites and the capacity to develop and implement economic development programs for impacted regions. The authority's governance structure shall include major stakeholders including unions and industry and will work cooperatively and on a complementary basis with federal, state and local government bodies, charged with energy, climate and structural adjustment responsibilities.

BACKGROUND:

Over many decades, Novocastrian and Hunter Valley workers, families, unions and businesses in traditional heavy industries have brought great prosperity to our City, region, State and Nation.

However, the concerning current and future global economic indicators and energy market security will no doubt impact the local Newcastle and Hunter economy and employment.

There is a clear and present need for a cohesive and evidence-based plan to ensure the future prosperity of the Newcastle and Greater Hunter economies, by maximising opportunities for affected workers, diversifying the local economy, committing to a Just Transition as well as celebrating the Hunter Valley's history whilst promoting its new and exciting renewable future.

CN has a long-standing commitment to taking significant action on climate change, demonstrated by various actions which enables the management of climate change risks and opportunities, and supporting our local community and businesses to transition towards net zero emissions.

CN notes the strong leadership shown by the Western Australian and Victorian State Governments for the creation of similar models of successful Authorities which now support their communities in the Collie and Latrobe Valley/ Gippsland regions, respectively.

CN notes that in its National Policy Platform, Labor recognises the Paris Agreement is more than just a commitment to emissions reductions and therefore commits to implementing all of the components of the Agreement including its requirement for just transition planning involving local communities, unions, and industry to be a key part of Australia's Nationally Determined Contribution under the Paris Agreement.

CN recognises that the transformation underway in the local energy industry is causing substantial industry restructuring that is impacting many local energy industry workers and their communities. CN also recognises the need to implement a new model of industry restructuring that is people-focused and ensures that the costs of change are not borne solely by workers and host communities.

CN believes there is a clear and present need to establish a statutory authority charged with mitigating the adverse impacts of coal power station closures on regional workforces and communities as a priority. The authority will, as a minimum, have the power to implement job transfer schemes for workers in coal power stations and associated mines allowing for voluntary redundancy and redeployment opportunities to be shared across sites and the capacity to develop and implement economic development programs for impacted regions.

The authority's governance structure must include major stakeholders including unions and industry and will work cooperatively and on a complementary basis with federal, state and local government bodies, charged with energy, climate and structural adjustment responsibilities.

It is imperative our region stands ready to adapt to the unavoidable impacts of climate change. Based on science, CN will continue to work with government, communities, unions and industry to prepare for climate change impacts and ensure the costs of adaptation do not fall disproportionately on the most vulnerable and disadvantaged in our local community.

CN will continue working with regulatory agencies, businesses, unions and investor groups to ensure climate risk disclosure and management are at the centre of the modernisation of the local economy, best-practice planning, disaster mitigation and our responsiveness to extreme weather events.

ATTACHMENTS:

1. Collie's Just Transition Plan, December 2020.
2. Statement of Expectation for the LaTrobe Valley Authority, 29 March 2022.
3. *A New Approach in Australia to Just Transition*, Tony Maher, National President, Construction, Forestry, Mining and Energy Union, Australia.
4. Report, *Just Transition Investment & the Hunter Valley: Establishing a Model Region*, Hunter Jobs Alliance, July 2022.

Collie's Just Transition Plan

Collie's Just Transition Plan builds on the significant suite of initiatives and projects supported by the WA Government since 2017 for the economic transformation and diversification of Collie. The purpose of a Just Transition is to create a strong and sustainable future for Collie as it shifts away from a dependence on coal and coal-fired energy production. While the commitment to a Just Transition will need to be long term, the Just Transition Plan provides the next step of this commitment and allows a focus on actions that will help provide for a successful transition. The Just Transition Plan focusses on a five-year period from 2021-2025, with the primary goal of supporting affected workers and communities in the transition from emissions-intensive industries in a coordinated way.

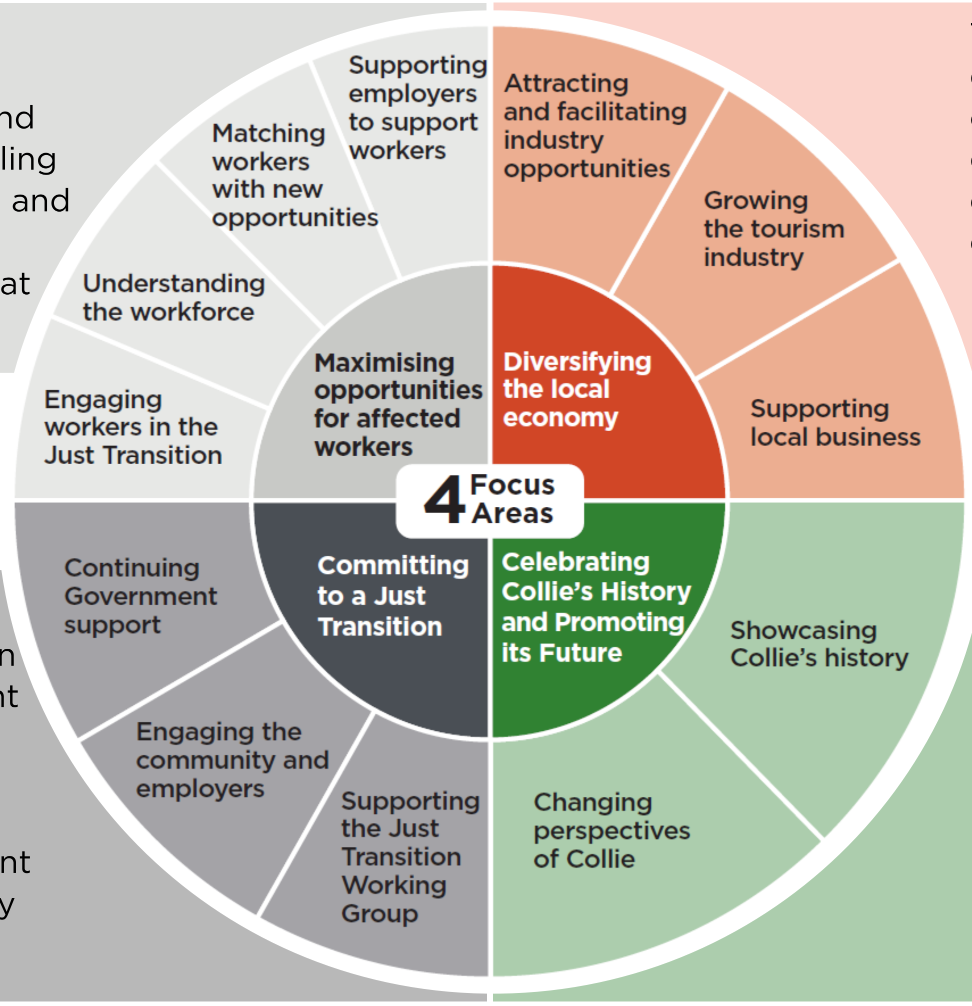
Strategic focus areas

Maximising opportunities for affected workers

The key goals of these actions are to increase participation and take-up by workers of Just Transition efforts; to understand workers' skills and experience in order to identify training and reskilling opportunities to maximise benefit from new jobs and opportunities; and to ensure that individual employees are supported to identify solutions that meet their own individual and family needs.

Diversifying the local economy

The purpose of these actions is to grow existing and develop new industry sectors based on the region's comparative advantage; build on the existing economic diversification efforts to create a sustainable tourism economy that will bring external investment and expenditure into the town; and maximise opportunities for local small to medium enterprises, including Aboriginal business, through existing and new investment.



Committing to a Just Transition

Ensuring ongoing commitment from State and local governments throughout the Just Transition Plan is fundamental and includes the requirement that government effort is coordinated. The WA Government must also continue to seek opportunities to work with the Commonwealth Government to ensure that any federal investment is well considered and supports the plans already in place.

Celebrating Collie's History and Promoting its Future

By highlighting Collie's contribution to the State and encouraging locals and visitors to understand Collie's rich history, recognition is built for Collie workers and their families who have been an important part of the State's economic history. Promoting Collie's diverse and unique offerings offers a way forward that celebrates the past and builds on the town's future potential.

Implementation

Just Transition Working Group — Comprised of State and local governments, unions, employers, and the community to support the delivery of the Plan

JTWG Four sub-groups — To drive actions across the four focus areas

Action Register — Created by the JTWG, short-term actions (12-18 months)

Action Register review — Annual refresh of the Action Register across the life of the Plan

Just Transition Working Group Membership

Government of Western Australia
Department of the Premier and Cabinet
Department of Jobs, Tourism, Science and Innovation
Department of Training and Workforce Development
Energy WA

TAFE South Regional WA · South West Development Commission · AMWU Western Australia · CFMEU Mining & Energy Western Australia · ETU · Australian Services Union · Premier Coal · Bluewaters Power · Synergy · Worley · South32 Worsley Alumina · Griffin Coal · Collie Chamber of Commerce & Industry Inc · Shire of Collie · Collie Futures Economic Advisory Group

Office of the Hon Mary-Anne Thomas MP

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Ref: BMIN-2-21-16543

Mr Chris Buckingham
Chief Executive Officer
Latrobe Valley Authority
131 Princes Drive
MORWELL VIC 3840

Dear ~~Mr Buckingham~~ Chris

STATEMENT OF EXPECTATIONS FOR THE LATROBE VALLEY AUTHORITY

I am pleased to provide the Latrobe Valley Authority (LVA) with this Statement of Expectations for the period 1 January 2022 to 30 June 2023.

This statement outlines my expectations that the LVA will contribute to achieving Government's objectives of growing a strong economy that benefits all Victorians by creating more jobs, building thriving places and regions, and supporting inclusive communities.

The Victorian Government established the LVA in November 2016 as a dedicated authority to support workers and their families in anticipation of the Hazelwood Mine closure. Established as a place-based response, LVA is focused on sustainable regional change.

Regional development and industry and worker transition for the Latrobe Valley

I request that you present the Deputy Secretary Rural and Regional Victoria (RRV) with an outline of LVA's deliverables to 30 June 2022. Please provide the outline within one month of receiving this letter.

Please provide a scope of work that covers the financial period 2022-2023, noting that implementation is subject to 2022/23 budget consideration. This should include a workplan and deliverables. Please present this to the Deputy Secretary RRV, by 30 June 2022. This must include continuing collaboration between LVA and Regional Development Victoria Gippsland. I expect that the 2022-23 workplan will include a comprehensive regional development approach in the Latrobe Valley.

LVA's response should describe work beyond the response and direct intervention that followed the 2017 Hazelwood closure and include growing the capability of the region to support economic

diversification. The description should include LVA's implementation framework (regional development methodology) and focus on industry and worker transition.
This will require coordinated engagement and a collaborative approach to economic diversification and transition. I expect regional development in Gippsland will be a practical place-based approach that builds on current LVA work and includes the Gippsland Regional Economic Development Strategy currently being finalised.

Partnerships and collaboration

I expect that LVA will effectively and efficiently deliver the existing funded activities in line with appropriate financial management, risk management and accountability requirements. This should include identifying liabilities beyond 30 June 2022.

I expect LVA to work with delivery partners including: Commonwealth, state and local governments; businesses; higher education, training and research institutions; and community groups. Program development and delivery links to key portfolio areas including Agriculture, Forestry, Resources, and Environment and Climate Change are also important to demonstrate.

Latrobe Valley transition plan

As part of the Gippsland regional context, I expect LVA to have a Latrobe Valley transition plan that is widely understood across the community. The plan should include strategies and actions for economic diversification through new and expanded businesses. This must provide employment opportunities to support and mitigate changes in significant industries including coal-fired power generation, native timber harvesting, and fossil fuels.

LVA has a key role working with EnergyAustralia to support worker transition programs at Yallourn Power Station as part of DJPR's responsibilities for overseeing elements of the Victorian Government's agreement.

I request that LVA works with RRV to develop and deliver a Latrobe Valley worker transition plan as a key element of the Latrobe Valley transition plan. In addition to servicing Yallourn Power Station, the plan must consider the likely needs and trajectory of workers in the power generation, mining, fossil fuels, and pulp and paper industries to 2035.

Support for broader transition across the state including forestry

LVA has established expertise in practical implementation of place-based transition. I expect LVA to apply this expertise and capability to support transition planning and services in other parts of Victoria. This may include articulating LVA's role in developing worker transition programs and how this contributes to a broader statewide economic transition framework.

Reporting and resources

Consistent with the requirement under section 45(4) of the *Financial Management Act 1994* I expect that an annual report by LVA will be consolidated into that of the Department of Jobs, Precincts and Regions (DJPR). Administrative and financial reporting is to be consistent with requirements as requested by DJPR and RRV.

I expect that LVA's effective, efficient and economical management will support RRV functions including:

- planning and coordination
- communications
- policy and strategy
- administration and management of grants and programs in Gippsland and statewide.

Except for matters awaiting 2022-23 Budget decisions, please respond within one month of receipt of this letter, outlining how LVA will deliver on these expectations.

Yours sincerely

The Hon. Mary-Anne Thomas MP
Minister for Regional Development

29/03/22

A New Approach in Australia to Just Transition

Tony Maher, National President, Construction, Forestry, Mining and Energy Union, Australia

All the interpretations and findings set forth in this expert perspective are those of the author alone.

Australia's poor record on socially acceptable structural adjustment is being challenged by a new scheme implemented for large power stations closing in response to climate change. It is still early in the new scheme, but we hope to grow it into something deserving of the title "Just Transition."

Australia has relied on power generation from black and brown coal (lignite) more than most developed nations, with over 80 percent of grid power coming from that source until very recent times. The abundant supply of relatively cheap coal power was a key reason that some energy-intensive industries like aluminum smelters relocated to Australia in the second half of the last century.

The result has been that around 35 percent of Australia's annual greenhouse gas emissions of 545 million tonnes comes from power generation—a significantly higher proportion than in most other nations. It has therefore become inevitable that any genuine strategy to reduce Australia's emissions as part of international commitments to address climate change will impose major restructuring requirements on the power industry. Other major sources of emissions will have to be addressed, too—transport, industrial processes, agriculture—but they are mostly harder and will take longer to achieve.[1]

Australia's coal power stations are located in regions adjacent to major coal fields rather than near urban areas or ports, as in many other countries. These areas include the Latrobe Valley east of Melbourne, the Hunter Valley and Central Coast area north of Sydney, the Lithgow area to the west of Sydney, and Collie south of Perth.

This means that the social and economic impact of power station closures will be concentrated in regions highly reliant on that industry. These regions have fewer other industries that are significant alternative employers. The power stations tend to have skilled workforces that are paid more highly, with the spending of those workers bringing higher flow-on benefits to employment in other local industries. The power stations themselves are key purchasers from other industries—the engineering, maintenance, and service industries, in particular—that are therefore reliant on the power stations as a major client.

Nonurban areas in Australia tend to have higher unemployment rates than the major cities, and this together with the lower level of diversification means that loss of a large number of jobs from power station closures will have a greater impact than job losses of a similar size in major cities.

Australia has already had plenty of experience with what happens in coal-dependent regions when large-scale job losses occur.

When governments began privatizing power plants in the 1990s, the Latrobe Valley region was devastated for two decades. Over a third of jobs in power generation were lost, plunging the region into a long-term recession. (Ultimately privatization did not produce the greater efficiencies claimed; jobs were lost in power stations in the regional areas, but a new army of sales staff was employed to sell electricity and another army of middle managers to supervise them and to handle the competitive market structure—all city-based.)[2]

More broadly, Australia (like most other nations) has experienced major structural adjustment of many industries over the last several decades. These include the forest and paper industries, which have struggled to compete with larger and/or less sustainable forestry industries overseas, and many parts of manufacturing that have not been able to compete with the scale and low labor costs of China and other Asian nations. Our car industry closed in 2017.

The social impacts have generally been managed poorly. Australia has not had the benefits of strong priority given to social dialogue as in many European nations, where employers, unions, and government come together to negotiate major social and economic policy. With the notable exception of programs for farmers3 (to whom Australian politicians seem particularly sensitized, as they are in countries ranging from Japan and the United States to the European Union), labor adjustment packages and other social programs to manage industrial restructuring tend to be low-scale, ad hoc, and underfunded. All too often they are Band-Aid measures or short-term responses to political pressure in the immediate aftermath of industry closure announcements.

In very rough terms, a minority—perhaps a third—of workers who are forcibly retrenched in major plant closures are ever able to obtain work of similar skill, pay, and benefits. Another third are forced into employment that is less secure, less skilled, and with lower pay and benefits. The final third often leave the workforce altogether, taking early retirement (often with reduced retirement income) if they can or joining the long-term unemployed.[4]

In the absence of better policy and a better model, climate policy looks set to wreak similar havoc in coal power regions. This has energized the CFMEU, which represents many workers in power stations as well as the large coal export industry.

Australia doesn't have coherent or strong climate policy. What it has had has been a war over carbon pricing, renewables, and even climate science itself, which has had very high political costs—arguably, three prime ministers and two opposition leaders have lost their jobs over climate policy.

What this has produced in Australia is massive uncertainty about climate and energy policy. But investors react to uncertainty as much as they react to clear policy, and what Australia has witnessed over the last decade is a cessation of investment in new coal power, some modest investment in renewables (now picking up), and to a great extent a "capital strike" as investors refuse to invest in new generation capacity or alternative energy services and demand management.

Since 2012 we have seen a number of smaller and older coal power stations close, involving 3,600 megawatts (mW) of capacity (out of a total for coal power of 30,000 mW). All of the private owners of power stations have said they will not build new coal capacity and will not extend the life of existing power stations. The governments that own the few remaining public power stations are effectively in the same position.

The big crunch came in November 2016 when the French multinational corporation Engie announced the closure of the 1,600 mW Hazelwood brown coal stations (and at the same time said it would seek to exit coal power in Australia by selling its other, newer, brown coal power station).

Hazelwood was the oldest brown coal power station, and had long been criticized by green groups for being the dirtiest in terms of emissions per unit of output. Its older technology also meant it was the largest employer among its peers—around 750 direct employees and contractors.

Engie made a decision in its Paris head office and gave the Australian workforce, community, and governments just five months' notice.

But Hazelwood was one of just four brown coal power stations that provided most of the power supply for the state of Victoria—Hazelwood alone provided 20 percent of Victoria's electricity and 5 percent of Australian supply.

Just five months' notice for one of the four power stations that dominate the economy and society of the Latrobe Valley. The unions were not alone in seeing the closure as a repeat of the 1990s restructuring that had devastated the region.

Just like in the 1990s, there was no plan or program to deal with the impacts of closure. Federal and state governments rushed to announce measures that might mitigate the impact—again after the announcement by Engie, not as part of any long-term plan negotiated among the stakeholders.

The federal government announced A$43 million worth of measures, of which only A$3m was for assistance to the affected workers (financial counselling, assistance with résumé writing, and advice on job seeking). The Victorian state government did much better, announcing A$22m in immediate assistance to the workforce, and then around a quarter of a billion dollars in longer term measures, including infrastructure investment in the region.[5]

This was important, but it wasn't Just Transition. The loss of jobs was regarded as inevitable; all governments could do was mitigate the impact.

The CFMEU was particularly irate that despite there being three other power stations in the immediate vicinity, no thought was given to how the job losses could be managed across all of the stations, because the other stations had other owners.

The union campaigned and bargained to change that mindset. There were older workers nearing retirement at the other power stations. If they could be persuaded to retire early, opportunities could be created to redeploy younger workers from Hazelwood who wanted to stay in the industry, at least for several more years. It was otherwise very likely that these younger workers would either join the region's already long unemployment lines or have to leave the area. Either way the workers and the region were losers.

The Victorian government responded to the CFMEU campaign by appointing a special negotiator to bring the power station companies, the union, and the government together to do something that had never been attempted before. The negotiations would seek to manage redundancies and redeployment across multiple private companies with the goal of reducing net job losses from the Hazelwood closure.

Ultimately all the power stations agreed to participate—AGL, Energy Australia, and Engie in respect of its remaining power station. The power companies agreed to offer redundancies to older workers nearing retirement. The Victorian government lessened the financial burden by meeting some of the redundancy costs. The power companies then sought to fill vacancies from among those being laid off at the Hazelwood station.

As of September 2017, this process was still under way. We are hopeful that ultimately most (if not all) of the Hazelwood workers who could not take early retirement, and who are not being retained to work on the rehabilitation of the site, will be able to find work in the remaining stations.

Of course this is not a complete solution. Ultimately all of these power stations will close, but that is likely to take two decades, so the impact of jobs losses can be spread out. The region still needs a major, multi-decade program to diversify its industries and employment to fill the void that the loss of the power stations will create.

But what we are seeking to demonstrate is that is that the loss of coal power jobs does not have to be left to a series of private sector employer decisions, with governments doing little other than to help workers pick up the pieces after their termination.

It should be possible to plan the transition. In Australia there are already calendars of when each power station is likely to close. And as a result of concerns about reliability of supply, power station owners will have to give three years' notice of closure (rather than just the five months given by Engie for Hazelwood).

The CFMEU had a good look at the experience of German unions negotiating the closure of Germany's black coal industry, which was mostly done for economic reasons rather than climate change. We learned from the absolute priority given there to employment and social impacts, and that the program has operated over decades and generally with the support of all parties. We were very impressed that the German model sought to eliminate forced retrenchments altogether—something that is not seen as possible (or even desirable by conservative economists) in Australia.

But in the German case, ownership of the mines was restructured into just one company, something that does not seem achievable in Australia, where the electricity sector has only recently shifted from state ownership to multiple private sector operators.

In the Latrobe Valley we have managed to bring together private companies with government and unions to jointly manage employment impacts of a closure.

We think this example is still in its early stages, and we need to have a Just Transition mechanism that will operate for the decades it will take to transform the power industry to low or near-zero emissions. Australian unions are pushing for a statutory agency that is mandated to manage the social impacts—and does not need to rely on voluntary participation by power companies—just as we already have agencies that manage renewable energy targets and facilitate clean energy finance.

This is crucial to achieving broad support for the transition to net zero emissions. Policies that produce big losers and disadvantaged regions will also generate hostility and resistance.

The CFMEU has made it clear that our support for strong action on climate change is contingent on there being a fair deal for the workers who will otherwise bear large losses.

1. International Energy Agency, *World Energy Outlook 2017*, 124.
2. David Richardson, "Electricity and Privatisation: What Happened to Those Promises?" Australia Institute, Technical Brief no. 22 (2013), http://www.tai.org.au/content/electricity-and-privatisation-what-happened-those-promises.
3. Andrew Beer, "Structural Adjustment Programmes and Regional Development in Australia," *Local Economy* 30 (1) (2015): 21–40.
4. Australian Council of Trade Unions, "Sharing the Challenges and Opportunities of a Clean Energy Economy: A Just Transition for Coal-Fired Electricity Sector Workers and Communities," policy discussion paper (Melbourne: ACTU, 2016), 14, https://www.actu.org.au/media/1032953/actu-policy-discussion-paper-a-just-transition-for-coal-fired-electricity-sector-workers-and-communities.pdf.
5. Victoria State Government, "Labor Government to Support Hazelwood Workers," November 3, 2016, https://www.premier.vic.gov.au/labor-government-to-support-hazelwood-workers/.

JUST TRANSITION INVESTMENT & THE HUNTER VALLEY:

Establishing a Model Region

Hunter Jobs Alliance

Contents

HUNTER JOBS ALLIANCE

The Hunter Jobs Alliance is a locally-based union and community environment group alliance formed in 2020. The Alliance is committed to delivering a safe, prosperous future for the Hunter - one in which workers, their families and the environment thrive.

Affiliate Member Organisations of the Hunter Jobs Alliance: Australian Manufacturing Workers Unions NSW Branch; Electricity Trades Union NSW & ACT Branch; United Workers' Union; The Australian, Municipal, Administrative, Clerical and Services Union NSW & ACT Services Branch; Community and Public Sector Union; National Tertiary Education Union; Teachers Federation NSW Branch; The Nature Conservation Council of New South Wales; Lock the Gate Alliance; Hunter Community Environment Centre; Labor Environment Action Network; Independent Education Union of Australia NSW/ACT Branch.

Hunter Jobs Alliance, July 2022.
www.hunterjobsalliance.org.au
Contact: info@hunterjobsalliance.org.au,
0451 633 197

Executive Summary

Investor responses to climate risk regularly involve divesting from or screening out companies participating in particular asset classes, such as coal mining and power generation, or influencing business strategy to pursue decarbonisation.

As Environmental, Social, Governance (ESG)-linked investment decisions have turned from a trickle to a flood, this has in turn raised serious questions for regions who are highly dependent on exposed sectors for jobs, economic activity, and capital inflows.

As some investors move for the exits or accelerate strategy to address (well founded) climate risk, many regional communities with high dependence on affected sectors are left to carry the can of economic change.

It is now widely recognised that any transition that does not include fair treatment of workers and communities, and does not involve serious efforts to ensure ongoing opportunity in regions, carries an additional set of risks for investors.

While governments bear chief responsibility, recent work in the investment community has established a clear link between asset managers' fiduciary interests, and the incorporation of 'just transition' principles into investor behaviour and decision making.

Like broader efforts to deliver fair treatment for affected communities, the defining challenge is translating well-founded principles into effective practical action where it matters – on the ground, to the tangible benefit of workers and communities. To that end, this report makes the case for two key areas of focus.

Bayswater Power Station

Firstly, aligning the type of actions that are effective on the ground, with the criteria embedded in ESG indices and assessment tools. There is a long history of regional adjustment activities that are known to be effective in supporting workers and diversifying regional economies. As the report shows, these tools align well with emerging just transition investment principles. The challenge for investors and advisors, and regional advocates, is to fuse the threads of investor needs and tangible place-based action in a way that delivers outcomes for both parties.

Secondly, in order to realise and test this work in practice, the report makes the case for the Hunter Valley, in New South Wales, to be established as a 'model region' for the practical implementation of ESG just transition principles and actions. The Hunter has a number of preconditions that make it a prospective partner in this endeavour, namely a globally significant concentration of coal mining, power generation, and energy-dependent heavy industry; major businesses tackling the clean energy transition; planned closures; competitive advantages and investment opportunities; an increasingly supportive policy environment; community appetite; and stakeholder capacity.

The report explores the interaction between ESG and structural change in the Hunter, and focuses on alignment between fiduciary interests and applied transition actions. Recommendations suggest establishing dialogue and collaborative mechanisms between investors, workers, regional stakeholders and government; and identifying and delivering activities that are practically effective and measurable in terms of just transition benchmarks.

As an organisation that seeks to establish an effective response to emerging structural changes in the Hunter region, the Hunter Jobs Alliance welcomes any feedback, and any engagement from the investment community on the opportunity to deliver practical responses to a defining social and economic issue for regional Australia.

Recommendations

Hunter 'Model Region' Recommendations

1. Dialogue between investors and Hunter region stakeholders to create a common understanding of alignment between:
   - Investor's fiduciary interests,
   - Capital allocation criteria for transition affected regional economies,
   - Investment opportunities in the Hunter region,
   - Regional social and economic transition issues and needs.

2. Investors, government, business, union and regional stakeholders establish a formal collaboration to assess the structures, financing and policy needed to establishing the Hunter as a 'model region' for realising regional just transition investments and activities.

3. Investigate a region-specific (or cross-region) investment vehicle to identify, screen and realise investment opportunities; address capital access barriers and gaps; and practically respond to just transition principles and needs.

4. Investors collaborate with regional and government stakeholders to identify scale up, resourcing, technical expertise, and other options for building the capacity of supply chain business in affected sectors to diversify.

5. Investors commit to region-specific monitoring of just transition outcomes, and the reporting of results to an identified body – for example a formal 'model region' collaboration, or relevant regional forums (such as the Hunter Expert Panel and the Hunter Joint Organisation of Councils).

6. Investors advocate for and contribute to the establishment of fit-for-purpose regional structural adjustment policy and institutions, including regional coordination bodies, such as the proposed Hunter Valley Authority; durable and sufficient hypothecated funds; and the delivery of a full set of worker support and diversification actions.

Just Transition Investment Practice Recommendations

1. Investors and analysts prioritise the alignment of ESG just transition principles, criteria and indices with applied and tangible actions that deliver practical on ground outcomes for affected workers, communities, business and economic activity in transition regions.

2. Investors and analysts, in consultation with unions and community representatives, continue to improve and develop consistent and specific expectations of:
   - company support for workers in closure and retrenchment situations,
   - worker participation in decision making on transition issues,
   - security of employment in transition-exposed businesses,
   - employment standards for new clean energy projects,
   - other key worker and employment issues as determined by consultation.

3. Investor expectations for new clean energy and clean manufacturing projects include measures to maximise local content and provide diversification opportunities for local supply chain producers.

4. Investors carefully consider criteria and due diligence for assessment of company transition strategy to a) ensure that climate and transition risk and the credibility of response activities are fully assessed, and b) properly accounting for credible transition plans in heavily carbon-exposed businesses that are critical contributors to diversifying regional economies.

1. Investors, Energy Transitions, & Regional Economies

1.1 ESG & Impacted Communities

Concerns about climate have led the 'mainstreaming' and 'explosive growth' of ESG.[1] Asset managers are converging on investments compatible with climate risk criteria, divesting from non-compliant assets, and leveraging shareholdings to align corporate strategy.[2] Fiduciary drivers include stranded asset and transition risks, physical risk, global net zero policymaking, beneficiary interests, and social licence.

This shift is having material impacts on climate-exposed sectors that dominate jobs and economic activity in some regions.[3] Combined with a cocktail of other changes – such as automation; the rise of renewable technology; demand shifts; economy-wide structural change; and labour market casualisation – changes in capital allocation and investor behaviour will increasingly impact power generation, thermal coal mining, and emissions intensive industry.

Decisions to allocate, divest, or withhold capital are a defining influence on how structural changes will impact communities, but these decisions are esoteric and distant from the 'food-on-the-table' realities of regional Australia. There is virtually no line of sight, in either direction, from capital city board tables and fund management offices to the kitchen tables, crib rooms and industrial estates of places such as the Hunter Valley.

The Hunter region, in New South Wales, is an illustrative example of how the increasing leverage of shareholder expectations, and the internalisation of those expectations in business strategy, is beginning to have a material impact on decision-making in large employing sectors.

From early movers such as AGL (power stations) and Rio Tinto (coal mining) in the previous decade, through to more recent actions by BHP (coal divestment and closure), Rio Tinto (smelter decarbonisation), Origin (power stations), ESG has had at least some relevance to corporate strategy and investor expectations. While there are alternative investment strategies that pay

Cessnock

less heed to climate risk, regions such as the Hunter are vulnerable as such decisions become increasingly normative.

Risk management has frequently been expressed in an exit response, as investors weigh risk-return profiles, social licence and reputational risk. Exposure is minimised through divesting from assets; pressure to demerge and sell emissions-intensive divisions; and screening assets and portfolios. A similar response is seen in finance sector lending policies. This serves multiple purposes for investors, including addressing systemic risk; implementing long term strategy in reorienting to growth sectors; and responding to beneficiary, shareholder, stakeholder and policy signals.

From the standpoint of regions and workers, there is often a time lag between investor risk assessment, and the resulting economic changes that impact jobs and community welfare. Substantial movement may occur behind the scenes, visible only to investors, regulators and analysts paying attention to the minutiae of investment behaviour. The likelihood of a dramatic and consequential company decision, economic shock, or 'structural break' is much harder to perceive for regional communities going about their day-to-day business.

There are multiple reasons for this. Some are related to corporate and investor behaviour, such as rapid changes in management or strategy; seeking to maintain asset values or avoid political and community criticism; or efforts to satisfy shareholders' ESG expectations out of the public eye. Others are related to the unpredictability of commodity cycles and technology shifts, or the failures of companies or investors to respond to perceivable long-term trends.

At the community level, regional dependence on and confidence in wealth generating industries; contested and polarising public narratives on the future of particular industries; and the difficulty in differentiating between structural and cyclical changes in commodity and technology-dependent industries can also make it hard to read that money is moving, and that consequences may follow.

Regardless of the reasons, impacted communities are often the last to find out that major shifts in investment and corporate strategy are afoot. These changes are then expressed in decisions by business operators that have dramatic real-world implications. Successful regional adjustment planning takes time and coordination. Economic dependence means shifts reverberate through regional economies and communities, and ad-hoc, crisis-management responses often fail.[4] There are no longer any excuses for not planning ahead.[5]

The critical challenge, then, is to create a clear, transparent and defined role for the investment community that aligns with fiduciary interests, and makes real and tangible contributions to the welfare of affected places and livelihoods.

1.2 Just Transition Investment: From the Grand to the Granular

Any climate-related shift in energy generation that is not fair, orderly and inclusive risks substantial economic, wellbeing, social cohesion and policy uncertainty harms. Responses to this societal fairness challenge are often described as a 'just transition'. As Snell (2018) articulates:

> *'Just transition' (JT) has become an increasingly popular concept used to draw attention to the equity and justice challenges associated with efforts to steer society towards a more ecologically sustainable path.*[6]

Concepts of just transition revolve around securing 'fair' treatment in light of environmentally related policy, societal or investment outcomes. The term is flexibly deployed, covering a spectrum from expansive social and environmental policy agendas, to specific actions responding to plant closure.

The concept, while often seen as important, is also not universally endorsed by those affected. In general terms, there is more receptiveness when just transition – or alternative preferred phrasing such as regional adjustment, development or diversification – is a proactive response to inevitable shifts, rather than when viewed as a means to impose change.

There are a variety of approaches, from the highly theoretical to the nuts-and-bolts delivery of worker support and regional development. The on-ground delivery – and the associated provision of effective 'procedural justice' – is the component that delivers outcomes for workers and communities.

In a 2020 report on mine closure in Muswellbrook in the Upper Hunter, Sally Weller, one of Australia's most experienced analysts of regional economic change, and a critical assessor of just transition implementation, distilled the fair treatment of workers in closure and structural change situations to a key imperative:

> *There is no single agreed approach to best practice ... However, it is clear that there is a need for affected workers and communities to have a sense of procedural justice, leaving them with the understanding that everything that could have been done to help had been done.*[7]

In the context of investor behaviour that responds to climate risks, just transition ascribes a set of responsibilities, and specific proactive and remedial activities, to asset managers whose decisions have material flow-on impacts on workers and communities.

The relationship between fiduciary duties executed on behalf of asset managers' beneficiaries and clients, and the need to manage climate risk, are increasingly well established, including by regulatory agencies.[8,9] Now, a rapidly developing set of foundational work is establishing alignment between risk-based fiduciary duties, and ESG-linked just transition principles.

Liddell Power Station

Multiple drivers have been identified, including:

- Systematic risks to asset values and investment opportunities through social cohesion, political and economic risks.[10]
- Portfolio risks across regional asset classes impacted by structural economic declines, such as housing.[11]
- Positive social impact in response to client and beneficiary interests and preferences (while maintaining alignment with legally defined fiduciary interests).[12]
- Identification of new, de-risked investment opportunities, including through government and stakeholder collaboration.[13,14]
- Investment in value creating human capital, improving investment performance.[15]

This clear identification of risk drivers has strengthened the case for proactive investor engagement.[16] As the Grantham Institute at the London School of Economic and Political Science makes clear:

> *Investors can also play a significant role by making sure that the social dimension is fully integrated into their assessment, stewardship, capital allocation and policy activities.*[17]

There are burgeoning efforts to identify a specific set of performance categories and criteria that serve to direct investor activities, and can be integrated into ESG indices as a performance monitoring and evaluation tool.

This is an important development, but one whose efficacy will be determined by the ability of such criteria and evaluation instruments to deliver outcomes when they meet the hard reality of company and regional change, the mitigation of impacts on workers and communities, and effectiveness in supporting regional growth; moving 'from the grand to the granular' must be the critical priority in operationalising just transition.[18]

Interrogating the criteria and categories that have been developed in various recent assessments through the lens of place-based application suggests an innovation that bridges this gap, and can guide effective actions in any given situation.

Specifically, there is a well-thumbed list of specific regional adjustment activities that predates and parallels the emergence of 'just transition' concerns. Significant policy and research effort has been invested in understanding and responding over more than half a century of significant regional structural changes. Aligning these research insights and tangible on-ground experiences, with the identified categories of investor interest, serves to inject a significant new source of capacity into tackling the hard problems and extensive opportunities of place-based transitions.

To that end, Table 1 summarises just transition investment performance categories from a number of sources, with an emphasis on those that align directly with transition practices.[19,20,21] It then provides specific examples of place-based activities, sourced from literature and policy practice, that could serve as performance outcomes to meet the practical needs of investors and communities. This is not an exhaustive list and specifics vary depending on place, time, community and worker views, and other variables.

As the table shows, the tools that exist in the extensive canon of 'best practice' regional structural adjustment and transition interventions, and the emergent just transition concerns of investors, are compatible. These tools – implemented across company expectations; capital allocation; investor strategy; partnerships; and advocacy – can create the conditions to genuinely deliver a just transition for specific regions.

The prevailing challenge is to move from theoretical alignment to actual implementation, resulting in measurable performance outcomes. The history of regional transitions identify time, coordination, resources, community participation, and regional institutional capacity as important foundations.[22,23,24] In this context, identifying a model region that can test the activities that deliver jointly for communities and investors, leveraging the best available knowledge of past successes and failures, is a logical starting point for testing and operationalising place-focused just transition investment activity.

TABLE 1: ALIGNING JUST TRANSITION INVESTMENT CRITERIA AND PLACE BASED REGIONAL TRANSITION ACTIONS.

	Place-based activity
POLICY & PARTNERSHIPS	+ A durable, collaborative and resourced regional coordination body, including key stakeholders, is in place to respond specifically to transition. + A coherent program of worker support, investment attraction and job creation are rolled out well in advance of large structural, investment and closure shifts. + A substantial and durable funding pool, led by government and including company and investor contributions, is established to fund transition activities. + A public guideline establishing expectations of companies in closure and restructuring situations is established with government, employer, worker, community and investor participation.
CAPITAL ALLOCATION & REGIONAL DEVELOPMENT	+ A formal body or collaboration is in place to identify regional investment opportunities and establish investment conditions (for example, scale & aggregation, management capacity, risk management, infrastructure, workforce skills, etc), involving investors, business, government and development agencies. + Investors actively seek fiduciary-interest aligned capital allocation opportunities in transition-affected regions. + Investors participate in the establishment of a region-specific investment vehicle to link opportunities with capital and provide de-risked investment to leverage regional competitive advantages, including for SMEs. + Investors advocate for and provide advice to a best practice investment attraction and facilitation service to ensure regional conditions are optimal for business investment, attraction and growth. + Investors advocate for and advise on government investment to deliver enabling infrastructure, skills, land use planning, site redevelopment, grants, and other activities to enable investment.
WORKERS	+ Investors create clear expectations of companies transitioning from climate-risk affected assets, or investing in clean energy and decarbonised assets. + Investors establishing standing expectations of companies for JT aligned closure and restructuring in specified exposed sectors, including: • Multi-year advance notice • Genuine worker participation in transition planning • A full set of best practice worker supports, including tailored career advice, financial advice, retraining funding and leave, counselling and family support, for significant periods before and after job loss. • Equal access to supports, information and participation for casual and contract staff. • Full and fair provision of entitlements.

WORKERS CONTINUED...	+ Investors advocate for, fund, and participate in the establishment of regional worker supports, including: • Regional worker transition fund • Regional worker transfer/pooled redundancy scheme (funded early retirement for older workers and transfers of appropriately skilled workers between operations in same industry) • Employment register and training programs to provide priority access for transitioning workers to clean energy, manufacturing and related industry opportunities • Sector specific wage insurance/income support scheme for affected workers. • Open access and fit for purpose regional worker support services (career, financial, retraining, counselling)
SUPPLY CHAINS	+ Advocate for and invest in government and company programs to identify supply chain dependencies and support diversification in closure and restructuring situations. + Provide access to technology, skills and markets to enable suppliers to diversify to durable new sectors. + Require companies (in exposed and new sectors) to implement ambitious local procurement targets and enabling programs.
COMMUNITIES	+ Investors establish regular direct and/or collaborative forum engagement with unions and community representatives to understand local conditions and circumstances.
DISCLOSURE	+ Transparent public and beneficiary reporting on just transition policies and performance, including through Task Force on Climate-related Financial Disclosures (TCFD) reporting or emerging instruments such as the Just Transition criteria being developed for the Climate Action 100+ Net Zero Company Benchmark[25]

1.3 The Hunter: Fertile Ground for a Model Region

The Hunter region is a strong candidate to pioneer a 'place-based just transition' investment approach. Australia's largest regional economy, with a population of 700,000, the Hunter has the transition needs, competitive advantages and investment opportunities to function as a proving ground for just transition investment principles, namely:

- Emerging investment opportunities.
- Well-established competitive advantages, including infrastructure, innovation capacity, skills, land, and enabling regional institutions.
- Recognised needs for improved access to capital.
- An engaged and sophisticated stakeholder community
- Experience and emerging expertise on regional transition policy.
- Serious structural and social risk.

A 2020 Deloitte report commissioned by the NSW Government states the unvarnished reality of the Hunter Valley's vulnerability as energy technology shifts (in this case in reference to resource industry areas of the Upper Hunter):

> *The reliance on resources and energy generation, which is a strength of the Upper Hunter region, delivering high paid jobs and high-value economic activity, also poses the greatest challenge to the region's future prosperity. This challenge includes the planned closure of the Liddell (2023) and Bayswater (2035) power stations.*
>
> *Even more significant, however, is the potential withdrawal of mining from the region as demand for thermal coal and other fossil fuels for energy generation declines in the face of global and domestic climate change initiatives.*
>
> *Together, these mining and energy concerns directly provide some 13,500 jobs, or 35 per cent of the approximately 40,000 jobs in the region, supporting many residents, but also workers living in regions across the lower Hunter and Newcastle.*[26]

While there are diverse local views, there is increasing public and government recognition that responding to inevitable shifts in technology, demand and investment represents a defining challenge for the Hunter over coming decades. Assessing the future of sectors like coal mining and coal fired generation have moved to a significant degree from questions of 'if' or 'should' change occur, to practical questions of 'when', 'how quickly', and 'how can we manage it'.

This sentiment provides a strong foundation to welcome proactive policy and investment. For example, recent large sample polling found 67% of the region expected large economic changes in the next 15 years due to changes in mining and energy; 64% see responding to this as a key regional priority; and 73% support the establishment of a regional structural change authority.[27]

This changing environment is also increasingly expressed in policy and economic planning, including the NSW Government's Rejuvenation Fund[28], Intergenerational Report,[29] Statement on the Future of Coal,[30] NSW Electricity Roadmap,[31] Hydrogen Strategy[32] and Clean Manufacturing Precincts[33]. These initiat and the policy priorities of the new Australian Government, provide a strong public investment and institutional basis that can leverage the region's existing strengths and partner with business, investors and community.

While there are clear industry variations – all 4 local coal stations will close by 2033, with two closed by 2025; the Tomago Aluminium smelter is responding with aspirations to move to 100% renewable energy by 2029; and thermal coal exports have a less immediate downward trend but an order of magnitude greater employment, uncertain decline trajectories, and no capacity to decarbonise – the acknowledged reality for the Hunter is that sectors that have been the foundation of local wealth creation over several generations face significant structural changes.

While community, workers, government and employers have begun rising to this challenge, it is increasingly recognised that investors who have benefited from the region, and who are making risk-minimising decisions in line with their own strategic imperatives, have both responsibilities and opportunities in doing their part to address these changes.[34,35]

Taking into account these drivers, needs, and regional capacity, investor participation would make a difference-making contribution to the Hunter's ability to effectively respond to the changes ahead, as well as improving the region's status as a secure investment destination for new, sustainable industries.

2. Worker Outcomes Make or Break a Just Transition

2.1 Participation and Communication

As the Australian Council of Trade Unions (ACTU) just transition guidance [36] makes clear:

> *The foundation of just transition is co-creation of plans through social dialogue between workers and employers, and potentially government and communities.*

Effective worker dialogue requires transparent and timely information disclosure, and a genuine willingness to incorporate worker expertise and feedback in decision-making.

'Consultation' processes that withhold critical information and fail to make adjustments based on reasonable worker input engender uncertainty and mistrust, invite the generation of rumours, and create significant social licence, reputational and productivity costs. Conversely, as John Lewer's landmark study of the Newcastle steelworks closure demonstrates, a participatory approach does challenge company cultures but ultimately creates significant pay offs in productivity and reputation.[37]

In practical terms, at a company or workplace level, empowered joint management-labour committees that can direct tangible activity greatly improve trust and outcomes in areas such as designing and monitoring worker support programs; developing options for process and technology innovations; and skills planning and development.

In regards to closure and retrenchment situations, provision of multi-year advance notice is a high priority. Time is a precious commodity for workers seeking to assess their circumstances and plan responses. Additional savings, consolidating and paying down debts, assessing career opportunities, retraining, relocation, and other

Coal Ship Loading at Newcastle

household responses cannot be done without sufficient notice. Workers take responsibility for their own futures, but insufficient notice takes away their capacity to do that.

For shareholding investors, clear expectations and reporting expectations in relation to both worker participation and adequate notice periods should be foundational expectations of any just transition.

2.2 Decent and Secure Work

Issues of conditions, safety and security of employment are critical to a just transition.

Firstly, the increase in casual and contract labour in affected sectors – coal mining in particular – has direct implications for the treatment of workers as industries restructure. Secondly, the shift from coal power generation, with established industrial relations environments, to new power generation technologies with different employment profiles and new company actors is affecting security of employment and conditions.[38] Thirdly, the pattern of post-retrenchment jobs for industrial workers shows movement from secure, well-paid employment to precarious, less skilled work.

Mining is one of the most casualised sectors in Australia.[39] In the Hunter, the use of labour hire and contractors expanded significantly during the 2000s greenfield coal mining construction boom and has become entrenched.

Some employers may pursue casualisation in parallel, or in response to, stranded asset risks, for example seeking to reduce costs and inflate asset values as they divest; have greater 'flexibility' in responding to demand shocks; and as a way to minimise worker exit costs.

These incentives to grow precarious work arrangements, some directly related to climate risk divestment, have dramatic impacts on individual workers and households. Casualisation removes many of the key tools that workers and their families have for managing transition risk – job security; access to redundancy payments and entitlements; notice periods; and securing transition clauses in agreements.

The second major transition issue is that, to date, jobs in new and emerging sectors have suffered from a lack of security, as well as concerns about lower pay rates, safety and other conditions.

New energy technologies have inherent characteristics that create challenges for transition employment, particularly the capital-intensive concentration of jobs in construction activity, lower numbers of ongoing jobs due to labour-per-megawatt efficiency of new technologies, and in some cases the lack of geographic correlation between fossil fuel and renewable resources.

However, as unions have pointed out[40], there are clear steps that can be taken to ensure the renewable sector delivers decent work. These include industry wide dialogue between employers and unions to establish a nationwide framework for pay and conditions; commitments to enterprise agreements for all large renewables projects; company disclosure on jobs types and conditions; and commitments to local content.

The Hunter has some specific disadvantages and advantages in relation to provision of secure work in new sectors. On one hand, the resource in the dominant renewables growth sectors of onshore wind and solar is modest in comparison to leading regions. However, the opportunities that are emerging as most prospective in the region – offshore wind, hydrogen, the decarbonisation of existing heavy industry such as smelting, and the establishment of clean manufacturing in battery production and other sectors – lend themselves to secure, decent work.

The support required from investors is to ensure ESG strategies related to existing shareholdings and new capital allocations effectively identify and require responses to tangible risks related to precarious, non-standard and insecure work, including in-region skills and workforce availability, policy risk, reputational risk, and the loss of social licence that is becoming a key determinant of the ability to realise renewable energy and transmission developments.

2.3 Worker Support

Workers are experts at what they do for work. They are not necessarily experts in navigating rapidly changing labour markets, or managing the financial and emotional pressures of such a major life event as job loss. There are a well-recognised set of supports that can make a significant difference for individuals and families in closure or retrenchment situations, namely:

+ Financial advice substantially ahead of retrenchment.
+ Quality, tailored career and training advice that is relevant to blue collar workers and labour markets.
+ Training, including full subsidies, easy access and leave to undertake training.
+ Worker Transfer Schemes, including pooled redundancy, and employment registers, 'job banks' and pathways programs for new industry opportunities.[41,42]
+ Quality, accessible and unlimited psychological and wellbeing supports, and informal peer support activities.
+ Access to all supports for families (including training and career advice to support household income smoothing during regional economic disruptions).
+ All supports being available to contract, subcontract, casual and supply chain workers.

Many of these are not new interventions. For example, major closures in the 90s and early 2000s began to deploy these types of approaches, for example at Nissan (1991)[43] and the BHP Steelworks in Newcastle (1999-2001).[44] However, there is little consistent implementation of these supports in the Australian context, for example the varying experience of workers during the closure of mines in the Hunter in the 2013-2015 downturn.

In some cases, such as the BHP Steelworks or the automotive sector, the combination of worker organisation, public expectations, and long running relationships between companies and communities created expectations of decent support. In other cases, such as the Hazelwood and Port August power station closures or several coal mine closures in the Hunter, unions, communities and government have been largely left to their own devices at short notice.

An emerging dynamic is that shareholders are pressing emissions-exposed entities to reduce exposure or divest, and workers are caught between shareholder climate expectations, and company profit motives. Countervailing pressures that are relied on to ensure directly employed and downstream workers in communities get a fair shake – particularly the measures available to unions and community representatives such as local government – are undermined by systemic constraints. Unions, local government and community groups will always go into bat strongly for their people, but they should not be structurally disadvantaged in securing fair treatment of workers because of investor ESG pressures or related company strategy and behaviour.

The evidence on what constitutes effective supports is well known. The role of investors and shareholders in an ESG context is to prioritise creating, communicating and monitoring a clear set of expectations of companies during restructure and closure situations. In addition, and in recognition of the flow on economic effects of closure, advocacy support for regional worker support programs – such as the Latrobe Worker Transition Service – should also be a focus for investors.

3. Regional Diversification & Investment

3.1 Access to Capital

The Hunter has benefited from large capital inputs to drive multiple coal cycles, from British investment in the 19th century through to the Australian, Japanese, European, Chinese, Indonesian and Korean investment in more recent decades; Australian, British, North American and European investment in metals production; and direct government investment in power stations, in turn facilitating metals production.

These past investment rounds capitalised on abundant natural resource advantages in coal, natural locational advantages, and developed assets such as skills and infrastructure. The future drivers of the Hunter economy – including manufacturing, clean energy, hydrogen, mining and energy technology, and medtech – are more exposed to competition from similarly situated regions.

Regarding emerging opportunities, the Hunter is subject to significant interest for large scale sectors such as offshore wind, solar and storage, hydrogen, and battery production, with active early-stage projects in progress. These opportunities, and efforts by industrial anchors – such as the Port of Newcastle, Tomago Aluminium, Orica and Molycop – to lead the shift to clean energy and decarbonised production provides emerging demand drivers for renewable, logistics, manufacturing and supply chain investment. There are also active programs of brownfield industrial redevelopment being pursued, for example at Liddell (AGL) and Muswellbrook Coal (Idemitsu).

Beyond these sectors, there are significant opportunities to grow regional strengths in manufacturing, engineering, medtech, agriculture, and a broader set of urban economic activities in the lower Hunter growth corridor across the Newcastle, Lake Macquarie and surrounding regions.

The Hunter's competitive advantages – innovation and business capacity, infrastructure, skills, land, location, and government backing – are significant. However, growing and diversifying in response to the energy transition requires every possible tool to be utilised to ensure the region can access new developments that make use of these strengths.

Capital inflows have been historically linked to coal, energy, manufacturing and defence. Attracting investor interest in new competitive opportunities that generate returns, and maintain regional social and economic wellbeing, can make the difference between realising opportunities that create jobs, or seeing these opportunities go begging in the region.

Investors understand the dynamic investment environment, risk profiles, capital allocation criteria and sought returns. Sharing this knowledge with regional business and actors, and matching it with local knowledge of needs and options, can align both investor and regional interest.

The 2021 EY/Investor Group on Climate Change report 'Investors' Role in an Equitable Transition to Net Zero' identifies capital allocation practices that can address constraints for regional economies.[45] Table 2 relates these practices directly to identified challenges in capital attraction for diversification in the Hunter.

Addressing these information and access barriers should be a key part of applied just transition investment practices. Specific actions that can address these barriers include initiating an active investor-regional stakeholder dialogue; establishing a formal 'model region' collaboration; and investigating investment vehicles, potentially in collaboration with government, that address capital access gaps in regions.

In addition to these actions, one further critical area that requires attention is the sophistication in screening and investment criteria as it pertains to carbon exposed businesses that are seeking to diversify and transition their operations. The Hunter is home to a number of large and medium size public companies with substantial climate risk exposure but with credible diversification and transition plans to address that exposure. Ensuring due diligence and criteria is sufficient to properly determine the credibility of such efforts is critical, both in terms of avoiding restricted access to capital for transitioning exposed business, and effectively assessing the rigour of climate risk strategies.

TABLE 2: REGIONAL DIVERSIFICATION BARRIERS & JUST TRANSITION CAPITAL ALLOCATION

Diversification Investment Barrier	Description	Y/IGCC Recommended Just Transition Practice
LACK OF REGIONAL-INVESTOR RELATIONSHIPS	Set plans and strategies for retaining and growing jobs and economic activities in areas where the region has an actual or potential advantage. This also includes actions to support workers and communities through change, and make effective use of skills. This planning work is undertaken with the community, including both initial and ongoing community participation and engagement to ensure needs are met and support maintained. Plans are used as a guide and reporting framework for activities over time.	Seek opportunities to allocate capital towards risk adjusted investment opportunities that support just transition outcomes.
TWO-WAY KNOWLEDGE GAP - REGIONAL CONDITIONS AND INVESTOR NEEDS	Regional stakeholder visibility of how opportunities match investor needs is obscured by lack of knowledge of a) the changing drivers of investor behaviour and b) the criteria for investment. At the same time, investors have limited visibility of community needs, sentiment or opportunities that are consequential for strategy and risk management.	Engage early with community stakeholders and undertake local context analysis when assessing investment opportunities in communities in transition.
INVESTMENT OPPORTUNITIES REQUIRING SCALE-UP OR AGGREGATION	The Hunter has a rich ecosystem of supply chain and SME business with innovation capacity, and diversification and expansion opportunities, where those opportunities are substantial but below the minimum threshold for many investors.	Encourage mechanisms that enable the aggregation of smaller investment opportunities in local economies to attract capital from investors.
RISK PROFILES OF EMERGING INDUSTRIES	Where establishing new industry sectors or diversifying business is driven in part by just transition imperatives, it should rightly be expected that government in particular, or other entities driven social imperatives, such as impact investors or philanthropists, make a contribution to reducing risk profiles. This may include, for example, infrastructure investments, training and education, or investment vehicles that reduce risk or underwrite investments using public or concessional finance.	De-risk investments by seeking to partner with government, impact investors or other organisations with the objective of mobilising investment capital towards just transition solutions.

3.2 Regional Coordination and Investment Conditions

The Hunter has a sophisticated set of companies, development and industry bodies, unions, government agencies, and community actors. However, responding to transition is a singular task that requires responses different from the usual activities of regional development, land use planning, skills and training, service provision, and so on.

The region has a clear set of needs around attracting investment; in particular understanding and establishing the conditions required to attract new and diversified forms of development. There is also an accompany set of worker and community supports that require resourcing and implementation capacity. Turning inherent strengths to these core transition tasks requires a high degree of organised institutional capacity, as has been demonstrated in recent Australian examples such as the Latrobe Valley[46] and Collie in Western Australia[47].

A leading 2019 study of regional economic change responses across a number of countries, including Australia,[48] concluded that effective coordination models vary depending on regional conditions. Local advocacy has been directed towards models such as a state government-auspiced Hunter Valley Authority (see hunterjobsalliance.org.au/publications), and local government and business community proposals based on similar principles of local and expert collaborative leadership, institutional durability, sustained resourcing, and implementation capacity[49,50]. The recent establishment of a coal royalty 'Rejuvenation Fund' by the NSW Government, to respond to structural demand changes in export coal, and directed by a statutory Hunter Expert Panel, is a step in this direction.[51]

While such activities are rightly the central responsibility of government and regional actors, there are clear drivers for investor participation that could strengthen coordination.

For example, direct engagement from investors provides crucial information that can inform business attraction activities; target sectors in economic development strategies; infrastructure and skills investments; and government approaches to grants, loans and other economic incentives. Investor expectations of companies, or direct participation of investors can also make a meaningful contribution to the provision of resources, for example through investment vehicles or dedicated public-private funds for economic development or worker support activities, or the provision of expertise in investment, finance, management or business development that may otherwise be inaccessible or limited in a regional environment.

3.3 Silver Buckshot: Diversification, Supply Chains, and Local Content.

The aspiration for many regional Australian economies is to make use of the economic activity generated by sectors such as mining and manufacturing, at the same time as becoming less reliant on one central industry. Part of this rationale is that direct, like-for-like replacement of large employing sectors that are vulnerable to structural shifts has often proven to be elusive.

For the Hunter region, this 'silver buckshot' approach is highly prospective. That is, combining proactive recruitment and development of a set of future-proofed industries with significant jobs potential – including hydrogen, offshore wind and related manufacturing, battery manufacturing, and decarbonised aluminium production – with the expansion of a broader set of employing sectors, such as construction, health, education, tourism, and professional and community services.

This approach offers a clear path to a diversified and growing economy. Crucially, it creates a variety of occupations that fit the skills and aspirations of different parts of the Hunter community, including those directly impacted by structural change.

In this context, maintaining local economies relies in part on successful efforts by locally-based and owned supply chain companies to new secure new markets and diversify their product and service offerings. This approach makes use of innovation, entrepreneurial, and skilled trades capacity; and the place attachments of business owners and skilled workers; to generate in-region growth and diversification.

This is not without challenges. In the Hunter, many of the region's engineering and industrial SMEs make products and services geared towards coal mining, and to a lesser extent coal power generation. These are highly skilled enterprises, focused on the economic opportunities that currently exist. While some companies have the scale, strategy, transferable products, or other advantages that enable them to pursue new markets, others do not have the internal capacity to pursue other opportunities.

In a structural change environment, there is evidence that supports such as business and diversification planning; facilitated access to new markets from major companies or overseas markets; and loans and grants, can facilitate new business opportunities and local job retention. Recent examples of effective supply chain programs include automotive (South Australia)[52] and power station (Latrobe Valley)[53] closures.

For just transition-focused investors, there are potential avenues to support and benefit from investment in these activities. Options include requirements for supply chain diversification programs to be undertaken as part of company transition planning; through company contributions to and advocacy for supply chain diversification funding; and through the provision of advice and expertise in management, finance access, and prospective markets.

The other key area where investors can support local supply chain SME activity is to support local content targets and legislation being established for clean energy and clean manufacturing investments.

As experience in the UK offshore wind sector has demonstrated, failures to ensure adequate local content and employment during the development of early projects (10-15 years ago) prompted a community backlash as promises of clean energy jobs were not delivered.[54] This damaged the industry's reputation in local communities, and required remediation.

This remedial policy was undertaken through government lease auctions criteria, and collaborative government-industry agreements and related industry policy. Consequently, local content rose from 10-20%, to 50% on a trajectory to 60% for the pipeline of projects to 2030.[55] This has resulted in onshoring and large-scale employment for manufacturing, providing a significant boost to communities impacted by long run industrial declines and more recent transitions from oil and gas.

In the Hunter, as hydrogen, battery manufacturing, offshore wind and other new industry opportunities develop over the coming decade, proactive investor expectations of local content can meet just transition principles while reducing risks and delivering significant returns. Given the direct benefit to local communities, advocacy in regards to industry policy, infrastructure, and underwriting and other risk profile reducing incentives is also a constructive area for policy advocacy.

Conclusion

Addressing risks associated with climate and carbon exposure, and realising the opportunities of clean energy and decarbonisation, are key priorities for many investors. Pursuing these opportunities comes with transition, social and policy risks that are increasingly well recognised.

There is rapidly growing attention on how to manage these issues, and in particular the implications for workers, communities and regions that are economically reliant by climate-risk exposed sectors.

Key priorities in this task are aligning ESG risk criteria and investor expectations with high value activities that are functionally effective in addressing transition on the ground, in affected places. There are significant opportunities to drive beneficiary value while making real and tangible contributions in regions.

Specific areas for attention include expectations of company approaches to restructuring, particularly in relation to worker treatment; capital allocation to drive opportunities in economically-impacted regions; direct collaboration and engagement with regional stakeholders; prioritising and participating in policy and program development that benefits transition regions; and investment criteria for new energy and related sectors to ensure good local content and employment outcomes.

While investor and analyst attention is turning significantly to these issues, it takes substantial effort to practically align the priorities and realities of transition-affected regions with the criteria and imperatives of investors. Bridge Street, Muswellbrook can be a long way from Collins Street, Melbourne. However, the fiduciary alignment and commitment of investors, and the prospects of using insights from long established practice such as regional development and regional adjustment offer substantial prospects for a way forward.

One concrete suggestion is to explore and test and how this proposition can be realised in a specific 'model region'. We believe the Hunter region has many characteristics that recommend it as the site of such a model. To that end, we welcome any engagement or contact on this suggestion, or any of the other recommendations made in this paper to further outcomes that benefit investors, their beneficiaries, and the workers and residents of regions that have and can continue to make a significant contribution to the nation's prosperity.

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