



## *A New Approach in Australia to Just Transition*

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*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.<sup>1</sup>

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.)<sup>2</sup>

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 farmers<sup>3</sup> (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.<sup>4</sup>

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.<sup>5</sup>

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.

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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/>.