

Parliament of Australia

House of Representatives Select Committee on Regional Development and Decentralisation

Submission: Dr Amanda Walsh

1. Overview

This submission draws on my doctoral research on regional development in Australia, which will be published later this year as *Globalisation, the state and regional Australia* (Sydney University Press). The book examines the impact of globalisation on regional economies and communities, with a particular focus on how Australian governments have approached the task of helping regional Australia deal with economic globalisation.

2. The problem with regional development

The economic and social wellbeing of Australia's regions is often approached as a 'problem' to be 'solved'. Compared with metropolitan Australia, non-metropolitan regions may be more challenging for policymakers, in terms of remoteness, lack of population density or workforce skills, and access to services, among many other measures.

Over the course of the last century, Australian governments have proposed a range of solutions to the problem of regional growth and wellbeing, most of them focused on supporting economic activity and employment¹. However, these solutions have often encountered a common set of obstacles. As the Committee is no doubt aware, any significant attempt to support regional development in Australia faces two immediate challenges: first, the enormous diversity of Australia's regions, which renders useless any 'one-size-fits-all' approach; and second, the 'siloed' nature of public policymaking and administration, which hampers efforts to create comprehensive responses to complex issues.

The diversity of Australia's regions complicates the clean lines of policymaking. Each regional community has its own experiences of growth and decline, although many of these experiences will be common across particular types of regions, such as coastal, 'scenic rural' or inland remote regions². While many of Australia's regions are engaged in active competition with one another for investment and resources (including population), they are also in a good position to contribute to shared approaches to common problems. There is strength in the diversity of regional Australia, which could be used to drive a more nuanced, sophisticated approach to regional policy. This inquiry is to be applauded for explicitly recognising the importance of place-based approaches to regional development³.

Navigating and bridging the divides between the administrative units of policy implementation – at

¹ Walsh, A. (in press). *Globalisation, the state and regional Australia*. Sydney: Sydney University Press, p. 142.

² Tonts, M. (2000). 'The restructuring of Australia's rural communities'. In B. Pritchard & P. McManus (eds) *Land of discontent: the dynamics of change in rural and regional Australia*. Sydney: UNSW Press, pp. 52, 54–5. Department of Infrastructure and Regional Development (DIRD) (2015). *State of regional Australia 2015: progress in Australia's regions*. Canberra: DIRD, pp. 9–11.

³ House of Representatives Select Committee on Regional Development and Decentralisation (2017). *Issues Paper*. Canberra: Commonwealth of Australia. p. 3.

Commonwealth, state and local levels – provides a further degree of challenge for regional development policymakers and practitioners. Regional development programs at all three levels of government often lack coordination or act at cross-purposes, and their effectiveness has been highly variable⁴. Regional policy has also been prone to flights of fancy, and hampered by the lack of a decent evidence base⁵. Beyond the boundaries of 'regional policy', Australia's regions are affected by a broad array of policies that may have powerful local impacts. For example, the effects of deregulation of the Australian dairy industry in 2000 are still playing out in communities across the country, not least because of changes to the balance of economic power between dairy farmers, processors and retailers⁶.

3. Supporting regional communities

It is entirely proper – and frequently essential – for governments to support the viability of regional communities by seeking to create economic activity or support the formation of human capital. This is particularly the case now that local industries and enterprises are competing not only within a national economy, but in a globalising market. However, in the 1980s and 1990s, governments in Australia began to resist providing assistance to regional communities, instead promoting a mantra of 'self-help' for regions. In many locations, this governmental retreat from regional development occurred alongside the retreat of banks and other bedrock institutions, which rationalised their operations and closed branches in small communities⁷. The rise of neoliberalism – or economic rationalism – in public policy has not served regional Australia well. Neoliberalism enabled governments to walk away from a long-held political commitment to redressing geographical imbalances and ensuring a 'fair share' for regional Australia⁸.

As many analysts have pointed out, the capacity for regional communities to help themselves varies greatly⁹. If regions are to forge their own paths, then governments must accept the responsibility for ensuring that regional communities are equipped to take on this role. The work of this Committee provides an opportunity to assess the effects of the 'hands off' approach to regional development, while also reflecting carefully on the impacts of private and public sector decentralisation on regional communities.

4. Encouraging private sector decentralisation

Governments at the federal and state levels have a long history of intervening in the economy to encourage the establishment of private enterprise in regional Australia. The *Issues Paper* developed for this inquiry nominates five examples of 'successful' regional development projects and notes that the Committee 'would like to learn more about the strategies behind these projects' (p. 6). One of these projects is Australian Paper's Maryvale mill in Gippsland, Victoria. Australian Paper features heavily in one of the case studies in my forthcoming book, and I am therefore in a position to

⁴ Beer, A., Maude, A. & Pritchard, W. (2003). *Developing Australia's regions: theory and practice*. Sydney: UNSW Press, p. 9.

⁵ Rainnie, A. (2003). "'New Regionalism' in Australia?" *Sustaining Regions* 3(2), p. 16.

⁶ Walsh (in press), *op. cit.*

⁷ *Ibid.*, pp. 145-6, 154.

⁸ Brett, J. (2011). *Fair share: country and city in Australia*. Quarterly Essay No. 42. Collingwood: Black Inc.

⁹ For example, see: Beer, Maude & Pritchard, *op. cit.*; Rainnie, *op. cit.*, p. 15; and Stephens, M. & Laughton, K. (2003). 'Government interventions in pursuit of regional development: what have we learnt?' *Sustaining Regions* 3(2), pp. 9–11.

provide the Committee with a strategic view of the regional development impact of Australian Paper.

4.1 Australian Paper: Maryvale Mill

The regional performance of Australian Paper over the last 17 years highlights one important fact: that even large enterprises with a stated commitment to regional Australia are unable to guarantee jobs and economic opportunity in any particular community. In fact, the larger the enterprise, the greater the likelihood that it is heavily enmeshed in the global economy and therefore vulnerable to volatile factors like foreign competition and currency movements. This has certainly been the case for Australian Paper and its dwindling presence in regional Australia. A very brief corporate history of Australian Paper is necessary to understand why the ‘success story’ of the Maryvale Mill may present little hope for other regions.

Australian Paper was created in 2000, when packaging giant Amcor ‘demerged’ its paper manufacturing operations to PaperlinX Limited. Australian Paper was the brand name of this new corporate offshoot, which was endowed with four paper mills: Maryvale (Victoria); Shoalhaven (NSW); and Wesley Vale and Burnie (Tasmania). However, not long after its creation, the Australian Paper business struck trouble, in the form of a strengthening Australian dollar and rapidly growing competition from paper manufacturers in China and Indonesia¹⁰. While a global market provided the company with opportunities, it also applied pressure to chase much lower production costs. PaperlinX therefore embarked on a program of cost-cutting and ‘rationalisation’ of its Australian Paper operations. The company began concentrating its investment in the Maryvale mill, while stripping equipment and production from its other sites¹¹.

The cost-cutting did not deliver results quickly enough. Just one year later, in 2007, PaperlinX decided to abandon manufacturing altogether and placed its four Australian Paper mills on the market¹². The company could not find a buyer for its Tasmanian operations, and closed the Wesley Vale and Burnie mills in 2010, at a cost of more than 400 jobs¹³. The Maryvale and Shoalhaven mills (and the name ‘Australian Paper’) were bought by the Japanese multinational Nippon Paper Group in June 2009. The Shoalhaven Paper Mill survived for another six years, before its closure in 2015. The Maryvale mill survived, but on shaky ground. In November 2016, the Construction, Forestry, Mining and Energy Union urged its members at the Maryvale Paper Mill to accept a pay cut, rather than risk the closure of the plant and the loss of 900 jobs¹⁴.

4.2 Why does the story of Australian Paper matter?

There may be nothing extraordinary in this story of global competition, tight margins and corporate

¹⁰ Walsh (in press) *op. cit*, pp. 239-240.

¹¹ *Ibid.*, pp. 240-241.

¹² *Ibid.*, pp. 244-246.

¹³ Ford, S. (2010). ‘Final chapter closing on paper mill history’. *The Advocate*. 13 April. <http://www.theadvocate.com.au/story/685020/final-chapter-closing-on-paper-mill-history/>. Viewed 12 September 2017.

¹⁴ Harris, R. (2016). ‘Union urges workers to take pay cut to ensure Maryvale paper mill stays open’. *Herald Sun*. 27 November. <http://www.heraldsun.com.au/news/victoria/union-urges-workers-to-take-pay-cut-to-ensure-maryvale-paper-mill-stays-open/news-story/448f2890baefa2540d69cb11b33df1b3>. Viewed 12 September 2017.

rationalisation. While it may not be extraordinary, it should be illuminating. The rapid decline of the Australian paper manufacturing industry provides a salutary lesson for anyone interested in regional development. The paper mills in the Shoalhaven, Wesley Vale and Burnie were 'iconic part[s] of the economic landscape'¹⁵. The closure of the Shoalhaven mill destroyed 75 jobs – and while this may seem a very small number, these jobs were highly significant: 'in a place where good jobs are hard to come by', the well-paid positions at the paper mill 'represented the top end of employment in the Shoalhaven'¹⁶.

Beyond the loss of jobs and industrial diversity, the story of Australian Paper demonstrates another troubling aspect of regional development: the fundamental incompatibility between the modest scale of many regional operations and the pressing corporate drive to create economies of scale. The Shoalhaven Paper Mill had occupied a unique and important niche in Australian paper manufacturing: it specialised in making the security-grade paper for Australian passports and other sensitive documents. This specialisation 'suited small-scale production - but not the "bigger is better" mantra of modern manufacturing'¹⁷ (Walsh 2015). As a business strategy, specialisation should present opportunities for regional enterprises. In the case of the Shoalhaven mill, high-level manufacturing skills were not enough to outweigh the (necessarily) small-scale production in which the mill specialised. As a result of the closure of the Shoalhaven mill, paper for Australian passports and birth certificates is now imported.

The planned expansion of the Maryvale paper mill into energy generation (as highlighted in the *Issues Paper*) is an encouraging development, as it stands to lower production costs for paper manufacturing and secure the future of the mill. Nevertheless, the Maryvale mill has survived this far only thanks to the corporate euthanasia of its sister plants in Tasmania and the Shoalhaven. The lesson to consider is that, even where the necessary skills and resources are on offer in a regional community, there are no guarantees that a large enterprise will take them up or retain them. Any large, globally-integrated enterprise will inevitably seek to achieve economies of scale, and this is often incompatible with the establishment or maintenance of smaller regional operations.

5. Decentralisation of Commonwealth entities

Following the Second World War, economists began to apply 'growth pole theory' to regional development, spawning a generation of programs to fund (or otherwise support) the establishment of 'key industries' or industrial hubs that would drive regional growth¹⁸. Governments at federal and state levels established decentralisation programs to assist industries and enterprises that wished to establish operations in non-urban areas. Most regional development experts now concur that these programs were probably doomed to failure, for a number of reasons: the 'footloose' nature of the investments; the artificial competitiveness of the subsidised industries; and the 'weak connections' between the new enterprises and existing local businesses¹⁹.

¹⁵ Walsh (in press) *op. cit.*, p. 242; Walsh, A. (2015) 'Shoalhaven Paper Mill closure is personal'. *Illawarra Mercury*. 22 May. <http://www.illawarramercury.com.au/story/3097564/shoalhaven-paper-mill-closure-is-personal/>. Viewed 12 September 2017.

¹⁶ Walsh (2015), *op. cit.*

¹⁷ *ibid.*

¹⁸ Stilwell, F. (1992). *Understanding cities and regions*. Leichhardt: Pluto Press, pp 97-99.

¹⁹ Beer, Maude and Pritchard, *op. cit.*, p. 25; Stephens and Laughton, *op. cit.*, p. 7.

Some of the lessons of private sector decentralisation also apply to Commonwealth sector agencies. While there may be little danger of a relocated Commonwealth agency suddenly withdrawing from a region, there are other relevant issues. For example, the question of forming connections with existing local businesses is very pertinent. The relocation of a Commonwealth agency to a regional town or city could present opportunities for local suppliers – but only if (a) procurement decisions are also decentralised from Canberra; and (b) the local business community is in a position to provide the required goods and services.

The Committee should also consider the ‘employment cannibalisation’ impact of relocating an agency to regional Australia. Public sector jobs are often well-paid, and in many parts of regional Australia, the salaries and conditions offered by a public sector employer would outstrip those of existing jobs, particularly in sectors such as tourism and retail. The impact of a decentralisation program on existing small-to-medium enterprises (SMEs) therefore requires very careful attention.

6. A bigger, better approach to regional development

There is plenty of room for improvement in the conception and delivery of regional development policy in Australia – but how do we get there? In my book, I recommend the launch of a ‘white paper’ process for regional development in Australia, in the tradition of the defence, strategic policy and foreign policy establishments. The white paper process – alongside that of the ‘summit’ – has become a touchstone of serious policymaking in Australia, and its application to regional policy is long overdue.

The development of a white paper could advance the cause of Australia’s regions in several important ways. First, the very decision to embark on a white paper process would signal the significance of regional Australia and its economic and social wellbeing, and could act as a circuit-breaker in the often cyclical processes of policymaking in this area over the last couple of decades. Second, the white paper process, with its emphasis on high-level strategic thinking, would lend itself to consideration of some critical issues for regional Australia: globalisation and neoliberal policymaking; the outlook for international trade; migration trends; and climate change, to name a few. Third, the white paper process would be well-resourced, most likely via a secretariat and an appointed panel of experts, and could be expected to draw on the input of many stakeholders, representing a wide range of policy areas and expertise. Finally, and crucially, a white paper process would raise expectations about greater ambition, vision and innovation in regional development policy. Without high expectations, we may be destined for mediocrity.

I should emphasise that, in proposing a white paper for regional development, I am not implying that all previous policymaking efforts have lacked rigour or value. In fact, a white paper would ideally draw on relevant recent work, such as the current Independent Review into Regional, Rural and Remote Education. It would also echo the intent behind the Government’s recent establishment of a Regional Australia Ministerial Taskforce. However, the broad scope of the issues affecting regional economies and communities can only be addressed adequately by an ambitious, highly strategic policy process, of the type embodied in a white paper.

In short, the way forward in regional policy is to broaden our focus and draw in all the relevant policy issues: pulling back to see how our regions fit into networks of global economic forces, and looking beyond rigid portfolio lines and administrative boundaries. The way we frame regional Australia affects what we see there and the steps we take to help or hinder regional communities. Regional policy should be sophisticated work: this is what regional Australia deserves. I encourage the Committee to recommend the launch of a white paper process for regional development in Australia.

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