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.

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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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