



Government
of South Australia

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Transitioning Regional Economies Study
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC 8003

Dear Commissioner

On behalf of the Government of South Australia, I am pleased to provide you with a submission to the study on Transitioning Regional Economies.

As you will see, this submission focusses on the Upper Spencer Gulf and Outback Communities region of South Australia, which has been significantly impacted by the downturn in the resources sector.

Please contact Ms Kris Swaffer, Manager Regional Policy, Regions SA
for any further information that you may require.

I look forward to receiving a copy of the Commission's initial report in April 2017.

Yours sincerely

Hon Geoff Brock MP
Minister for Regional Development
Minister for Local Government

A handwritten signature in blue ink, appearing to be "G Brock", written over the date.

February 2017

Minister for Regional Development
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Productivity Commission Study — Transitioning Regional Economies

Submission from the South Australian Government

February 2017

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1 Background

South Australia has been significantly affected by the downturn in the resources sector with several mines being placed in care and maintenance and major projects including Olympic Dam seeking to reduce costs through a subsequent reduction in employment. Similarly, the petroleum sector focused on the Cooper Basin has sought to cut costs including through job shedding in response to a dramatic fall in global oil prices.

The decision by Alinta Energy to withdraw from the National Energy Market by closing its North power station at Port Augusta also led to the closure of the associated coal mine at Leigh Creek, which has declining coal resources. Arrium had already shed one-third of its mining workforce by mothballing its Southern Iron operations in January 2015 before the company entered voluntary administration in April 2016.

The South Australian communities of the Upper Spencer Gulf and Far North Outback have been hit hardest by these events. The Upper Spencer Gulf region, in particular, with its population of approximately 53,000 people, is facing challenges from industry adjustment to lower commodity prices and resultant job losses. Job shedding and cut backs on contracting work flows through to other businesses in the region, with few substitute or alternative industries to step in to minimise the loss of economic activity.

This area, which includes the cities of Port Pirie, Port Augusta and Whyalla, is a region in transition.

The Upper Spencer Gulf's economy has developed mainly around extractive industries represented by a few major companies. Port Augusta's electricity generation was fuelled by coal mining in Leigh Creek, and Whyalla's steel manufacturing is fed by the region's iron ore resources. In Port Pirie, lead smelting first started in 1889, and continues today, with ore imported from local and international sources.

Arrium's decision to enter voluntary administration¹ and the closure of Alinta Energy's Port Augusta power station and Leigh Creek coal mine underscore the need to continue the South Australian Government's policy of supporting greater economic diversification and development in the Upper Spencer Gulf to provide jobs and business opportunities for future generations.

The broader Upper Spencer Gulf area is endowed with some of the most significant mineral and renewable energy resources, natural biodiversity and landscapes in the world.

With targeted, tailored and coordinated support, the region has considerable opportunity to pursue growth in:

- Renewable energy;
- Arid agriculture and innovation;
- Defence industry;
- Intermodal transport and logistics;
- Event, nature-based and cultural tourism; and
- Higher education and research.

To achieve this, the Upper Spencer Gulf must first overcome a number of challenges, including:

- Current reliance on a single industry subject to mining trends and other global influences;
- Negative external perception of the three cities; and
- High unemployment and socio-economic disadvantage.

¹ See Attachment 1 – Arrium Limited Whyalla operations

To overcome these challenges and maximise opportunities for the Upper Spencer Gulf, all levels of government, community leaders and industry need to work together to leverage the region's existing capabilities to support its transition.

Some progress has already been made to support this transition, with the over \$500 million redevelopment of Nyrstar's Port Pirie lead smelter to a modern, multi-metals recovery processing facility and the construction of Sundrop Farms' \$150 million arid horticulture operation near Port Augusta.

Resource development, petroleum production and mineral processing will continue to be a significant contributor to the diversified economies of the Upper Spencer Gulf and Outback regions with signs that a recovery in commodity prices has stabilised the workforce.

Alongside this industry transformation, a key focus for local government and regional development leaders in Port Pirie, Port Augusta and Whyalla is to improve the physical and aesthetic appearance of the cities to address their negative public perceptions associated with their industrial base.

Improving the liveability and vibrancy of these centres is aimed at triggering more interest and investment by business and new residents.

These examples pave the way for the transition of the Upper Spencer Gulf into advanced manufacturing, clean technology and arid agriculture. However, more targeted work is required to achieve transformational outcomes for the region.

2 About the Upper Spencer Gulf

Located in a semi-arid zone at the north of Spencer Gulf, the Upper Spencer Gulf region is home to around 53,000 people, representing 3.4 per cent of the total South Australian State population. There are nearly 22,000 workers in the Upper Spencer Gulf and over 2,000 businesses, contributing over \$2.3 billion in Gross Regional Product and equating to just over 3 per cent, of South Australia's Gross State Product.² The largest industries contributing to Gross Regional Product are mining, manufacturing, utilities, education and health.

Table 1. Population, Workers and Business Snapshot, Upper Spencer Gulf

| City | Population (LGA) | Workers | Number of Businesses | Est GRP \$M |
|--------------|------------------|---------------|----------------------|--------------|
| Port Pirie | 17,333 | 6,622 | 773 | 701 |
| Port Augusta | 13,985 | 5,740 | 506 | 637 |
| Whyalla | 22,000 | 9,158 | 724 | 1,043 |
| Total | 53,318 | 21,520 | 2,003 | 2,381 |

(Source: SA Centre for Economic Studies 2012)

The origins of the three cities of the Upper Spencer Gulf - Port Pirie, Port Augusta and Whyalla - have much in common. Their initial strong inter-dependencies in minerals processing have become a broader web of social and economic links.

Metal mining and processing drove the establishment of both Port Pirie and Whyalla. A key driver for BHP's development of the Iron Knob ore deposits was the ability to use the ore for flux at the company's Port Pirie lead smelter – the main destination for lead ore from Broken Hill. The creation of the ironworks in Whyalla and the boom in production through the 1930s and 1940s coincided with the emergence of Port Augusta as the focus of the east-west rail link and rails from Whyalla were used to carry coal from Leigh Creek for the Port Augusta power stations, which also supplied Port Pirie.

The Upper Spencer Gulf has seen steady improvement in the breadth and depth of social and economic services across the region. This has supported growth in economic, health and education services across the region, widening the services available.

Today, resources and energy still link the three cities, but more through business trade services, labourers and contractors than flow of commodities and materials. This highlights the strengths, but also the vulnerabilities of the region to economic shocks faced by any one of the cities.

The three cities also play a vital role as service centres to their broader, geographic hinterlands, providing a range of retail, specialist health and medical, education, sporting, aged care, emergency and commercial services for surrounding Mid North, Eyre Peninsula and Far North communities.

For example, whilst the population of Port Pirie City and Districts was estimated as 17,951³ in 2016, the retail catchment in total is around 26,000. Similarly, Port Augusta services an area north to the State border, with Whyalla the primary service centre for a large part of eastern Eyre Peninsula.

² Sources: DPTI population projections; *Department of Employment Small Area Labour Market data*

³ Source: DPTI population projections - <http://dpti.sa.gov.au/planning/population>, [February 2016]

This dual role, as inter-connected industrial centres and as major geographic service centres means the economic and social impacts experienced by any one of the three cities can trigger a complex web of flow-on effects right across the northern part of the State.

Each city has different economic specialisations and each has a good representation of most of the industries. However, all three cities are below average in the share of technical, scientific and professional and business services enterprises. Building local capacity in these areas is vital if the Upper Spencer Gulf is to see growth in a more diversified economy.

Key to the liveability of the Upper Spencer Gulf is the long term sustainability of the natural environment surrounding the three cities.

The natural landscapes of the Flinders Ranges and the coast and marine environment of the Upper Spencer Gulf are defining characteristics that underpin the sense of place valued highly by residents and visitors.

A recent cost-benefit analysis estimated the Gulf provides over \$136 million in economic benefit to commercial and recreational pursuits in this important marine environment.

In summary, the Upper Spencer Gulf's reliance on a few extractive industries has made it vulnerable to broader economic trends. The region's economy can and should be further diversified, particularly through making the most of local human, physical and natural assets. With the right mix of coordinated and targeted initiatives, existing enterprises can be supported, and new businesses attracted to the region to stimulate its economy and make it more resilient.

3 South Australian Government Regional Initiatives

The Upper Spencer Gulf and Outback communities require urgent government action, due to the downturn in the resources sector. The downturn has resulted in reduced demand for resource sector support services, which has been a major employer in the region.

Job loss announcements throughout the Far North and Upper Spencer Gulf include BHP Billiton's Olympic Dam mine, Arrium's Southern Iron mine near Coober Pedy and Prominent Hill mine.

The South Australian Government has continued to be proactive in its support for the communities of the Upper Spencer Gulf and Outback. The support initiatives are outlined below.

Whyalla Response

Whyalla, often referred to as a one industry town, is highly dependent on the ongoing operation of Arrium.

On 7 April 2016, Arrium entered into voluntary administration. KordaMentha Restructuring partners was appointed as the Administrator of Arrium, and they are currently managing the sale process of the Whyalla steelworks. At present there is a high level of uncertainty among the community, placing significant pressure on various social and business service providers.

The South Australian Government has implemented a number of initiatives to support the community in Whyalla, including:

- Whyalla Response Office with two staff, as a first point of contact for local businesses and the community;
- \$50 million State Government Grant Facility available to a new owner of Arrium, Whyalla;
- \$10 million Whyalla Small Business Loan Scheme;
- \$8.5 million Whyalla Hospital Mental Health Funding;
- \$0.3 million Foodbank Whyalla;
- \$1 million Jobs Creation Package (applicable to Port Augusta and Whyalla);
- Arrium workforce support through Career Services, Employment and Training Support, and Building Family Opportunities program; and
- Free financial and legal counselling for Arrium Trade Suppliers.

In addition, in November 2015 the State Government established the Steel Taskforce to work with the relevant external stakeholders to respond to the changing environment in the steel industry.

It should be noted that throughout the Whyalla response, there have been elements of duplication in the program service delivery. In the future a better coordinated and a more effective partnership arrangement is required between the State and Commonwealth Governments to ensure the most efficient response locally.

Port Pirie Response

Port Pirie faced similar uncertainty to Whyalla prior to 2014. Now its future is secure with the State Government's financial guarantee allowing Nyrstar to secure \$291.25 million of external financing, required for its \$563 million investment into new technology at the Port Pirie smelter. Nyrstar's transformation is underpinning Port Pirie's economic development and diversification.

Port Augusta and Leigh Creek Response

The State Government responded to the closure of the Alinta Energy's Leigh Creek mine and the associated power station in Port Augusta with a \$1 million Jobs Creation Package and the creation of an Upper Spencer Gulf and Outback Task Force to work with these two regions to smooth the transition. The Task Force worked with Alinta Energy and the Port Augusta City Council to resolve issues arising from the closure of the power station and the remediation of the industrial site. Alinta employees were supported to transition to new employment and arrangements made for former ETSA employees who were eligible to seek a return to work within the South Australian public service.

State Government Economic Assistance Package for the Upper Spencer Gulf and Outback

The State Government has established a \$7 million economic assistance package for the Upper Spencer Gulf and Outback. This assistance package funds the following two programs:

Upper Spencer Gulf and Outback Futures Program

The Upper Spencer Gulf and Outback Futures Program is a \$2 million once-off program to help address economic difficulties faced as a result of the closure of the Port Augusta power stations and the Leigh Creek coal mine. The program supports projects resulting in economic growth and employment outcomes.

To date this program has led to the creation of 71 jobs and has generated almost \$10 million in investment into the region.

Round 3 of the Regional Development Fund

The State Government's \$15 million per year Regional Development Fund (RDF) delivers support for projects that drive economic growth, create jobs, and leverage private sector investment in regional South Australia.

The remaining \$5 million from the economic assistance package is money that was allocated from Round 3 of the RDF, which was conducted in 2016. A total allocation up to \$5 million of this Round was set aside for projects located in the Upper Spencer Gulf area, to assist it to achieve economic recovery.

Upper Spencer Gulf Economic Transition Forum

In April 2016, the South Australian Government established the Upper Spencer Gulf Economic Transition Forum to drive the long-term economic transition for the region. The Forum involves representation from the Upper Spencer Gulf Common Purpose Group⁴, Regional Development Australia (RDA) network, three local councils, and several State and Commonwealth Government agencies.

The Forum is developing a plan to deliver a pathway to transition the region to a sustainable future, build confidence and improve coordination between the three levels of government and between the cities of Whyalla, Port Augusta and Port Pirie.

In light of the Commonwealth's plans to establish a Regional Jobs and Investment Package (RJIP) Local Committee, which is likely to be tasked with a similar objective to the above, the future work of the Forum will be determined once more is known about the work of the Local

⁴ In 2017 the Upper Spencer Gulf Common Purpose Group disbanded and replaced with the Spencer Gulf Cities group.

Committee. It is intended for the State-based Economic Transition Forum to complement the work of the Commonwealth's RJIP Local Committee.

Regional Priorities Identified by the Regional Community

During 2015, the South Australian Minister for Regional Development, the Hon Geoff Brock MP, held a series of Regions in Focus roadshows, including the regional areas of the Upper Spencer Gulf.

Local communities provided the Minister with three key priorities for their region, and these were documented for State Government agencies to action. The Minister returned to all regional areas in 2016 to report the progress made against regional priorities.

The priorities identified by the Regional Development Australia Boards, industry and community members which incorporate the Upper Spencer Gulf include:

Eyre and Western RDA

- Priority 1: Infrastructure Development: Multi use port facilities
- Priority 2: Economic Development: Regional planning
- Priority 3: Industry Development: Regulatory reform in seafood

Yorke and Mid North RDA

- Priority 1: Industry Development: Value adding in commodities
- Priority 2: Infrastructure Development: Road transport
- Priority 3: Workforce Development: Attraction and retention

Far North RDA

- Priority 1: Infrastructure Development: Digital connectivity and capability
- Priority 2: Economic Development: Tourism
- Priority 3: Infrastructure Development: Transport

4 Prospects for the Future

The Upper Spencer Gulf region is ideally placed to take advantage of a range of industry opportunities, some of which are outlined below.

Renewable Energy

The Upper Spencer Gulf is located in close proximity to some of the best and most diverse renewable and low carbon energy resources in the developed world. The region has exceptional endowments of wind, solar, wave, geothermal, and biomass energies along with high grade uranium oxide and large natural gas resources to the north of the region.

The power transmission infrastructure built around the generation of electricity at Port Augusta is a considerable asset that can greatly assist the early stages of the emergence of the region as a major source of renewable energy. The advantages of the Upper Spencer Gulf and surrounding areas in a low-carbon economy may become a source of competitive advantage for the region, and enhance its prospects for accelerated economic development.

The Upper Spencer Gulf also offers considerable potential to research, trial and test new and emerging renewable energy technology, particularly with the presence of two universities in the region, being the University of South Australia and the University of Adelaide.

Existing manufacturing expertise in the region, along with the proposed expansion of the Nyrstar operation to include precious metal extraction from e-waste also offers the opportunity for local value-adding through processing or re-processing of elements required for the manufacture of renewable energy technology componentry, such as solar cells and battery storage units, through to framework construction.

Agriculture and Arid Innovation

The aspiration of the Upper Spencer Gulf is to become the home of arid innovation.

In addition to the industrial heritage of the Upper Spencer Gulf, the three cities also have considerable history and capability in horticulture, which is being revived with advances in technology and the advantages of the transport network the region offers.

The proximity of the three cities to agricultural hinterlands across Eyre and Yorke Peninsulas, the Mid North and the pastoral lands to the north also offers potential to combine the industrial capabilities and infrastructure of the cities to support stronger processing and value-adding to dryland agriculture and livestock production.

Sundrop Farms is an existing successful example of an innovative, value adding initiative in the region that can be built upon. This global company began operating its first commercial greenhouse facility near Port Augusta in 2010. Given the lack of fresh water and the dry, arid climate, the company generates its own electricity and water for the greenhouse through an onsite solar thermal power plant and seawater desalination plant.

The company has secured a ten-year contract with Coles Australia for its truss tomatoes, taking further advantage of the Upper Spencer Gulf's location to assist their national transport and distribution operations.

Defence

The Upper Spencer Gulf has long played a part in supporting the Defence industry. The Cultana Training Area between Port Augusta and Whyalla provides ideal terrain and climate for year-round armoured, mechanised and cavalry forces training.

Cultana is undergoing a major expansion to support future joint training needs and the capability of the 1st Brigade and 7th Battalion, Royal Australian Regiment (7 RAR) Battle group, based at Edinburgh.

The Department of Defence has expanded the existing Cultana Training Area westward towards Whyalla, increasing its total size from approximately 50,000 hectares to approximately 209,300 hectares. The expansion positions Cultana as one of the Australian Defence Force's largest training areas capable of supporting major joint combined exercises.

The expansion is now part-way through the development phase during which the infrastructure necessary for the management and use of the training area will be established.

Opportunities also exist for the Upper Spencer Gulf to contribute towards construction of the Future Frigates, C1000 Next Generation Submarines and LAND400 Armoured vehicles. This would build on the region's history of shipbuilding and defence operations and assist in generating local employment and business opportunities.

Ottoway Engineering, based in Whyalla, is a key capability partner with the ASC Pty Ltd in the supply of various items for the Air Warfare Destroyers being built in South Australia, including assembled pipe spooling modules and pipework supports.

Currently the majority of the Defence capability is based in the Northern Adelaide region. Fostering stronger links between Upper Spencer Gulf enterprises to Techport Australia, Technology Park and Edinburgh Defence Precinct is a logical step to leverage the formative Defence capabilities in the region and particularly, in close proximity to Cultana.

National Transport and Logistics Hub

The Upper Spencer Gulf is quite literally located at the crossroads of Australia making it an ideal, central location to develop as a national transport and intermodal hub.

The region is the intersection of the national highway routes from Perth-Sydney and Melbourne-Adelaide-Darwin national highways, as well as the east-west and north-south rail lines. Sea ports in the region, commercial passenger airports at Whyalla and Port Augusta and a fully serviced light plane and training aerodrome in Port Pirie provide a range of intermodal transport options.

Event, Nature-Based and Cultural Tourism

The Upper Spencer Gulf is the largest population base outside of Adelaide and is ideally placed to grow its capabilities in tourism.

Sporting and Cultural Facilities

The region has previously delivered a number of annual and one-off state, national and international sporting events and conferences. The recently completed \$22 million Port Augusta Central Oval, and the \$15 million Port Pirie Sporting Precinct, which is anticipated to open in 2017, will provide leading sporting and conference facilities for hosting regional, state and national sporting events.

To help fully realise the potential of the Upper Spencer Gulf to attract more national and international conferences and events, further facility upgrades and resourcing capacity will be required.

Tourism

Proximity of the three cities to the Flinders Ranges and Outback, Clare Valley, and Yorke and Eyre Peninsula tourism regions provides an advantage for the Upper Spencer Gulf to use its

event-based attraction to extend visitation length and tourism spend into the broader hinterlands that are rapidly building a strong international reputation for their tourism experiences.

Facilitating growth in nature based tourism is a significant opportunity for the Upper Spencer Gulf, with the Upper Spencer Gulf Marine Park and proximity to the Flinders Ranges being major drawcards.

Building on growing interest in Indigenous and cultural tourism also offers an opportunity for the Upper Spencer Gulf. Existing facilities such as Wadlata Outback Centre (a major tourism attraction and an accredited Visitor Information Centre), the Port Pirie Regional Art Gallery, Curdnatta Gallery, and the Desert Fringe Festival form a sound base to grow and consolidate the region as a logical destination for hosting permanent and visiting cultural events.

Higher Education and Research

Several reports relating to the Upper Spencer Gulf identify a lack of relevant skills, particularly highlighting scientific and technical capability as a key barrier.

In 2012 the South Australian Centre for Economic Studies highlighted education as the future foundation of economic and community growth, innovation and entrepreneurship in the Upper Spencer Gulf. This report identified a clear need to improve skills capacity in the region in order to realise a strong and prosperous economy. This finding was further emphasised in subsequent reports.

At present, the technical, education and research needs of both established and emerging mineral resources, processing, renewable energy and clean technology and manufacturing businesses based in the Upper Spencer Gulf are largely sourced externally to the region, in an ad hoc manner and with very little, if any, local or lasting capacity generated.

In the vocational education sector, TAFE SA has a strong and trusted presence across the region, including major campuses in each of the three cities. However, a 2014 desktop mapping exercise of vocational education service provision in the region highlighted a number of discrepancies between the courses available in the region and the actual needs of local industry. This can largely be attributed to vocational training policy and funding support implemented on a broad, top-down, state-wide basis, rather than responding to future trends and the needs of industry in the region where the training is being delivered.

Establishing a tertiary hub in the Upper Spencer Gulf would open opportunities for students who cannot afford to move to Adelaide, and would aim to work with institutions to support flexible delivery options for students who may require additional support in the first year of tertiary study, should they need to relocate to the city.

There is already strong interest by universities and industry to establish the Upper Spencer Gulf as a research hub to trial and test new renewable energy technology, establish a Steel Industry Transformation Institute, a Copper and Magnetite Centre of Excellence, a Centre for Arid Innovation in Agriculture, and expansion of the Spencer Gulf Ecosystem and Development Initiative.

5 Conclusion

The South Australian Government supports the Productivity Commission's Study into transitioning regional economies following the mining boom.

South Australia's Upper Spencer Gulf and Outback communities require support through coordinated government action if they are to transition to a more sustainable future successfully.

The South Australian Government has been listening to the concerns voiced by the community in the Upper Spencer Gulf and Outback regions and responded by developing and implementing a range of initiatives outlined in Section 3 of this submission.

The South Australian Government strongly encourages the Australian Government to co-design and co-establish assistance and supportive policy settings to assist South Australia's at need communities to successfully transition to a diversified economy. It is suggested that a coordinated approach would reduce duplication of services, initiatives and programs and drive a tailored rather than a one-size-fits-all response to local needs