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Globalisation, the State and regional Australia: a case study of the Shoalhaven region

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GLOBALISATION, THE STATE AND REGIONAL AUSTRALIA: A CASE STUDY OF THE SHOALHAVEN REGION

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

AMANDA J. WALSH, BA(Hons), Grad. Dip.

School of Humanities and Social Inquiry

2015

CERTIFICATION

I, Amanda J. Walsh, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the School of Humanities and Social Inquiry, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

[redacted]

Amanda J. Walsh

30 March 2015

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ABSTRACT

Globalisation is often presented, or perceived, as an unstoppable economic force that confounds the efforts and capacities of governments to act against it. In fact, the expansion of transnational capital and the growth of capital accumulation have been actively facilitated by the state. Neoliberalism has played a central role, as the policy orthodoxy of globalisation: it has been essential in creating the economic structures that support and extend globalisation. Far from riding roughshod over national policies, neoliberalism has provided states with the means to reshape national policies in globalisation's image. Neoliberalism and globalisation have strengthened and consolidated one another, via the decisions and actions of the state.

Since the mid-1980s, successive Australian governments have stripped away barriers and regulations that had previously been judged necessary for the management of industries, social outcomes and the national economy as a whole. The promise of neoliberal globalisation was of greater efficiency, capital accumulation and wealth for the nation and its people. In the interests of the efficient allocation of economic resources, the state has sought to tread lightly on the market. The reality is that neoliberal economic policies have created highly variable outcomes for Australians.

If we are to understand global capital, neoliberalism and the state in meaningful ways, we must understand them as they operate in, and on, particular places and people. This thesis examines the impact of globalisation in the Shoalhaven region of New South Wales, a coastal locality with a strong history in agriculture and light industry. The role of the state in strengthening or mediating the forces of globalisation in regional Australia is highlighted in case studies: dairy farming; and manufacturing, represented by the Shoalhaven Paper Mill and Shoalhaven Starches. These industries and enterprises have been highly important, economically and socially, to the Shoalhaven region over several decades.

The case studies reveal the nuances, fallacies and contradictions of neoliberal policymaking. The Shoalhaven dairy industry and the Shoalhaven Paper Mill have struggled to navigate through a liberalised, market-driven business environment. In contrast, the Shoalhaven Starches factory has thrived on huge levels of state support for

its ethanol manufacturing operation. Neoliberalism is well and truly ascendant in the Australian state, but policy anomalies—in which the state intervenes unapologetically in the market—remind us of two things: the continuing importance of political imperatives in government decision-making; and the continuing capacity of the state to shape national and local economies.

ACKNOWLEDGEMENTS

I am very grateful to everyone in the Shoalhaven, and further afield, who contributed their time and expertise to this project, and especially to my interview subjects in the local dairy and manufacturing industries.

I am indebted to my two supervisors, Dr Glenn Mitchell and Dr Anthony Ashbolt, for their wisdom, support and patience. I also thank my family and friends for their endless encouragement, and for providing many distractions over the years, allowing me to keep this project in perspective.

This thesis had its genesis in simple wondering—about the town in which I grew up and the changes to its physical and industrial landscapes, which were obvious, yet difficult to grasp. In particular, I wondered what my grandfathers—one a local dairy farmer, the other a paper mill worker and union official—would have made of the decline of the industries in which they had worked and thrived.

The thesis is dedicated to the memory of my grandparents—this is their story, seen through my eyes.

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ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ACCC	Australian Competition and Consumer Commission
ADIC	Australian Dairy Industry Council
ALP	Australian Labor Party
BTRE	Bureau of Transport and Regional Economics
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DFAT	Department of Foreign Affairs and Trade
GATT	General Agreement on Tariffs and Trade
ILO	International Labour Organization
NCP	National Competition Policy
NSW	New South Wales
SCC	Shoalhaven City Council
UN	United Nations
WTO	World Trade Organization

INTRODUCTION

In the large body of literature on globalisation, analyses can sometimes 'make generalized, perhaps overgeneralized, sense out of daunting complexity' (Waters 1998: 21). This thesis is an attempt to preserve the complexity, by narrowing the focus in spatial terms. Using industry case studies, the thesis examines the impacts of globalisation in the Shoalhaven region of New South Wales. The aim is to explore and explain significant changes in the industrial landscape of the region, using globalisation theory as a lens. The pairing of globalisation and regional studies is by no means new, and this thesis builds on an existing body of work. It seeks to strengthen the links between the two discourses, partly in response to concerns about the limited conceptual reach of regional studies in Australia (see Beer, Tually & Cutler (2004); Rainnie (2003)).

The novelty of the thesis lies in the fact that there has been no published account of economic change in the Shoalhaven region since two brief papers in the 1960s and 1970s[1]. Within political economy, the Shoalhaven is unexplored territory. Its selection for this thesis rests on its economic and demographic profile (which contains a mix of constraints and opportunities), and the author's familiarity with the region and access to interview subjects. While there is no suggestion that the Shoalhaven region is somehow 'representative' of non-metropolitan Australia, the conclusions reached are likely to be relevant to other regions.

Critical to this thesis is the role of the state. Scholars such as Held et al. (1999) and Weiss (1998) have examined the relationships between globalising forces and the state, and have comprehensively challenged the myth that the state has been mortally wounded by globalisation. In fact, the state has been a powerful actor in the development of globalisation, including through its adoption and advocacy of neoliberalism. A tight web of economic ideology and (now standard) policy prescriptions lies at the heart of globalisation, including: the deregulation of financial markets; the (uneven) growth of free trade in goods and services; and the extension of

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[1] These comprise one journal article by Ryan (1966) and a very brief paper by Robinson (1978).

neoliberalism into every corner of society. The effects of these changes are, at once, far-reaching and very specific.

Measuring the impact of globalisation in a particular place presents challenges. This thesis acknowledges the limitations associated with the subject matter (including the paucity of statistical information about the Shoalhaven region), and focuses on the strengths: namely, the knowledge and experiences of the people of the Shoalhaven. The local economy is the subject of the thesis, but this is very much a *peopled* economy. The analysis therefore uses the available economic data for the region, and for particular industries and enterprises, but complements it with the insights of local residents, delivered through a series of interviews and presented as case studies.

The case studies are drawn from two iconic industries in the northern Shoalhaven region: dairying, including the now-defunct Dairy Farmers factory in Bomaderry; and manufacturing, represented by the Shoalhaven Paper Mill and Shoalhaven Starches. These enterprises have been highly important, economically and socially, to the region. The Dairy Farmers factory closed in 2006, part of a ‘rationalisation’ process designed to increase scales of production in the national Dairy Farmers Co-operative business. The Shoalhaven Paper Mill endured round after round of job cuts, before its Japanese owners announced that they would close the mill in 2015. The Shoalhaven Starches business, part of the Manildra Group, includes a booming ethanol factory that has benefited enormously from government support, generating heated controversy over state intervention in the market and favours for political donors. These significant changes to the economic landscape of the Shoalhaven region can best be understood and explained through the prism of globalisation.

Charting a course through theory

This thesis is about public policy and politics, the modern history of a region, and the economic drivers of industrial change. The subject matter does not sit neatly within a single discipline, so the approach will necessarily be cross-disciplinary. However, the touchstone of the thesis is political economy. In relation to analysing industry policy, Capling and Galligan (1992: 22) put it succinctly:

> Our argument is that political economy is the major part of Australian politics and the role of the state in industry policy and its relations with business are major parts of political economy.

The primary concern of the political economy movement has been to provide 'a comprehensive critique of neoclassical economics in theory and practice' and to 'pose alternatives' (Stilwell 2010: 337). This thesis does not focus primarily on critiquing neoclassical economics. Rather, it seeks to apply the insights of existing critiques to the question of how globalisation affects capital and communities on a small spatial scale. In this, the thesis is strongly influenced by the 'interdisciplinary political economy' approach, which Stilwell (2010: 338) describes as 'studying the relationship between economic, social and political phenomena'. Stilwell uses a political economy approach to great effect in his analysis of urban and regional development. He explains that 'the quest to understand' the subject can only be pursued through an interdisciplinary approach, but one that recognises 'the centrality of *economic* forces in shaping other dimensions of social, political and environmental change' (Stilwell 1992: 15–16; emphasis author's own).

While the thesis does not seek to emulate the self-described 'intellectual eclecticism' of Boggs (2000: ix), it takes some inspiration from his rejection of disciplinary gatekeeping:

> [A]cademic preoccupations more often obfuscate or distort rather than illuminate by chopping up social reality into manageable (and usually quantifiable) disciplinary texts, discourses and 'methods' (Boggs 2000: viii).

The approach here draws on political economy, public policy, economics and geography, and explores the following discourses:

1. Globalisation: Globalisation theory is far from monolithic. Although it was initially dominated by economics, the study of globalisation is a naturally multi-disciplinary field, which has expanded over the last thirty years to include political science, history, sociology, development studies and the natural sciences, among others. Within this vastly expanded conceptual territory, the thesis draws, in particular, on approaches to globalisation that emphasise the role of the state, notably those of Weiss (1998, 2005) and Scholte (2000).

2. Neoliberalism: As Harvey (2005), Quiggin (2001) and Stilwell (1992) make clear, neoliberalism—more than any other ideology—is responsible for the propagation and spread of globalisation. The embrace of neoliberal orthodoxy by the state and capital has had powerful effects on communities and individuals, and has generated the myth that governments are powerless to resist globalisation. Neoliberal policies are now considered to be the natural order of things. Exceptions to the rule—such as market intervention or industry protection—remind us that governments still have the power to make policy choices, even in a globalising economy.

3. Regional development: Small, non-urban communities experience globalisation in a different way to large, internationalised cities. The question of how globalisation affects local communities occupies a well-defined space in the regional development literature, championed by a range of Australian researchers, notably Gray and Lawrence (2001), Cocklin and Alston (2002) and McManus and Pritchard (2000a, 200b). Regional development theory has traditionally been concerned with the economic development of regions, pursuing the normative project of seeking to identify policies or strategies by which regions can overcome economic disadvantage or maximise their comparative advantage. Issues relating to globalisation in regional Australia are a relatively recent addition to the discourse on regional development, and deserve much more attention.

Structure of the thesis

Chapter One presents a critical assessment of competing theories of globalisation, in order to the construct a workable definition of the concept. It describes globalisation as, primarily, an economic phenomenon, created by nation-states acting in the interests of capitalist expansion. The role of the state is critically important to the thesis, and this chapter examines in detail the work of Linda Weiss and Jan Aart Scholte in interrogating the role of the state and its scope for action.

Chapter Two examines the development of globalisation in Australia, focusing on the role of the state in resisting, encouraging and mediating the forces of globalisation. Over the last thirty years, the state has encouraged the establishment and development of globalisation in economic and social spheres. However, more distant history reminds us

that Australian governments are always presented with choices, and that the neoliberalism that characterises public policy today is a recent evolution. The earlier era of interventionist economic policy still echoes in some of the more anomalous decisions of Australian governments—betraying a level of political discomfort with aspects of globalisation.

Chapters Three and Four introduce the industry sectors that form the focus of the Shoalhaven case studies: manufacturing and agriculture, respectively. **Chapter Three** surveys Australia's manufacturing policies and performance. The Australian manufacturing industry was built on the back of state support, but has undergone sweeping, permanent changes as a result of globalisation-induced programs of economic reform. Neoliberal policy orthodoxy—which hails the benefits of capital flowing freely to meet the needs of markets and producers—now sees Australian manufacturers competing with lower-cost producers in (rapidly) developing economies.

Chapter Four outlines the decline in state assistance to Australian agricultural producers, and the rise of productivist agriculture as the dominant mode of production. Global agribusiness enterprises have also forced changes across the industry, including through mergers and acquisitions that have recast power relations. The Australian dairy industry, which forms the focus of this chapter, underwent continual policy and regulatory change over decades, culminating in full deregulation of the industry in 2000. Since then, Australian dairy farmers have borne the brunt of seismic shifts in the industry value chain, and are faced with the choice of creating economies of scale or exiting the industry.

Chapter Five argues that, contrary to any sense that globalisation is imposing homogeneity, location still matters. While globalisation is often presented glibly by governments as opening up opportunities for all Australians, the reality is that the impact of globalisation varies widely, often according to geographical location. Against the backdrop of neoliberalism, Australian governments have changed their approach to regional development, rolling out policies that emphasise competition, knowledge-based growth and self-help. While some regions possess the necessary capacities and assets to succeed in this new competitive era, others have far fewer options.

Chapter Six moves from the general to the specific, laying the foundation for the detailed case studies. This chapter introduces the Shoalhaven region, a strip of coastal New South Wales 160km south of Sydney, and presents historical, economic and demographic information to build a picture of the region. What emerges is a post-rural economy that relies heavily on the services, government and defence sectors for employment.

Chapter Seven is a case study of the Shoalhaven dairy industry, which is the oldest industry in the region and one of the most heavily affected by global competition and reduced state support. The chapter is built on industry data and, crucially, detailed interviews with local dairy farmers. While the local industry has contracted dramatically in terms of the number of enterprises and farmers, it has demonstrated the capacity to do two things: one, increase on-farm productivity and the scale of operation, as neoliberalism demands; and two, establish a niche product line and a small co-operatively-owned dairy factory—actions that push back against the dominant neoliberal business model.

Chapter Eight presents the first manufacturing case study, that of the Shoalhaven Paper Mill, which began operations in 1956 with strong assistance from the state. Since that time, the mill has specialised in the production of fine-grade and specialty paper. Where this was once a strength, it is now a liability, as it does not allow for large scales of production and lower unit costs. Under a series of multinational owners with large, global ambitions, the Shoalhaven mill struggled to survive. The closure of the mill was announced in 2015.

Chapter Nine is a case study of the Shoalhaven Starches factory, the main manufacturing facility for the Manildra Group. In 1992, the Manildra Group opened Australia's first ethanol plant on the site. Over the last 15 years, the Manildra Group's ethanol business has benefited enormously from a set of favourable, highly interventionist industry policies developed by the Howard government. The chapter demonstrates that the state retains the capacity, and the will, to play a very active role in industrial development; however, the reasons for favouring a particular industry sector or enterprise are less clear.

In **Conclusion**, the state has been vitally important in determining the impact of globalisation in the Shoalhaven region. The case studies show that, where government support and protection have been removed, industries have suffered; where government has dared to intervene in the market, the future looks considerably more secure. Despite the dictates of economic rationalism, governments still have room to move. If there is a lesson to be learned, it is this: with the requisite political will, the forces of globalisation can be actively managed in the Australian economy, including at the local level. Whether the defences can hold for very long is, to some degree, a moot point—the critical finding for this thesis is that globalisation can be mediated by the state. Claims to the contrary by governments and economists deserve to be met with scorn—and with a reminder of just how much is at stake:

> The chief tools of any government's trade are undoubtedly economic adjusters, but the economy determines one aspect, and one only, of the environment in which people live. Life has many dimensions—social, cultural, intellectual, spiritual and physical, as well as economic. Economics is vital, but it is so for the sake of the other activities it sustains (Maddox 1989: 62–3).

CHAPTER ONE: Globalisation—why it matters

> While economic theory predicted there would be losers from globalisation, it also said that the winners could compensate the losers. Well-managed globalisation can make everyone, or at least most, better off. This has not happened. Instead, conservatives have argued that globalisation requires countries to become more competitive by cutting taxes and rolling back the welfare state … Increasingly, we are becoming rich countries of poor people (Stiglitz 2006).

1.1 Overview

The concept of globalisation is used routinely to account for events and conditions in the economy and society. David Held and his colleagues rued the fact that globalisation 'is in danger of becoming, if it has not already become, the cliché of our times' (Held et al. 1999: 1). In 2009, a search of the internet turned up 24.8 million web pages that were, apparently, related to globalisation. By 2015, this had risen to 49.9 million pages[2]. Even 15 years ago, the academic output on globalisation was described as 'prodigious', while the 'language of globalisation' had been embraced enthusiastically, 'infecting all levels of society, from poets to prime ministers' (Sheil 2001: 4; Weiss 1998: 167). The widespread embrace of the term 'globalisation' has been far too enthusiastic, all but smothering it.

Despite its high profile, globalisation is not well understood. A clear definition of the term is a prerequisite for any meaningful discussion or debate about globalisation. However, even after so many years of discussion and debate, a widely-accepted definition of globalisation is yet to emerge—and perhaps it never will[3]. For better or for worse, it is practically impossible to *define* globalisation without also exploring debates about the *nature* and *impact* of globalisation.

1.2 Theories of globalisation

The process of defining globalisation necessarily involves an assessment of competing

[2] Conducted on 2 April 2009 and 5 March 2015 in the Google search engine, using both the British and American spellings ('globalisation'/'globalization').

[3] See the account by Scholte (2004) of the interdisciplinary, intercultural roundtable meeting at the Centre for the Study of Globalisation and Regionalisation at the University of Warwick in 2003. This gathering of leading scholars from various disciplines (including international relations, sociology and economics) could not reach agreement on a definition of globalisation, and there were clear divisions between those who argued that definition was an important prerequisite for discussion, and those who considered this a hopeless, or unnecessary, task (Scholte 2004: 4–6).

theories. Although this thesis is primarily a study of the Shoalhaven region of New South Wales, and not an examination of globalisation theory per se, the latter is indispensible. In order to use globalisation as an analytical tool, this chapter will provide —in a necessarily limited scope—a critical assessment of the relevant globalisation debates, and a definition that is comprehensive and clear.

The work of two theorists, in particular, help to explain the concepts and arguments that are most relevant to this study. Linda Weiss (1998) published a seminal work on the relationship between globalisation and the state, in which she presented, and then systematically dismantled, the 'myth' that the nation-state was crumbling under the weight of globalisation. Jan Aart Scholte (2000) also focused on the nation-state, arguing that it could—and should—play a critical role in addressing the significant negative effects of globalising forces. While they do not agree on all issues—and they disagree strongly on some—Weiss and Scholte have created many of the foundation arguments that support the view of globalisation propounded in this thesis.

Competing views of globalisation can usefully be grouped into three schools of thought—although these cannot easily be mapped against the traditional ideological positions found elsewhere in the social sciences[4]. As conceived by Held et al. (1999: 3–8), these are:

a) the *hyperglobalist* theory of globalisation, which predicts the impending death of the nation-state, conquered by the power of an unrestrained global market
b) the *sceptical* theory, according to which globalisation has been misdiagnosed, and should instead be seen as a heightened period of internationalisation, in which the nation-state retains its centrality and power
c) the *transformationalist* theory, which views globalisation as an unprecedented and powerful phenomenon, which has transformed the entire operating environment of the nation-state, and therefore the nation-state, too.

These three schools of thought are often presented as successive 'waves' of

[4] Held et al. (1999: 2) state that these three schools do not 'map directly' onto traditional ideological positions. Pike (2001: 33–7), however, assigns the three schools across Right, Left, Centre-Left and 'generally Centrist' (with the observation that the hyperglobalist school encompasses both Left and Right).

globalisation theory. In this view, each wave represents a new, more sophisticated approach to the topic, producing more refined theories over time (Cameron & Palan 2004: 25–30)[5].

Perhaps the most catalytic of these—in the sense of its impact in generating globalisation theory and research—was the sceptical theory of globalisation. In order to appreciate the argument of the globalisation sceptics, it is important to first understand the environment in which they were working. The globalisation sceptics were, in large part, reacting to a popular wave of hyperglobalist theory, characterised by the pro-market, anti-government offensive launched by business consultant-cum-theorist Kenichi Ohmae (1995a, 1995b). Ohmae (1995a: 5) declared that globalisation would spell the end of nation-states, which he dismissed as 'unnatural, even impossible, business units in a global economy'. The demise of the nation-state would allow the self-sustaining, self-regulating global economy to maximise its own natural efficiencies, and the market would take care of the rest (Ohmae 1995a: 5). So strident were Ohmae's arguments (and so lacking in analytical rigour), that a counter-attack by globalisation sceptics was inevitable, and necessary. Nevertheless, Cameron and Palan (2004: 28–9) are correct in insisting that the hyperglobalist school has been, and continues to be, enormously influential in business and policy spheres, and therefore should not be dismissed as simplistic and weak:

> For such crude theories are *consumed* and *reproduced* by those who soak up this torrent of media comment and analysis, further promoting and strengthening a particular narration of globalization which despite its flaws is 'still' extremely influential—in other words, serves as a guide for action (Cameron & Palan 2004: 29; emphasis authors' own).

Some of the earliest and most prominent of the globalisation sceptics were Hirst and Thompson (1996), who presented themselves as myth-busters, out to disprove the claims of 'radical globalists' such as Ohmae. The school of radical (or hyper-) globalisation was, in their view, dangerous, because of its strong influence in business and political circles (Hirst & Thompson 1996: 1, 3–4). However, rather than propose an alternative model of globalisation, Hirst and Thompson denied its existence

[5] Cameron and Palan (2004: 25–6) describe, but are critical of, the 'progressivist "wave" thesis' of globalisation, because of its tendency to erase the earlier, 'cruder' wave of business-centric globalisation theories.

altogether—a classic case of throwing the baby out with the bathwater. This launched a substantial debate over whether globalisation was, in effect, a great academic hoax.

According to the concept presented by Hirst and Thompson (1996: 5–6, 15–16), the emergence of true globalisation would mark a kind of Year Zero. All that preceded globalisation would disappear, replaced by entirely new systems of global economic, political and social interaction. Hirst and Thompson saw globalisation as a revolutionary, rather than evolutionary, development. In arguing that globalisation did not exist, they could point to the facts that:

a) the international economy has experienced high levels of internationalisation before, such as in the late 19th century
b) international flows of investment are not truly global, because they favour the developed world; and labour flows are not global at all, given constraints on the international movement of labour
c) the nation-state is not helpless in the face of the international economy, because states can still regulate and shape markets (Hirst & Thompson 1996: 2–3).

In fact, these points would be readily conceded by many of those who insist that globalisation is real (see survey by Held et al. 1999: 7–9). Globalisation and its effects need not be placed at the extreme end of a spectrum: it is possible to demonstrate the existence and importance of globalising forces without cheering on the death of democracy. Perhaps the globalisation sceptics missed the point that globalisation exists in lock-step with—and not instead of—contemporary capitalism and the existing international system of nation-states. Nevertheless, the issues highlighted by the globalisation sceptics (such as the nature of supranational economic integration and the power of the nation-state) are central to the treatment of globalisation in this study.

1.3 Weiss: economic globalisation and state capacity

In *The myth of the powerless state* (1998), Linda Weiss subjected the arguments of other globalisation theorists to careful examination and empirical testing, and found them wanting. Her account of globalisation and the nation-state was a powerful antidote to

the then-prevailing view that globalisation was monolithic and all-powerful, hollowing out the state and reducing it to an empty shell. Weiss placed under the microscope key claims of the hyperglobalists, testing them with historical data and current realities in national economies.

The issue around which the arguments of Weiss, on the one hand, and the transformationalists, on the other, interact is the role and power of the state. Weiss (1998) analysed the impact of globalisation on state capacity, focusing in particular on the industrial economy[6]. Her interest lay in the 'transformative capacity' of the state, meaning 'the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change' (Weiss 1998: 4). Weiss' method was to conduct an empirical examination of globalisation and the industrial economy in five nation-states: Sweden, Germany, Japan, South Korea and Taiwan. Perhaps the most important conclusion reached by Weiss was that a singular, or common, impact of globalisation simply did not exist. In each of the nation-states surveyed, the state had responded differently to globalising forces, based on particular circumstances.

For Weiss, it was absurd to create a theory of (diminishing) state power based solely on the weaknesses that all states will inevitably display at various times and in various areas of policy and practice. Weiss (1998: xi) argued that, far from being in retreat, the state was adapting to changing circumstances, as it has always done. She saw nation-states as the agents of globalisation, not its mere victims (Weiss 1998: 204). Global economic change is, according to Weiss, attributable to 'the actions of state authorities as they have set about responding to domestic economic crisis'—although, in so doing, states have unleashed a process that has 'acquired a certain momentum of its own', especially in financial markets (Weiss 1998: 11).

Based on her case studies, Weiss concluded that nation-states were not helpless in the face of globalisation. The example of industrial policy in Japan and Singapore makes a

[6] 'State capacity' refers to the capability of the state to achieve its goals. However, Weiss rejected the idea of a 'generalized state capacity' as 'meaningless': it is only possible, she wrote, to discern and judge state capacities in 'particular arenas', for example, foreign policy or the industrial economy (Weiss 1998: 4). We should therefore expect to see 'unevenness' of state capacities when we look across *all* arenas (Weiss 1998: 4).

compelling case. The internationalisation of the Japanese and Singaporean industrial economies was, Weiss found, very much ‘state-facilitated’; that is, both of these governments implemented policies that actively encouraged local businesses to expand their operations overseas (Weiss 1998: 208). In this way (and in many others), Japan and Singapore demonstated the continued potency, relevance and adaptiveness of national governments and nationally-based policymaking.

Another of the important arguments made by Weiss is that the most robust national industrial performances of the post-Second World War period were generated by states that had taken on a strong coordinating role, aimed squarely at helping the private sector create national wealth. Japan and Germany were the miracle stories of the period, creating extraordinary national economic strength from the ruins of the war. Weiss (1998: 162) concluded that the ‘unusual industrial dynamism’ of both countries was a product of the strong transformative capacities of their state institutions. A contrasting example helps to underline her argument. In the 1970s, Sweden was so famous for its social protection system (or state ‘distributive capacity’) that it prompted the term ‘the Swedish model’; by the 1990s, unemployment had soared and the Swedish model was declared by many to be a failure (Weiss 1998: 84–5). However, Weiss showed that the problem was not one of too much intervention by the Swedish state in the domestic economy: the intervention was simply incomplete and not sufficiently strategic. Sweden ran into trouble, Weiss argued, because the state’s focus on *distributing* wealth within society was not matched by a sufficiently strong, well-directed effort at *creating* wealth (Weiss 1998: 114–15). The Swedish example demonstrates that ‘a strong business community by itself is not sufficient to ensure industrial transformation’—the state needs to play a coordinating role (Weiss 1998: 114).

Above all other factors, then, the key to national economic success is ‘the ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy’ (Weiss 1998: 5). The transformational strategies nominated by Weiss (1998: 5) include ‘structural shifts’ away from waning industries and ‘the creation of new industries, products and processes’. There is nothing hands-off or laissez faire about Weiss’ prescription for industrial success in the modern global economy. (Described elsewhere as ‘strategic trade policy’, this approach has caused distinct unease among many

economists, some of whom have raised legitimate questions about the abilities of governments to 'pick winners' in the domestic economy (see Krugman 1994: 242–3)—a discussion to which we will return in Chapter Two.)

Notwithstanding the value of her work to the study of globalisation, it must be stressed that that Weiss did not, in fact, *believe* in orthodox globalisation theory. Weiss (1998: 170) had interrogated the data on international trade, investment and capital flows, and found that these measurements of globalisation were far stronger in the period leading up to World War One than in the modern era (1970s–1990s). On this basis, she concurred with Hirst and Thompson in their assessment that the size and shape of contemporary international trade, investment and finance was not unprecedented, and therefore did not deserve the term 'globalisation' (Weiss 1998: 171). Weiss considered that globalising forces were essentially confined to financial markets, and she therefore used the term 'internationalization' (Weiss 1998: xi–xii, 11) [7]. As Held et al. (1999: 5) pointed out, this line of argument by the globalisation sceptics makes perfect sense if one accepts their 'wholly economistic' conception of globalisation, which is presented as 'a perfectly integrated global market'.

Held et al. (1995: 57) placed Weiss within the globalisation sceptics' camp. While this is reasonably accurate, Weiss defined for herself a place within that camp separate from Hirst and Thompson. Weiss (1998: 169, 225–6) identified four different hypotheses in globalisation theory, and she used this typology to distinguish her own position from that of the 'mainstream' sceptics. The key difference was their view of the nation-state. Weiss rejected the view proposed by the globalisation sceptics that (in her words) the power of the state had been 'reduced in scope'. She agreed that we were experiencing 'weak globalization', but insisted that we were also witnessing 'state power adaptability and differentiation' (Weiss 1998: 226). Weiss very explicitly distanced herself from other globalisation sceptics on the question of how the state was responding to the pressures of economic globalisation.

[7] More recently, Weiss (2005: 351) has consented to use the term 'globalisation', but has insisted on the sensible caveat that 'pure globalism is an impossibility'.

1.4 Scholte: the state as creator (and redeemer?) of globalisation

The work of Jan Aart Scholte extends well beyond Weiss' central focus on national economies, to take in a broader scope of issues that are considered relevant, and important, to globalisation. The transformationalist school of globalisation theory contends that a purely economic definition or analysis of globalisation will always be incomplete. Although globalisation is a process generated by economics, it has developed far beyond being an economic phenomenon (Held et al. 1999: 11; Giddens 1999: 8;). As Held et al. (1999: 11) explain, theorists of the transformationalist school,

> are interested in those qualitative shifts which [globalisation] may engender in the nature of societies and the exercise of power; shifts which are rarely completely captured by the statistical data.

Considering the spectrum of views on globalisation, from the Ohmae-inspired 'globalists' to the 'ultra-sceptics', Scholte (2000: 17–18) placed himself within the 'moderates' camp. This was not a fence-sitting position—far from it. The moderate, or transformationalist, approach goes beyond the black-and-white arguments surrounding globalisation, and instead tries to place globalisation in context, within 'real-world' situations:

> From such a perspective globalization is indeed a distinctive and important development in contemporary world history. However, its scale and consequences need to be carefully measured and qualified. Nor is globalization the only, or always the most significant, trend in today's society. Rather, it unfolds alongside—and is closely interlinked with—other major social forces, like shifts in structures of production, governance, community and knowledge … In a word, measurements of globalization are far more complex than both the globalists and the ultra-sceptics make out (Scholte 2000: 18).

The transformationalist approach describes globalisation as an ongoing, and fairly uncertain, process. There is no predetermined end-point, and no known trajectory (Held et al. 1999: 27–8). As Scholte (2000: 59) put it, this is 'a global*izing* rather than a fully global*ized* world'. But, among the uncertainties, the one item of clear, urgent interest is the nation-state. The transformationalist theory of globalisation takes it name from a particular view of the effect of globalisation on the nation-state, and especially the relationship between three crucial elements: state power; a defined national territory; and sovereignty (Held et al. 1999: 8–9). However, there is no supposition that the

nation-state has necessarily been weakened by globalisation. The precise impact depends on the state's ability to *transform* itself to meet the challenges. The normative project of the transformationalist school is to encourage and describe the sort of adaptation that will enable the nation-state to pre-empt, manage, change or ameliorate globalising forces (see Scholte 2000; Held et al. 1999; Held 2006; Giddens 1999).

Scholte provides support for the idea that, beyond academic debates, globalisation exists because so many people *believe* that it does. Perhaps we have, to some degree, talked ourselves into globalisation. Scholte rejects the sceptical argument that globalisation is '*always* reducible to internationalization, liberalization, universalization or westernization', and suggests that globalisation is a popular concept precisely because it describes something real (Scholte 2000: 46). Likening the acceptance of globalisation to the invention and popularity of the term 'international' in the 1780s, he writes:

> The current spread of 'global talk' is also unlikely to be accidental. The popularity of this new terminology arguably reflects a widespread intuition that social relations have in contemporary times acquired an important new character (Scholte 2000: 44).

This interpretation is shared by Cameron and Palan (2004: 3–4), who argue that once a critical mass of 'belief' has been achieved, the objective 'reality' of globalisation is really beside the point:

> The issue here is not simply whether or not a given theory is true in the conventional sense —that is, an empirically testable proposition—but whether the stories contained within it are believed by sufficient numbers of people prepared to invest serious time and money in them. If enough such people exist, and if they command sufficient economic, political, social and cultural resources, then any myth, however outrageous or outlandish, to some extent becomes a 'reality'… If enough policy-makers and CEOs believe that in thirty years time 80 per cent of goods and services produced will enter international trade flows, then it is incumbent on them that they prepare their states and companies for that eventuality.

For Scholte (2000: 46), the most distinctive and novel characteristic of globalisation is its 'supraterritorial' nature, with supraterritorial meaning 'transworld' or 'transborder'. Globalisation therefore 'refers to a far-reaching change in the nature of social space', caused by a fundamental change in the importance of physical territory (Scholte 2000: 46). This draws on the idea of 'space-time compression' outlined by Giddens, who has

given a detailed account of how social and technological change contributed to the rise of globalisation (see Giddens 1990: 16–39). Importantly, Scholte expands on his concept of supraterritoriality to explain how four critical, related factors are responsible for the development of globalisation. The causal factors nominated by Scholte (2000: 93–102, 106) are:

a) *rationalism*: the 'mindset' that 'greatly promoted the spread of global thinking'
b) *capitalism*: the drive for 'surplus accumulation' through global expansion
c) *technological innovation*: notably transport and information technology
d) *regulation*: the 'legal and institutional arrangements' that facilitated rationalism and capitalism.

Each of these factors has extended and strengthened supraterritoriality. In all of this, the state has been pivotal—'quite compatible and indeed co-dependent' with globalising forces (Scholte 2000: 102). In particular, the state has been critical to the establishment of regulatory frameworks supporting globalisation. Many of these frameworks have been created by, and within, nation-states; other regulation is the product of supranational entities, in which states 'continue to have considerable and often decisive inputs' (Scholte 2000: 102). Even in so-called 'self-regulation' by market-based institutions, Scholte (2000: 102) discerns the role of the state, via 'at least … acquiescence, if not active encouragement'. It is this conceptualisation of globalisation that allows Scholte to find it deeply significant and powerful, but not radical. For Scholte (2000: 110),

> [t]he contemporary globalizing world remains capitalist, bureaucratic, communitarian and rationalist—and it has so far shown little sign of becoming anything different.

In the face of such powerful changes—but not changes to power—Scholte seeks a solution that is anything but radical, but is nonetheless very difficult to achieve: '[a] redirection of globalization away from neoliberal policies' (Scholte 2000: 287). For it is through neoliberalism that the state and capital have delivered most of the negative consequences of globalisation: from poverty and labour exploitation to environmental damage and democratic deficits (Scholte 2000: 287). The trinity of neoliberal policy prescriptions—liberalisation, deregulation and privatisation—has been championed and

enshrined by most national governments since the late 1970s, but not only by governments. Multilateral institutions, financial markets, the mass media, think tanks and mainstream economists have all spun and extended the neoliberal line (Scholte 2000: 35, 307). And while the losers have been many, the winners—'some very wealthy, privileged and powerful'—have been few (Scholte 2000: 307). The role of neoliberalism in globalisation occupies a central position in this thesis.

1.5 Globalisation and neoliberalism

Globalisation has developed in lock-step with the growth of neoliberalism as the dominant form of economic analysis and policymaking in governments and bureaucracies around the world (Gray & Lawrence 2001: 9). Shiel (2004: 14) describes the relationship between globalisation and neoliberalism as 'important, intimate and complex'. Neoliberal theory embraces and promotes both personal freedoms and the free market principles of neoclassical economics—as such, it is 'deeply opposed' to state intervention in the market (Harvey 2005: 2, 20). In effect, neoliberalism took the classical liberal balance between state and market and shifted the weight precipitously towards the latter. Proponents of neoliberalism achieved this feat by 'put[ting] governmental mechanisms developed in the private sphere to work within the state itself', outsourcing 'even core functions' or, alternatively, running them along commercial lines (Ferguson J 2009: 172).

Due to the influence of neoliberalism, many argue that globalisation spells the end of traditional social democratic policy platforms, including a strong social welfare system (Pierson 2001: 459; Held & McGrew 2003: 28). According to this argument, economic success in the era of globalisation is dependent on governments heeding the demands of financial markets: that is, maximising their 'national competitiveness' by placing downward pressure on wages, cutting government spending and making the taxation structure favourable to business (Pierson 2001: 460). In this way, the argument goes, national governments are able to demonstrate fiscal restraint, provide an attractive environment for business and encourage direct and indirect investment, employment and export growth.

This argument assigns to global investors and multinational corporations a leading role in setting (restrictive) policy parameters for governments. Such a role can be played out, for example, by refusing to invest in, or threatening to withdraw business operations or investment funds from, certain countries (Klein 2002: xiv). While there are elements of truth in this argument, it does not tell the whole story. As Weiss (1998, 2005) has argued so convincingly, globalisation does not remove from the nation-state the power to govern, nor does it dictate the policies of governments. Garrett (2003) presents evidence that the economic instruments of globalisation have only limited capacity to direct the actions and policies of governments. For example, contrary to popular opinion, there is no evidence to suggest that national governments are penalised by global financial markets, via 'interest rate premiums', for spending on the public economy:

> The financial markets are essentially disinterested in the size and scope of government. Their primary concern is whether the government balances its books (Garrett 2003: 397).

Thus, as long as governments generate sufficient tax revenue—whatever the source—to balance their spending and avoid large budget deficits, international investors are generally content (Garrett 2003: 397).

In many ways and in many places, neoliberalism has had a devastating impact on elements of public policy. Quiggin (2001: 21–4) explains the close link between the rise of globalisation, the decisions of national governments and the decline of the welfare state. In the lead-up to the Second World War, the international financial and trading landscape changed significantly, as fixed exchange rates were abandoned and tariff barriers were raised by governments. Following the war, the Allies established the Bretton Woods agreements, designed to increase international trade and keep tight controls on capital movements, thereby avoiding a repeat of the Depression-era exchange rate volatility. Analysts such as Sadler (1992), Harvey (2005) and Krugman (1994) have explained how the end of the post-World War Two economic boom precipitated a political shift towards neoliberalism, led by Margaret Thatcher's government in the United Kingdom and the Reagan administration in the United States. 'Many of the earlier ideas on appropriate levels of (un)employment and the welfare

state were swept aside' as the 'new reactionary orthodoxy' took hold, with its goal of withdrawing from state regulation of markets (Sadler 1992: 17).

One pillar of the Bretton Woods era (1945–70) was fixed exchange rates, pegged using the US dollar. Quiggin (2001: 23) hails this as an 'unparalleled' period of economic growth and full employment in most developed economies. However, once a small number of states decided to relax international capital movements, and as inflation grew, the system began to break down. The Keynesian framework had no ready solution to the new combination of high inflation and unemployment, and was jettisoned by governments. This rejection of the welfare state, coupled with the collapse of the Bretton Woods system, 'contributed to a more general turn toward free market policies' (Quiggin 2001: 24). In other words, globalisation was not visited upon the nation-state by any malevolent external agency; the state (or, to be more accurate, a small group of developed states) was intimately involved in the conception and growth of globalisation.

This is not to say that there is a single model of economic policy (or social policy) for developed countries in an era of globalisation. As Weiss (1998, 2005) has argued, although globalisation has imposed some policy constraints on governments, we still live in a world of distinct polities and governments, each with its own set of conditions and concerns. As Weiss (2005: 346) puts it, 'states are doing similar things differently from one another'. J Ferguson (2009: 172, 181) also argues that progressive scholars should move beyond the simplistic view that neoliberal doctrine and neoliberal policy tools can only be used for 'evil', positing that 'markets can arguably serve progressive ends' if the intentions and the policy details allow. Nonetheless, among developed economies there is certainly a coalescence of policies directed at economic development—a fact that overlooks or ignores the 'problem of collective action' (ILO 2013: 60). This refers to the simple fact that, if every state were to take similar measures, simultaneously, to increase their competitiveness, none could win:

> While each individual country may in principle increase aggregate demand for its goods and services by exporting more, not all countries can do so at the same time. The world economy as a whole is a closed economy (ILO 2013: 60).

Neoliberalism has been critiqued by Marxists and liberals alike (see Harvey (2005) and

Krugman (1994)), many of whom have been chipping away at the dominance of the ideology for decades. In the shadow of the ‘global financial crisis’ of 2008, the anti-neoliberal bandwagon picked up considerable speed and many new travellers (see Rudd 2009). However, this did not mean that the position of influence occupied by neoliberalism had become easily assailable. As Cahill (2014: 1, 4–5) demonstrated, the crisis ignited hopes about the demise of neoliberalism, but such hopes were always going to be dashed. Progressive theorists and politicians who believed that neoliberalism rested lightly on a layer of ideology, which could be swept away by a superior ideology, failed to recognise the deeply embedded reality of neoliberalism in practice.

The role of the state in globalisation is not always easy to discern. At a popular level, the inequities and imbalances of globalisation are often blamed on multilateral institutions. Popular author Naomi Klein (2002: xxi), for example, condemned globalisation as ‘a particular global ideology … conceived of centrally by a handful of corporate interests and international institutions, including the WTO, the IMF and the World Bank’. Such criticism demonstrates the degree to which the nation-state can remain hidden in the popular view of globalisation. Just because an institution is global in its operations does not mean it is beyond state control. The World Trade Organization (WTO) is a case in point. Decisions in the WTO are made by its members: 160 national governments. Importantly, decisions are made on the basis of consensus, meaning that any one nation-state can block proposals by even the largest and most powerful members (WTO 2007: 2, 11–12; 2015). Of course, the fact of membership does not guarantee active or accountable participation, and it is certainly the case that developed countries are much better resourced than most of their developing country counterparts (Gallagher, Low & Stoler 2005).

1.6 A composite picture of globalisation

Scholte and Weiss approach the subject of globalisation from different positions and disagree on some important points, including the historical significance of globalisation. Scholte himself was very keen to convince the globalisation sceptics of the merits of his case. In later work, Weiss seemed prepared to accept globalisation as a reality, but continued her interrogation of the easy presumptions about globalisation and its impact

on the state (Weiss 2005). These two positions need not be ‘reconciled’. For this thesis, in which the capacities of the nation-state and its relationship with globalisation are of central importance, Weiss and Scholte have both provided inspiration. Although she positioned herself among the globalisation sceptics, Weiss developed the theory of globalisation in such a way that she sits near the transformationalists in some respects. For Weiss (as for Scholte), the great hope is the state. Weiss (1998: 4–5) argued that the nation-state must be innovative, adaptive and proactive in equipping its domestic economy to deal with globalising forces, and was particularly interested in the ‘transformative capacity’ of the state, a concept that echoes, to a degree, the concerns of the transformationalists. Weiss agreed that ‘we are witnessing changes in states power’, but she interpreted these changes as the ‘reconstitution of power’—in other words, states seeking to shore up control of their domestic economies by forming inter-state coalitions (such as free trade agreements) and/or creating alliances with domestic capital (Weiss 1998: 209). Weiss considered the new normative model to be that of the ‘catalytic state’, which,

> seek[s] adaptation to new challenges (e.g. internationalization) by forging or strengthening partnerships with other (state and non-state) power actors, rather than going it alone (Weiss 1998: 210).

The transformationalist theory of globalisation also highlights the transformative capacity of the nation-state in the face of significant challenges from globalising capital. Scholte and Weiss are perhaps divided, more than anything, by their assessment of how much reform needs to be visited upon the state. Where Scholte (2000: 284–7) sees the nation-state failing its citizens thanks to its adherence to neoliberal policy platforms, Weiss (2005: 347) sees a system that, for all its faults, underpins and drives the process of capital accumulation, enabling states to make (and fund) positive choices in social and welfare policy. Nevertheless, Scholte does not support any of the radical prescriptions for dealing with globalisation; he is firmly in the social democratic camp, advocating ‘[a] redirection of globalization away from neoliberal policies’ (Scholte 2000: 37–8, 287). For both Scholte and Weiss, the nation-state has ‘a central place in the unfolding drama’ of globalisation (Weiss 2005: 352).

1.6.1 An approach to globalisation

The definition of globalisation on which this thesis rests can be summarised as follows:

a) globalisation is a process with long historical roots, but it is *qualitatively* different from earlier periods of internationalisation. Globalisation has moved beyond the economic sphere and public awareness of globalisation is very high, creating a significant element of reflexivity (if we all believe in globalisation, it changes our actions)

b) globalisation has been created by nation-states and private capital acting—alone and in concert—in the interests of *capitalist expansion*

c) the development of globalisation is closely linked to the embrace of *neoliberalism* by the state

d) even if no individual nation-state can change the course of globalisation, the state has the ability to *influence or respond* to globalisation. The precise path trodden by the state is a matter of circumstance, capacity and choice

e) globalisation has had significant negative effects and poses threats to the wellbeing of citizens of all nation-states. It is the *responsibility* of democratic states to anticipate and ameliorate these effects.

This definition of globalisation has the nation-state at its centre, in a catalytic role. In the following chapters, we will return regularly to the question, 'Where is the state in all of this?' We now turn to the other side of the equation, the role of capital.

1.7 Globalisation and capital

Any comprehensive account of globalisation must acknowledge the economic roots of the phenomenon. The movement of money across borders has been transformed in the era of transnational finance. Quiggin (2001: 19) explains how the rapid growth of international financial markets was 'the result of the policy decisions (or, sometimes, non-decisions) that led to the "deregulation" of global capital flows'. The removal of regulatory constraints on financial flows had powerful effects, including the creation of new financial products and markets 'based on securatization, derivatives, and all manner of futures trading' (Harvey 2005: 33). This was accompanied by 'a power shift away from production to the world of finance' (Harvey 2005: 33).

In the world of production, too, globalisation has had transformative effects. It is helpful to remind ourselves of how significantly, and how swiftly, things have changed. Writing in 1996, the globalisation sceptics Hirst and Thompson seemed to find it inconceivable that ‘mobile capital’ would relocate to places offering ‘the best deal in terms of labour costs and supply’, and that national governments would therefore seek to drive down salaries and conditions in order to achieve a competitive advantage in a globalised labour market (Hirst & Thompson 1996: 12). Fast forward to 2005, and the Howard government in Australia introduced an aggressive program of industrial relations ‘reform’, precisely in order to compete and draw capital to, or retain capital in, Australia.

1.7.1 The view from the developing world

Some of the most acute problems created by globalising capital are illustrated in the story of economic globalisation in the developing world. The spread of globalisation into the developing world was prompted by both ‘pull’ and ‘push’ factors: on one hand, the shining example of the export-oriented East Asian economies acted as a tempting model; on the other hand, the International Monetary Fund (IMF) and the World Bank often imposed neoliberal trade and investment policies as part of their rescue packages for struggling debtor nations (ILO 2004: 2).

Developing countries have played a significant role in the growth of international trade in goods and services. Much of this has been due to growth in the export of goods from the developing world to developed countries—‘an important change in the long-established international division of labour’ (ILO 2004: 3). However, as with other aspects of globalisation, the positive effects of trade liberalisation have been felt by only a small group of developing countries. These countries—mainly in Asia and Latin America— were equipped with previous manufacturing experience, and were able to change their ‘export base’ from primary commodities to manufactured goods (ILO 2004: 4, 7). For the majority of developing countries, including the least developed ones, not much has changed: in 2004, developing countries accounted for just one per cent of global manufactured exports, and they remained dependant on commodities for

export income[8]. These developing countries are described by the International Labour Organization (ILO 2004: 4) as '"marginalized" in the context of the global economy'.

Along with trade restrictions, controls on investment and financial flows were also lifted as part of the wave of liberalisation in developing economies. These countries were told that rapid, unilateral financial liberalisation would integrate their economies into the global market and help them to gain access to massive private investment flows, to the ultimate benefit of their infrastructure and trade performance (UNCTAD 2004a: xi–xix). In reality, 'the liberalization of capital movements has, on balance, had little impact on levels of development finance' (UNCTAD 2004a: vii). Worse still, the flow of short-term finance— much of it speculative and volatile—experienced a boom[9]. The result is that developing countries with liberalised financial and investment markets can be abandoned by international portfolio investors overnight. When this occurs, a highly-valued currency suffers a sudden, sharp devaluation, and the negative knock-on effects may develop into full-blown financial crises—even in countries 'with track records of macroeconomic discipline' (UNCTAD 2004a: viii).

Responding to the vulnerability of developing countries in the global marketplace, the United Nations Conference on Trade and Development (UNCTAD) suggests that, in order for countries to integrate into the global economy and perform well, they need to maintain 'policy space', so that their governments can work to improve physical and social infrastructure and the allocation of resources, and 'make orderly adjustments' to their exchange rates to counter the potentially destructive impact of short-term investment flows (UNCTAD 2004a: vii). Stiglitz (2004: 19) put it more plainly:

> Many poor countries have no hope of competing in the globalised world—even assuming there is a level playing field—without help to get them to a point of self-sustaining development.

[8] Not all of these marginalised developing countries are poor: for example, some are large exporters of petroleum. Their common characteristic is an 'overwhelming dependence on exports of primary commodities', which leaves them vulnerable to shifts in world prices (ILO 2004: 4).
[9] Foreign investment may be in the form of direct investment (FDI) or private portfolio investment. Private portfolio investment involves the purchase and sale of foreign bonds and equities, and seeks 'to capitalize on short-term interest rate differentials and exchange rate fluctuations' (ILO 2004: 3).

1.7.2 Mobile capital and production: multinational corporations

The proliferation and expansion of multinational corporations (MNCs) is another indicator of, and vehicle for, economic globalisation. Before considering the detail, we need to address the terminology. Some authors use the term MNC; others use 'transnational corporation' (TNC) [10]. Both terms describe commercial enterprises that have entities operating in more than one country, 'under a system of decision-making that permits coherent policies and a common strategy' (UNCTAD 2013). The difference hinges on the relationship between the enterprise and the physical territoriality and authority of the state (see Weiss 1998: 184–6). In other words, do enterprises remain essentially 'national', however broad their reach, or can they transcend physical location? While MNCs might be considered the more common building block of international trade and investment, TNCs are a useful category, highlighting enterprises with particularly strong transnational characteristics. For the sake of simplicity, this thesis will use the broader term MNC, unless the subject matter dictates otherwise.

Multinational corporations have been intrinsic in the development and spread of globalisation. The rise of MNCs has accompanied the growth of private international finance and the relaxation of the nation-state's controls over cross-border flows of finance, trade and investment. These trends have their genesis in an earlier era, but accelerated rapidly over the last quarter of the twentieth century (Giddens 1999; Waters 2001; Pritchard 2001). The number of MNCs grew from around 7,000 in 1970 to more than 61,000 (with more than 900,000 foreign affiliates) in 2003 (Paddon 2001: 98; UNCTAD 2004b: 4). One of the end results of global scales of operations, sales and asset accumulation is massive market power. For example, in 2001, the world's three largest oil corporations had combined sales revenue greater than the next 16 corporations combined (Paddon 2001: 100). In 2003, the 100 largest MNCs (0.2 per cent of the total) accounted for 14 per cent of all sales by MNCs worldwide (UNCTAD 2004b: 4–5). The largest of these MNCs are truly giants in their industries and many are household names: the top five in 2014 were
Wal-Mart, Royal Dutch Shell, Sinopec Group, China National Petroleum and Exxon Mobil (*Fortune* 2014)[11]. In 2014, the 500 largest companies in the world recorded

[10] Hirst & Thompson (1996) and Weiss (1998) use MNC; Paddon (2001) and UNCTAD (2004b) use TNC.
[11] Sinopec and China National Petroleum are both majority-owned by the Chinese government.

combined revenues of US$31 trillion and profits of US$2 trillion (*Fortune* 2014). To place that number in perspective, the GDP of the world's largest national economy—the US—was US$16.1 trillion in 2014 (Bureau of Economic Analysis 2015). There were only eight Australian-headquartered companies in the list of the top 500 companies: BHP Billiton (leading the pack); the supermarket duopoly, Wesfarmers and Woolworths; all four of the major banks; and the former state-owned telecommunications company Telstra (*Fortune* 2014).

From around 1980, academic work began to focus on the multinational corporation as 'an increasingly significant vehicle of *integration* within the world economy (Sadler 1992: 5; emphasis author's own). This integrative role was the result of three developments: advances in information and communications technology; the capacity to divide up and distribute production processes among several countries; and the availability of cheap labour in newly-industrialising economies (Sadler 1992: 5). Multinational corporations are not simply vehicles for the transfer of money across borders. Pritchard (2001: 27) describes them as both economic and social actors: they work within and across particular spatial areas, and, in so doing, they move and embed capital 'in its various forms' and 'animate' social relations (of production, for example).

The growth of MNCs is the result of several factors, but two stand out: opportunity; and the profit motive. The opportunity has been provided by the state, particularly the widespread deregulation and privatisation of state-owned enterprises, ripe for the picking by the private sector. On the part of MNCs, the profit motive drives them to pursue economies of scale, through the acquisition of enterprises around the world and the consequent 'rationalisation' of production (Paddon 2001: 104–6). Profits are also driven by the high proportion of financial activity that can be characterised as 'related party international transactions' (RPITs). As Pritchard (2001: 25) explains in detail, the movement of tangible and intangible property (such as goods and trademarks) *within* global conglomerates can open many opportunities for tax minimisation and are therefore 'a potent source of competitive advantage'. By 2001, estimates put the value of RPITs at one-third of all global trade; in Australia, the figure stood at 43 per cent (in 1998) (Pritchard 2001: 26, 30). These figures are significant for two reasons: first, they reveal the broad reach of MNCs in developing (or acquiring) extensive transnational commercial activities; second, they indicate the vast potential for illegal corporate

activity, in which MNCs duck and weave out of the reach of state controls, often exploiting notorious tax havens. Pritchard (2001: 41) contends that this type of corporate behaviour 'is a *systemic* outcome of contemporary globalisation'.

The challenges posed to national governments by MNCs—through their very nature and, frequently, their actions—is a significant one. As Pritchard (2001: 27–8) points out, the 'increasing diversity and complexity' glimpsed in the internal architecture of multinational conglomerates is often difficult to comprehend, let alone regulate: the 'vast constellations of subsidiaries, associates, partners, joint-venturers and sub-contractors' enable firms to expand production and minimise costs in a variety of ways. These new, 'institutionally complicated arenas' of capitalism are much more difficult for the state to monitor, regulate and tax (Pritchard 2001: 29). In effect, the neoliberal economic policies of the state have enabled the creation of,

> global geographies of international trade and commerce increasingly … removed from the principles of arm's length, competitive markets (Pritchard 2001: 29).

The political and economic power of globalised mega-firms can be glimpsed in one example from Australia: the proposal by the Chinese resources firm Chinalco to acquire a large stake in the Australian-based mining giant Rio Tinto. US diplomatic cables released to Wikileaks paint a fascinating picture of what this means for national governments[12]. In 2009, Rio Tinto received an investment offer of US$19.5 billion from the Chinese government-owned Chinalco. However, this created angst about the potential for the Chinese state to gain easy access to information on the producer-side of the annual Australia–China iron ore price negotiations (Macalister 2009; Dorling 2011: 2). Greater power by China in the bilateral price negotiations would be bad news for the entire Australian mining industry. The day before the investment deal collapsed, the CEO of rival Australian firm BHP Billiton, Marius Kloppers, confided in the US Consul-General in Melbourne that he had 'taken steps to derail' the Chinalco investment bid (Dorling 2011: 1). The Chinese government's own inquiry into the failed bid also identified BHP Billiton as the lead agent campaigning against the deal, including in its discussions with the Australian government (Dorling 2011: 2).

[12] Launched in 2007, Wikileaks is an organisation that receives and publishes leaked information, particularly original source documents, 'so readers and historians alike can see evidence of the truth' (Wikileaks 2011).

1.8 Social and spatial impacts of globalisation

The negative impacts of globalisation on particular countries, regions and sectors of society have been widely acknowledged, even by global institutions with responsibilities for economic development. In 2001, the then president of the World Bank, James Wolfensohn, gave a largely positive account of the impacts of globalisation, but conceded that,

> [Globalisation] is also about international financial crises, about workers in developed countries who fear losing their jobs to lower-cost countries with limited labor rights. And it is about workers in developing countries who worry about decisions affecting their lives that are made in faraway head offices of international corporations. Globalization is about risks as well as about opportunities (Wolfensohn 2001).

The 'vast and complex' task of examining the risks and opportunities of globalisation was tackled by the ILO when it appointed a high-powered World Commission on the Social Dimension of Globalization in 2003 (WCSDG 2004: ix). In framing its inquiry, the commission accepted the importance of 'open market' economies in modern economic development, but insisted on a strong role for the state in delivering equity:

> Efficient markets require effective States. If countries are to benefit from globalization, they need a State which can develop the institutional capabilities—both social and economic—needed for sound and equitable economic growth (WCSDG 2004: 7).

The research for the commission's report included a series of 'dialogues and consultations', which involved 2,000 people around the world, drawn from governments, other institutions and civil society (WCSDG 2004: 12). The consultation process revealed many common concerns, deriving from 'a sense of the power of globalization' and 'a widespread sense of instability and insecurity' (WCSDG 2004: 13). The impact of globalisation on employment and livelihoods was by far the leading concern: 'While people largely favour more openness and interconnection between societies, they are much less positive when asked about the impact on their jobs and incomes' (WCSDG 2004: 13). The work of the world commission highlighted the importance of assessing place-based impacts of globalisation, something that has occupied scholars in a range of fields.

1.8.1 Globalisation and local impacts

This thesis assesses the effects of globalisation in a defined locality. Initially, the globalisation debate ‘concentrated mainly upon its implications for the nation-state’, creating an approach that was top–down and lacking in detail (Giddens 1999: 18). Waters (2001: 21), for example, conceded that his analysis of globalisation,

> will inevitably make sweeping and occasionally offensive claims ... in an effort to make generalized, perhaps overgeneralized, sense out of daunting complexity.

One of the most important propositions in the globalisation discourse is that globalising forces have very uneven impacts across countries, regions, industry sectors and societies (see Held et al. 2001; Giddens 1999; Gray & Lawrence 2001). Whatever else it might do, globalisation does not impose homogeneity. The only way to know exactly what impact globalisation has in a region is to delve into the detail of that place. As Hallebone, Mahoney and Townsend (2003: 222) point out, citing Voisey and O’Riordan (2001), ‘it is only at a local level that globalization has policy relevance. It is only here that a particular effect (such as the impact on employment) is perceived’. Dimensions of place and time are also necessary to explain the movement of capital. Pike (2001: 39) disputes the ‘rational, Taylorist’ logic of industrial production, highlighting instead the seemingly irrational ‘ebbs and flows’ of international capital as it expands or contracts in particular territories. Above all, these movements of capital across national borders are explained by history and place. They are ‘shaped by the unfolding historical evolution of the institutional architecture of capital’ and their ‘precise concrete forms are manifest in particular ways in specific places’ (Pike 2001: 39).

In explaining its decision to establish the World Commission on the Social Dimension of Globalization, the ILO highlighted the very sparse research agenda on ‘the impact of globalization on the life and work of people, their families and their societies’ (ILO 2007). These concerns are shared by many scholars, some of whom have concluded that,

> it is no longer possible to simply see globalisation as something which happens ‘out there’ without understanding how it impacts ‘in here’, in Liverpool or wherever (GSEU 2005).

The placed-based studies by Hudson and Sadler (1989) and Sadler (1992) are early examples of examining globalising forces through the prism of local change. Sadler (1992: 3) argued that the integration of international, national and regional events and perspectives 'is crucial to satisfactory analysis of what is going on in contemporary capitalist society'. The approach taken by both authors is to use the contemporary history of a local economy to demonstrate—and challenge—particular points about the workings of global capital and the nation-state. Hudson and Sadler (1989) took as their case study the former steelworks town of Consett in the North East of England. They concluded that the only way to understand economic and social change in Consett was to understand the bigger picture:

> The demise of steel production in places like Consett has its origins in the international sphere and understanding change in them has to be situated in the context of the growing and changing forms of internationalization of steel production and trade (Hudson & Sadler 1989: 2).

Sadler (1992: xiv) investigated 'the integration of places and regions within broader national and international circuits via corporate and state policies', examining the decline of heavy industry in the North East. Although the term 'globalisation' did not appear in his study, the concept was implicit in, and central to, his argument. Sadler (1992: xiii) traced the genesis of his work to the new research trend in the 1970s and 1980s of 'investigation into the relationships between systems of production and processes of uneven development'. At the time, Sadler and his colleagues took as their starting point the system of capitalist production, which they examined in the light of the burgeoning 'interlinking' of the global economy and the greater impact of national and international decisions on local economies and communities. As Pike (2001: 43) notes, 'case studies can be criticised for revealing the anecdotal and piecemeal', but they are highly valuable in leading us beyond generalised theoretical positions.

1.9 Conclusion

Globalisation is, at its core, an economic phenomenon, but one that was created by nation-states acting in the interests of capitalist expansion. The development of globalisation is intimately linked to the embrace of neoliberal doctrine by the state and its enactment in the policies of governments. Globalisation is a creation of human beings, a product of their interactions in economic and social exchanges. So, although

globalisation is a process precipitated by economic forces, globalisation is not ‘faceless’ or mechanical. The role of the state in forming and responding to globalisation lies at the heart of this thesis.

The other central issue for this thesis is the relationship between globalisation and particular localities. The following chapters will argue that, even in a globalising world, ‘place’ still matters very much. The effects of globalisation will vary from location to location, and small-scale studies can reveal or reinforce truths about globalisation that are difficult to grasp in any other way. Before exploring the Shoalhaven region, we consider the broader Australian experience of globalisation, the subject of the next chapter.

CHAPTER TWO: The Australian experience of globalisation

> [W]hat we know about globalisation comes to us through a filter of theories and images that prescribe both its form and consequences and our responses to them. Globalisation is not just a phenomenon. It is also a *story* (Cameron & Palan 2004: 3).

2.1 Overview

The *story* of globalisation in Australia is one of the state acting and reacting—to real and anticipated economic forces—in ways that conform to the tenets of neoliberalism. Australian governments have strongly supported and facilitated the process of globalisation, particularly since the mid-1980s, when policies derived from neoliberalism were adopted with gusto by the Labor governments of Bob Hawke (1983–91) and Paul Keating (1991–96). The Hawke government introduced an unprecedented program of economic liberalisation and deregulation, designed—in the language of such reformist governments—to 'open up' the Australian economy and 'free capital' to weave its magic. As Hawke (1996: 234) later described his government's philosophy,

> It was … ridiculous to talk of modernisation, globalisation and openness when Australia lay closed at its borders, the arteries of its financial life suffering from a sclerosis of regulation and bureaucratic red tape. The world was kicking at Australia's door; to stand there with our hands pressed against it was folly.

It is a measure of the success of the Hawke/Keating program that, by the time Labor lost office in 1996 after 13 years in government, neoliberalism was deeply embedded in the political economy of Australia. The term 'globalisation' had also become commonplace in the public utterances of political and business leaders of every persuasion. While the Australian Labor Party (ALP) sought to temper some of the negative social impacts of its sweeping economic program, its efforts were incomplete, because much of the negative impact simply could not be cushioned within the fiscal constraints of government.

This chapter describes the role of the Australian state over the last 30 years in promoting and responding to globalisation, and how these efforts have affected the Australian political economy. It also provides an introduction to the relationship between globalisation and the regional case studies in the Shoalhaven.

2.2 Globalisation, the state and neoliberalism

The cross-disciplinary approach of Angus Cameron and Ronen Palan provides a comprehensive explanation of the complex and self-sustaining relationship between globalisation and the state. As Cameron and Palan (2004: 3) conclude, globalisation 'is a *mediated* concept', rather than an objective fact or series of factors. In anticipating and responding to globalisation, governments are participating in the creation of globalisation through their choices and decisions:

> [M]any commentators do not seem to notice that in the process of adapting to and preparing for globalization, company managers and state administrators also contribute to and extend its meaning (Cameron & Palan 2004: 2).

In other words, as governments make changes to their policies and the institutions of the state in anticipation of globalising forces, and as businesses invest in operations and logistics to take advantage of globalisation, 'both set in motion processes that accelerate the creation of the very thing they prepare for' (Cameron & Palan 2004: 10). Put simply, the state is very much an actor with influence. Even though the state now sits within 'a radically different set of boundaries and notions of social space', its power is not automatically threatened by the process of change; the state is simply required to operate in different, 'less place bound' economic spaces, and in different ways (Cameron & Palan 2004: 8, 15–20).

For government and business leaders, 'preparing for the future' is their stock in trade imperative, whether this involves political contestation or capital formation through the stock market (Cameron & Palan 2004: 9–10). Thus, globalisation is a neat fit for 21st century leaders, in terms of both theory and narrative:

> Globalization is such a very attractive and powerful concept for policy-makers not least because it is about the future, about preparation for the future, and hence about the capitalization of future earnings … The central assumption of the many organizations that fund studies of globalization and of the countless executive and academic seminars for its analysis and discussion, is that the better prepared we are, the better we will fare when the global future comes to pass (Cameron & Palan 2004: 10).

Governments, especially in Australia, have created and sustained this narrative over the past 30 years. Indeed, so deeply ingrained are these messages about 'embracing the

future' that they now seem unremarkable. However, the process of recasting economies and societies in a neoliberal mould involved considerable effort throughout the world's most developed economies.

2.2.1 Neoliberalism in theory and practice

The central place of neoliberalism in the construction and execution of public policy in Australia is the result of powerful forces—ideological, political and economic—that have both accompanied and enabled the rise of globalisation. Neoliberalism forms the core of the globalisation story in Australia.

Harvey (2005), among others, explains in detail the genesis of neoliberalism, which has come to dominate state practices and public policy since the 1970s[13]. The theory was developed and promoted by a group of prominent academics, led by Friederich von Hayek, who formed the Mont Pelerin Society in 1947. Making the leap from theory to practice was always the goal, but, as a program for government, neoliberalism remained marginal—until the economic turbulence of the 1970s (Harvey 2005: 19–22). Harvey (2005: 1) pinpoints the period 1978–80 as a 'turning-point', because of critical developments in three states: the embryonic liberalisation program launched by Deng Xiaoping in China; the election of Margaret Thatcher in the UK; and the election of Ronald Reagan in the US, along with the elevation of Paul Volcker to head of the US Federal Reserve[14]. From these beginnings, neoliberalism has spread (in both voluntary and forced ways) to become 'hegemonic as a mode of discourse'; the change has often been described simply as 'globalisation' (Harvey 2005: 2, 3). However, it is important to recognise that the triumph of neoliberalism in public policy is incomplete:

> [I]t seems reasonable to contend that neoliberal policies in practice were often implemented not according to some grand neoliberal meta-blueprint, but rather as piecemeal, experimental and pragmatic … responses to political and economic circumstances (Cahill 2014: 56).

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[13] See also Quiggin (2001), Cahill (2014) and Pusey (1992).

[14] Paul Volcker was appointed Chairman of the US Federal Reserve in 1979, under the Carter administration. He immediately tightened monetary policy in an effort to combat persistent inflation, 'no matter what the consequences might be for employment' (Harvey 2005: 23). For Harvey (2005: 23–4), Volcker's turn to monetarism was 'a necessary but not sufficient condition for neo-liberalization'.

As a theory, neoliberalism is concerned with the rights and liberty of the individual, and the freedom of exchange between individuals in an open market (Cahill 2014: 3). According to neoliberalism, the state should guarantee individual freedoms through the provision of three essential frameworks: individual private property rights, the rule of law, and free markets and free trade (Harvey 2005: 64). These conditions are conducive to private enterprise and 'entrepeneurial initiative', and will thus create innovation, wealth and continual productivity improvements. Thanks to the 'trickle down' effect, and armed only with its free markets, a neoliberal state is therefore able to eliminate poverty, at home and abroad (Harvey 2005: 64). At least, so the theory goes. There are, in fact, intrinsic problems within the theory (such as the question of monopolies), but the greater problems lie in the wide chasm between theory and practice (Harvey 2005: 67–70). In practice, states diverge—chaotically and idiosyncratically—from neoliberal theory. For example, when the Bush administration's free trade policy clashed with steel industry interests (and votes) in the state of Ohio in 2002, President Bush imposed punitive tariffs on steel imports. As Harvey (2005: 71) observes, 'it would be surprising indeed to find even the most fundamentalist of neoliberal states cleaving to neoliberal orthodoxy all of the time'. For this reason, Cahill (2014: 28) has coined the term 'actually existing neoliberalism' to describe the version of neoliberalism that we experience in the world around us:

> [T]he concept opens up the possibility of a more complex and nuanced appreciation of the messy, uneven and multicausal nature of political economic change.

The shift to neoliberalism as the guiding philosophy of the state throughout the developed world occurred relatively recently. Following the Second World War, national economies operated under the Bretton Woods architecture, which tied national currencies to the US dollar, providing monetary (exchange rate) stability and disciplining international capital flows. Around the developed world, across a diversity of state forms, there existed a 'common … acceptance that the state should focus on full employment, economic growth, and the welfare of its citizens', and should intervene in markets as necessary (Harvey 2005: 10). Sadler (1992: 17) describes a 'consensus' among advanced capitalist states 'on the necessity for some kind of state intervention' in the economy. Although different governments addressed this need in slightly different ways, the response generally included ensuring currency stability, encouraging

growth in consumer demand and providing 'relatively full employment' and welfare. Sadler (1992: 25) describes the economy of North East England in the 1980s as 'truly ... state-managed': its three leading industries—coal, steel and shipbuilding— were all nationalised in the period 1947–77. This was 'embedded liberalism' (Harvey 2005: 11).

When the post-war boom ended, 'a growing tide of neo-conservatism filtered through the political fabric', led by the governments of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States (Sadler 1992: 17). The period of easy capital accumulation had ended, and developed economies were mired in high inflation and high unemployment. The 'new reactionary orthodoxy' was particularly concerned to smooth the way for private capital investment, and in so doing, 'many of the earlier ideas on appropriate levels of (un)employment and the welfare state were swept aside' (Sadler 1992: 17). While neoliberalism was not the only possible answer to the question of how to restore conditions for capital accumulation, it was the one towards which the capitalist world 'stumbled' (Harvey 2005: 13).

2.2.2 The view from society

While it is beyond the scope of this thesis to examine the societal impacts of globalisation on a broad scale, one example merits attention, for the light it sheds on the question of how much responsibility the state bears for the impacts of globalisation. In 2000, the Gallup organisation conducted a landmark survey spanning 18 countries and 18,000 participants[15]. The survey examined personal experiences of globalisation—ranging from shopping preferences to contact with family and friends overseas—and attitudes to unemployment, national government policies and multilateral institutions such as the WTO and the United Nations (Marsh 2004). The survey responses yielded the following conclusions:

a) awareness of globalisation was high, even though 'direct engagement' in globalisation by survey respondents was quite low

[15] Australia was not included, but the results are nevertheless of interest and relevance. Participating countries were: Britain, France, Germany, Greece, Ireland, Portugal, Spain, Sweden, China, Indonesia, Japan, Malaysia, The Philippines, Republic of Korea, Singapore, Taiwan and Thailand (Marsh 2004).

b) respondents considered their governments to have much greater influence than multilateral institutions (although many respondents were only vaguely aware of institutions such as the WTO and World Bank)

c) most respondents believed that unemployment was the result of wholly domestic factors, and held their national governments responsible for fixing it

d) views on the attractiveness of economic and cultural protectionism varied widely, showing up differences between 'elites' and masses, and between countries (Marsh 2004: 39–40).

Overwhelmingly, the individuals surveyed considered their national governments to be highly significant to their lives. Perhaps most pertinently, Marsh (2004: 40) concludes that national governments that 'played active mediating, buffering and catalytic roles' with regard to globalisation, such as those of Sweden and Ireland, had created citizens with highly positive attitudes to international engagement. The survey responses were far more negative in countries where governments had adopted laissez faire approaches to globalisation. For all the academic debates over the power of the state in the era of globalisation, the 'average citizen' was in no doubt about the necessity, and capacity, of governments to continue to actively govern.

Globalisation not only generates unease in society—it actively damages vital elements of civil society. Boggs (2000: vii) describes the 'triumph of antipolitics'—of atrophy and apathy—in the United States in the 1980s and 1990s. Causally, he links this to globalisation: 'traditional civic-mindedness' in the US 'has been subverted by an array of overpowering forces, first and foremost by corporate power and the growing impact of economic globalization'. The problem is 'loss of citizen participation and social governance' and 'the narrowing of public discourse', which extends across a range of industrialised countries (Boggs 2000: ix, 8).

The remainder of this chapter will explain how neoliberalism and globalisation developed in Australia, and what this means for the state and its governance of society.

2.3 Globalisation in Australia

The embrace of neoliberalism by the Hawke government was a pivotal moment in the development of globalisation in Australia. For, although globalisation would have most likely 'happened' in Australia anyway, adopting a neoliberal interpretation of globalisation ensured that only neoliberal solutions would be applied to globalisation's problems. As Conley (2004: 192) emphasises, the actions of governments 'shape the pace of change and, most importantly, the distribution of adjustment costs and benefits', meaning that 'globalisation has impact through the prism of Australia's policy structure'. Echoing the strong statist stance of Weiss (1998), Conley (2007: 95) asserts that Australian governments,

> retain the power to regulate economic forces and developments, to structure the Australian political economy and to redistribute the fruits of growth to achieve particular political goals'.

While the engines of globalisation—in the forms of global finance, investment and trade—exert a 'coercive impact' on Australian governments, governments are nevertheless free to resist—or would be, if they had not already lashed themselves to the mast of neoliberalism (Conley 2004: 192). The impact of globalisation and neoliberalism can be seen across the full gamut of government policies and state institutions in Australia (see Capling & Galligan 1992; Capling 2001; Gray & Lawrence 2001; Pusey 1992). This chapter focuses on national governments, given their preeminent role in shaping and responding to leading elements of globalisation (such as macroeconomic conditions, monetary policy and tariff rates)[16]. For the purpose of this chapter—which explains the evolution of neoliberalism in Australia and sets the scene for later chapters on agriculture and manufacturing—the policy areas of trade and industry form a particular focus.

2.3.1 The history of protectionism

Fierce disagreement over protectionism accompanied the creation of the Federal Parliamentary Labor Party, but this was quelled in 1905 with Prime Minister Alfred Deakin's policy of 'New Protection'. From this moment, the ALP was wedded to the

[16] State and territory governments in Australia have also been, to greater and lesser extents, committed to neoliberalism—this will be demonstrated in later chapters, in particular in the case studies.

twin tenets of tariff protection of the manufacturing industry and 'a fair and reasonable wage' for workers—and Australia's long and stable period of trade protectionism began (Leigh 2002: 490). Conley (2009: 95) describes this as the 'insular path' of the Australian political economy in the first 80 years of the federation, shaped in large part by the relative power of labour and the vulnerabilities exposed by the depression of the 1890s.

Governments extended protectionism from manufacturing to Australia's vast agricultural sector, a policy trajectory that reached its peak in the 1950s and 1960s, featuring a complex system of price subsidies, bounties, marketing schemes and protected domestic markets (Capling & Galligan 1992: 5–6). Crucially, this protective statism was 'thoroughly grounded' in Australia's 'national political culture' and was supported by all major political parties until the 1970s (Capling & Galligan 1992: 7). Even with the advent of the conservative Menzies government in 1949, 'the welfare state and Keynesian management techniques were consolidated rather than challenged': public expenditure in the Menzies era accounted for a stout 35–40 per cent of GDP (Capling & Galligan 1992: 31). Australia maintained high tariffs on manufactured goods in spite of strong pressure from the US for Australia to observe the principles of the General Agreement on Trade and Tariffs (GATT) (Conley 2009: 205). The combination of protection and wage arbitration worked as 'institutional shock-absorbers … to insulate the local economy from negative global effects' (Beilharz 1994: 7).

The swing against protectionism, which had been advocated by some of Australia's leading economists since the 1920s (such as FC Benham, Edward Shann and, later, Max Corden) did not gain the requisite momentum until the arrival of Gough Whitlam as prime minister in 1972 (Capling & Galligan 1992: 8, 79–80, 91, 108; Leigh 2002: 492). Whitlam was a controversial figure for the whole of his political life, and for decades afterwards, partly because of the apparent contradiction between his embrace of the 'socialist' label and his advocacy of market-based solutions to some of Australia's economic problems (Maddox 1989: 144–5, 149; Beilharz 1994: 102). Since the late 1960s, Whitlam had pursued a 'personal ideology' of reducing trade protection, flying in the face of ALP history and policy, and the express wishes of the Australian Council of Trade Unions (ACTU) and manufacturing enterprises (Leigh 2002: 492–3). Whitlam

was a firm believer that tariff protection raised prices for consumers, embedded inefficiencies in the economy and was detrimental to workers in the developing world. Armed with these views, and emboldened by the policy work of the Tariff Board and two special reference committees, Whitlam introduced a 25 per cent cut to all Australian tariffs in 1973, 'without any public warning' (Leigh 2002: 491–3; Maddox 1989: 149, 151). Whitlam did not, however, manage to successfully embed the philosophical shift away from protectionism, in part due to macroeconomic circumstances. Although he prevailed over Cabinet opposition to his trade liberalisation agenda, his across-the-board tariff cut was not a stunning success: rapidly rising unemployment and inflation in 1974 saw the government back down, offering industry a suite of non-tariff assistance measures, including import quotas (Capling & Galligan 1992: 108–9).

The dismissal of the Whitlam government and its electoral defeat in 1975 heralded the rise of a conservative government that quickly put the brakes on tariff reductions. While the cause of tariff reform appealed strongly to some of the 'dries' in the incoming Coalition government of Malcolm Fraser, the Liberal and Country party rooms were not united on the issue, and the political will could not be found to continue the Whitlam government's momentum (Capling & Galligan 1992: 44). In fact, under the Fraser government, the rate of state assistance to the motor vehicle industry almost doubled (Leigh 2002: 495). A boom in Australian minerals exports, which flowed throughout much of the economy, meant that the Fraser government could continue to fund industry protectionism—but not for long (Capling & Galligan 1992: 44).

Across many well-informed accounts of how, exactly, the Australian state came to embrace neoliberalism, there is agreement about the instrumental effects of a couple of pivotal state institutions, and just a handful of political leaders (Leigh 2002; Conley 2007; Capling & Galligan 1992). Among the political and bureaucratic elite, the ideological shift away from protectionism was slow and gradual in the decades leading up to the 1980s (PC 2003b: 10–11). The emerging relationship between reformist Labor leaders and reformist bureaucrats is perhaps best demonstrated by the institutional changes surrounding the Tariff Board. The Tariff Board was transformed by the Whitlam government into the Industries Assistance Commission (IAC) in 1974. While

its new title was in keeping with its traditional mission of encouraging the development of Australian industries, the commission was already well down the road to productivity- and efficiency-driven enlightenment. Under Whitlam, the IAC began to pursue the goal of 'structural change' in the Australian economy, and was dubbed the 'Industries Assassination Commission' by suspicious manufacturers (PC 2003b: 3; Capling & Galligan 1992: 108–9). In 1989, the Hawke government recast the agency as the Industry Commission (after moving it to the Treasury portfolio), which sparked momentum, broadened the commission's purview and strengthened its hand considerably (PC 2003b: 2–3; Capling & Galligan 1992: 9).

By the end of the 1980s, economic liberalisation had become 'the new orthodoxy' and 'ideas from neo-classical economics … were pervasive among the senior bureaucrats in Canberra's central agency departments' (Capling & Galligan 1992: 8). The new generation of senior public servants (and especially those in central agencies such as Treasury) shared, overwhelmingly, a materially and socially privileged background, and an education grounded in 'restrictive, technically-oriented, neoclassical economics' (Pusey 1992: 5–7).

Leigh (2002: 489) contends that, in the central arena of trade policy, the actions and influences of interest groups and institutions tell only part of the story; in order to understand how the Labor party came to embrace neoliberalism, it is necessary to understand 'the beliefs and ideology of the central decision makers', namely Gough Whitlam, Bob Hawke, Paul Keating and John Button. Leigh (2002: 489) characterises the bureaucracy as *enabling* these political leaders to move into the neoliberal framework, providing them with a 'set of ideas' on which to draw. Based on his extensive interviews with Labor's political elite, Leigh concludes that the strong commitment of Whitlam, Hawke, Keating and Button to dismantling industry protection were crucial; combined with the 'intellectual' work of the Tariff Board (and its successors) and the urgings of key economic policy advisers, these beliefs overrode popular and pressure group support for protectionism (Leigh 2002: 492, 499–500)[17]. For Cahill (2014), however, this conventional account of the catalytic relationship between

[17] Writing about the appointment of ANU economist Ross Garnaut to the Prime Minister's Office, Hawke describes Garnaut as someone who 'abhorred Australia's excessive protectionism', and 'an unabashed free-trader and exactly the person I was looking for as an economics adviser' (Hawke 1996: 165–6).

neoliberal ideology and political leaders is too convenient. A more accurate and nuanced explanation is that governments used neoliberal ideology ‘to justify and legitimate their policy agendas’ (Cahill 2014: 54).

Whatever the precise calibration of inputs and influence, the outcome was unmistakeable: a neoliberal orthodoxy that drove the globalisation narrative in Australia, until it became assimilated into the furthest corners of public and private life.

2.4 The political economy of globalisation: the Hawke/Keating era

> [T]his tough, increasingly competitive world of five and a half billion people does not owe, and will not give, seventeen million Australians an easy prosperity. The days of our being able to hitch a free ride in a world clamouring, and prepared to pay high prices, for our rural and mineral products, are behind us. From this fact flows everything—*Prime Minister Bob Hawke,* 12 March 1991 (in Hawke 1996: 569).

When the Hawke government came to office in 1983, economic conditions in Australia were more grim than they had been in many decades. The economy had entered recession in 1982 and, by the measures of the day, the national economy was limping: high inflation; high unemployment; low productivity growth; increasing net foreign debt; and a small trade deficit (Conley 2007: 97–8)[18]. It was not initially clear that the Hawke government would pursue any kind of neoliberal economic agenda. Its industry policy for the 1983 election gave no hints, proposing ‘traditional Labor interventionism’, although with more ‘selective’ assistance than in the past, tailored to particularly problematic industry sectors (Capling & Galligan 1992: 117–118). Nevertheless, when the new government floated the Australian dollar in December 1983, it set in motion a dynamic that would profoundly affect the Australian economy. The government’s two-year program of financial deregulation was aimed at stimulating a larger, more responsive flow of international capital into the Australian market, and accepted the reality that foreign investors were already undermining many of the controls placed on monetary policy by government (Capling & Galligan 1992: 122–3; Kelly 1992: 79–80). However, with the dollar untethered, financial market actors also

[18] Conley (2007: 98) notes that some of the economic performance indicators that raised alarm bells in 1983—such as the level of foreign debt and the appearance of a slight trade deficit—would barely raise an eyebrow among economists today.

had even greater scope to 'judge economic policy and pressure governments to structure policy to avoid adverse financial reactions' (Conley 2007: 98).

The Hawke government's commitment to neoliberalism increased over the course of its tenure. Capling and Galligan (1992: 124) argue that Labor's shift to neoliberalism was opportunistic, the result of 'pragmatic responses to changing economic and political circumstances', including widespread concerns about Australia's balance of payments. Conley (2007: 99), too, views the balance of payments crisis of 1986 as the tipping point that led Hawke and Treasurer Paul Keating to adopt wide-ranging neoliberalism as 'the only realistic policy response'. Changes in economic and trade policy highlight the shift: in the five years to 1987–88, the average effective rate of assistance to Australian industry fell by just two per cent, mostly in conjunction with generous industry restructuring plans[19]. However, as part of a major economic statement in 1988, the government announced deep, across-the-board cuts to tariffs, which lowered the rate of assistance by a further five per cent (Leigh 2002: 495; Kelly 1992: 393). Kelly (1992: 394) describes the Hawke government's 1988 economic statement as a 'turning point', reflecting an acceptance by Cabinet 'that Australia's manufacturing industry required greater international competition rather than protection'.

For both Kelly and Leigh, ideas are critical to explaining Labor's conversion to neoliberalism. Kelly (1992: 394) sees the government's 1988 economic statement as the culmination of 10 years of 'intellectual penetration' of governmental elites by those pushing the 'low protection philosophy'. Leigh (2002: 497–500) concludes that the most plausible answer to the 'puzzle' of why the government pursued policies antithetical to Labor tradition was the leadership team's longstanding intellectual attraction to the neoliberal policies promoted by some economists, notably those associated with the Industry Commission. This suggests that the Hawke government was *always* going to embrace neoliberalism—it was simply a matter of time, and timing.

[19] The effective rate of assistance to industry is the 'net effect of [government] assistance on inputs and outputs, expressed as a proportion of unassisted value added' (Productivity Commission 2000a: 15). The calculation includes tariffs on inputs used by Australian producers.

Even the holy grail of centralised wage fixing, which lay at the core of the ALP–union relationship, was not safe. In 1983, the formal relationship between the ALP and the ACTU seemed to guarantee the sanctity of centralised arbitration; by 1992, Labor and the ACTU unveiled ‘an emerging model of enterprise bargaining’, in which unions, their members and employers would negotiate wages and conditions at the enterprise level (Kelly 1992: 668–9). This ‘remarkable transformation’ in labour policy stemmed from two beliefs in the ALP and ACTU leaderships: first, that only a devolved approach to wage negotiations could deliver productivity gains in the economy; and second, that the only way to defeat the ‘deregulatory purists’ in the Coalition was to accept enterprise bargaining in some form (Kelly 1992: 669–70). Both factors highlight the stunning success of neoliberalism as it came to dominate the Australian political economy.

In fact, the intellectual penetration of the elites by neoliberal theorists extended even to the union movement. The embrace by union leaders of many fundamental concepts of neoliberalism began with the much-acclaimed Accord between the ALP and ACTU. The ‘Statement of Accord by the Australian Labor Party and the Australian Council of Trade Unions regarding Economic Policy’ was adopted in February 1983. The document had a strong focus on full employment as the goal of economic policy, placing heavy emphasis on price controls, centralised wage fixation and taxation reform, alongside wide-ranging social reforms (Stilwell 1986: 10–11). However, once Labor formed government in March 1983, the agreement became subject to ‘selective application, modification and renegotiation’ (Stilwell 1986: 11).

In signing up to the Accord, the union leadership was abandoning industrial action in favour of ‘a search for solutions through economic policy’ (Kelly 1992: 63). As Beilharz (1994: 127) put it, the Accord was built around ‘the Keynesian utopia of full employment’, but rested on a quiet, shared recognition by both parties that ‘the prospects of easily reaching full employment were slim’. Nevertheless, the economic and social effects of the Accord were perhaps not as important as its symbolism, and the uses to which this could be put. The Accord became eroded over time, as it was reworked and relaunched, but it served the government as ‘a mace, a black rod of

legitimation' for its economic reforms (Beilharz 1994: 127)[20]. As the Hawke government's tariff policies cut deeper into the Labor heartland, voices of dissent within the wider labour movement became 'more muted'; many in the union leadership abandoned larger goals in favour of tinkering at the policy edges:

> [I]nstead of arguing for higher protection, or even for the maintenance of existing tariffs, unions and business lobbyists began to advocate the replacement of border protection with targeted assistance to encourage export-oriented industries (Leigh 2002: 503).

As Conley (2004: 186) points out, while 'fundamental policy changes cannot be understood solely or even mainly in terms of the changing ideas of policy-makers', ideas are powerful catalysts for change and can 'act in a self-fulfilling way'. However, even if we accept that the Hawke government was acting with pure motives—a genuine conviction that the ideological shift was essential—we must also recognise the implications:

> [T]he construction of globalisation as a policy imperative requiring economic liberalism constitutes more than just a theory that attempts to make sense of the world. It is also a claim with political intent that advantages particular coalitions of interests (Conley 2004: 186).

Precisely because of the policy implications, the ideological shift in the Labor party under Hawke—from a strong history of 'political reform' to a commodified new world of 'economic management'—was condemned by many within and around the party, including members of the parliamentary wing (Maddox 1989: 7, 56, 79). The traditional reformist impulses of Labor governments, from Curtin and Chifley to Whitlam, were absent. Maddox (1989: 151) considered the Hawke government one of 'meticulous caution, if not outright conservatism'. For Beilharz (1994: 4), Labour under Hawke and Keating 'earned its managerial credentials at the cost of emptying out the labour tradition'.

[20] There is no consensus about the precise impact of the Accord and its meaning for both labour and the ALP, including the question of whether it embodied corporatism. For an extensive treatment of the debate, see Beilharz (1994: 116–78).

Higher education was one of the areas where traditional Labor goals of social equity—and the Whitlam legacy on tertiary education reform—collided with neoliberal economics, with spectacular results. The Hawke government was responsible for the introduction of a deferred fee-paying system in universities, the Higher Education Contribution Scheme (HECS). As Ashbolt (2005: 2) points out, Australia 'could have then, and could still, afford "free" higher education if the government had different priorities'. However, in 'a public sphere under assault' from neoliberalism, tertiary education was reconceptualised as a 'commodity' (Ashbolt 2005: 2–3). Looking back on the first ten years of the Hawke/Keating governments, Beilharz (1994: 4) concluded that Labor 'can no longer claim any purpose or vision beyond efficient managerialism with a social justice gloss'.

While there was nothing inevitable about the Hawke government's neoliberal reform program, it was important that the public *perceive* it that way (Conley 2007: 99–100). Protectionism had always had its critics, albeit small in number (Capling & Galligan 1992: 8). However, aided by a new chorus of support from business, the public sector and academia, the Hawke government was able to hammer home the key message: globalisation required that Australia jettison its outdated policy settings, notably economic protectionism. Australians might embrace globalisation or recoil from it, but they could not escape it. Moreover, they needed to lower their expectations of what their governments could achieve in this new environment. At one level, Australians were being instructed to respond to the economic demands of a globalising market; at another, more hidden level, they were being told to accept an entirely new political economy (Conley 2007: 99–100). This is the 'politics of persuasion and coercion', in which governments from Hawke onwards have used both rhetoric and policy change to embed globalisation and neoliberalism in the Australian political economy, and to embed a neoliberal Australian market in the globalising economy (Conley 2004: 183). Or, as Beilharz (1994: 144) put it so elegantly:

> A certain kind of politics thus ruled because it was authorised to do so by a certain kind of economics; a certain kind of economics was claimed inevitable by the politics which authorised it.

While the policies and the ideological shifts might have been owned by the Labor leadership, the sales campaign was a joint effort involving ‘a loose coalition of supporters of globalisation and economic liberalism’, from business, the public service, academia and the media, all of them pushing the message that ‘globalisation limits what the political process can achieve’ (Conley 2004: 184). As Maddox (1989: 11–12) observed:

> The words politicians use, particularly those that are frequently repeated and become so much part of the common vocabulary that they are automatically accepted without thought or definition, in fact build a new political order, constructing a framework in which politicians and those who observe them operate.

Thus, the narrative of globalisation in Australia was written by the Hawke government, which both defined the problem and applied the solutions. This was a ‘public discourse … dominated by the vocabulary of individual incentive, private enterprise and competitive efficiency’ (Maddox 1989: 181). Much of the Hawke government’s work was taken up with readying the Australian economy for globalisation, through trade and industry policies and a sweeping program of microeconomic reform. This is where Australians came to feel the full force of globalisation.

2.4.1 Trade liberalisation

The Hawke government believed in free trade and secured a significant change to Australia’s approach to multilateral negotiations under the GATT, arguing that Australia must throw itself into the fray. The government was not in the thrall of powerful global institutions—rather, multilateral processes suited the government’s purposes. At the end of his political career, former Primary Industries Minister John Kerin offered the view that GATT processes and pressures were not influential in Australia’s shift to neoliberal trade policy—they were ‘at best, a post-factum justification’ (Leigh 2002: 496). The ‘eulogising of free trade’ became a hallmark of Hawke’s official overseas visits, especially to the US and Europe, where agricultural tariffs rose alarmingly in the 1980s (Conley 2009: 207–8). Despite the government’s intense negotiating efforts, including through the Cairns Group of agricultural exporters, the Uruguay Round of the GATT delivered only minimal liberalisation on agriculture, and even these commitments were shown in subsequent years to have led to very little

improvement for agricultural producers in Australian and elsewhere (Capling 2001: 144–5; Conley 2009: 208).

Although the Hawke government became a vocal and strident proponent of global free trade, it did not always observe its own gospel. By 2003, Australia had an average tariff rate of just 3.8 per cent, but successive governments—from Hawke onwards—maintained very effective barriers to trade in particular areas. These included: relatively high tariffs on textiles, clothing and footwear and passenger motor vehicles; local content requirements for Australian television; and investment restrictions in sectors like airlines and banks. Australia's anti-dumping rules, quarantine provisions and the single-desk selling of agricultural commodities are also regularly criticised by other countries, and by Australian economists, for their market-distorting effects (ACIL Consulting 2003: 15–16).

Nevertheless, under the Labor version of neoliberalism, beliefs were strong: 'Policy-makers saw freer trade as unequivocally in the national interest and liberalisation as a guarantor of increased competitiveness' (Conley 2009: 209). The fervour of Labor's pursuit of multilateral trade liberalisation would not be matched by the subsequent Coalition government. In the decades that followed, Australian governments would persist in trying to persuade the world to toe the free-trade line. These arguments have gained very little traction in key states such as the US: although trade barriers might well be inefficient, they are also effective in serving a variety of political (and other) purposes (Capling 2001: 172–4).

2.4.2 Deregulation and competition

Once the projects of financial deregulation and trade liberalisation had been launched, the Hawke government turned its attention to other elements of the architecture that supported—or hindered, depending on your standpoint—important aspects of Australian economic and social life.

With barriers to trade and investment cut in Australia, other parts of the economy came under pressure: their 'poor performance ... was handicapping the competitiveness of Australian industries' and thus limiting growth in household income (Banks 2001: 3).

As Treasurer Keating put it, in his inimitable style, ‘We’ve got to clear all the bloody crap from the pipes, we’re blowing the pipes out’ (quoted in Kelly 1992: 389). The bottom line—for neoliberal economists—was that unfettered markets would create competition, which would ensure the efficient allocation of resources, rising productivity and lower prices for consumers.

Others point out that these neoliberal articles of faith defy reality. Even Gary Banks, the then chairman of the Productivity Commission, stated that, ‘there is really no such thing as completely unfettered competition in any area of economic life’, because ‘market competition occurs within a framework of rules, obligations and rights’ (Banks 2001: 7). This point is reinforced by Cocklin and Dibden (2002: 32–3), who emphasise that ‘regulation is a social process’ and that ‘deregulation in a pure form is rare’. They prefer the term ‘re-regulation’, to underline the fact that the process of deregulation in Australia ‘is typically a socially arbitrated, partial withdrawal of government’ (Cocklin & Dibden 2002: 33). The state is still a critical element of the market economy.

The microeconomic reform program under Hawke and Keating encompassed deregulation of financial markets and labour markets, cuts to industry protection, and marketisation and privatisation of key infrastructure (communications, transport and energy) (Kelly 1992: 387). The program was embodied in the National Competition Policy (NCP), which became a bipartisan pillar of Australian economic policymaking. The architect of the NCP, Fred Hilmer, explained the economic case for deregulation of Australia’s domestic markets:

> Competition provides the spur for businesses to improve their performance, develop new products and respond to changing circumstances. Competition offers the promise of lower prices and improved choice for consumers and greater efficiency, higher economic growth and increased employment opportunities for the economy as a whole (Hilmer et al. 1993, cited in Banks 2001: 3).

The public interest test of the NCP required that governments ‘justify any anti-competitive arrangements by demonstrating that they deliver net benefits to the community’. Alongside economic factors, social and environmental impacts were also to be considered in assessing where the net benefit lay (Banks 2001: 9). However, the process of valuing or weighting different impacts was a difficult one:

> For example, should a dollar lost by a poor household as a result of a policy change be assigned equal weight to a dollar correspondingly gained by a wealthy household? What if all the costs of a reform that would boost national income are likely to be concentrated on an already struggling region? (Banks 2001: 9).

The regional impacts of the NCP were often acute, and were inimical to traditional elements of regional policy. As Gerritsen (2000: 135) notes, the principle of competitive neutrality that underpins the NCP 'poses a fundamental contradiction to the guiding principle of Australian federalism: horizontal fiscal equalisation'. In the end, 'the task of interpreting the public interest is inherently subjective and political' (Banks 2001: 10). Deregulation and microeconomic reform also occured within an increasingly politicised and emotive public arena. Banks (2001: 4) notes the 'popular backlash against reform', spawned by concerns about the distribution of economic benefits and pain. In the words of Kelly (1992: 387), the 'shock therapy' of the Hawke government's microeconomic reform 'delivered a multitude of winners and losers'.

2.4.3 Industry and investment support

Weiss (1998) demonstrates that, far from being obsolete, the state is an important actor in the industrial competitiveness of national economies. The role of the state in coordinating economic change 'is vital to induce firms to engage in activities where the risk level would be so great as to deter firms acting alone' (Weiss 1998: 6). Capling and Galligan (2002) make a powerful case for the state as the preeminent actor in industry policy in Australia, arguing that, even where decisions by the state are 'compliant or facilitative' in respect of the goals of business, these decisions will never run counter to the state's interests.

Even under a rules-based multilateral system, Australian governments are permitted to provide some assistance measures to local industry. Industry assistance takes many forms, but can be divided in a simple fashion into two categories: policies that seek to expand industries; and policies that seek to slow or soften their decline. For example, governments are able to provide targeted training, information and 'project matching' services to Australian manufacturers, to help them compete with foreign firms for local projects (Carr 2009a: 6–8). These measures occupy a grey area in the Australian political economy, and represent the imperfect and incomplete application of

neoliberalism. From the mid-1980s, the quantum of state assistance to industry began to fall. The forms of assistance also changed, with a 'substantial reduction' in 'trade restrictive' measures such as tariffs and a greater reliance on a smaller menu of options, including grants and tax concessions (PC 2008a: 6.1).

The Hawke government's commitment to neoliberal reform did not supplant, but coexisted with, political pragmatism. When Kodak Australasia demanded a government bailout in 1989 to ward off a factory closure by its US parent company, the government obliged. Kodak employed 500 people in its film manufacturing operations and generated A$170 million in export income each year (Capling & Galligan 1992: 153–4). But the reprieve was only temporary. In 2004, Kodak announced the permanent closure of its Australian film manufacturing operations with the loss of 600 jobs. The company blamed a 'fundamental change in consumer behaviour driven by the increasing popularity of digital photography in Australia and worldwide' for the decision (Gooch & Leyden 2004). While innovation is a perennial cause of industrial change, other forces have also posed significant challenges to the Australian economy.

2.5 Globalisation, China and the Australian economy

For Australia, as for many other developed economies, perhaps the most pivotal state in the globalising economy is China. When Australian politicians, business leaders and union officials talk about Australian firms matching up to 'foreign competitors', they very often mean those operating in China (whether native or foreign firms.) And when poll respondents told the Lowy Institute in 2010 that 'protecting the jobs of Australian workers' should be the most important goal for Australian foreign policy, they probably had China in mind, too (Hanson 2010: 7–8)[21]. In order to fully appreciate the challenge posed by globalisation (and the globalisation narrative in Australian politics), it is necessary to understand the contemporary economic relationship between Australia and China.

In 2008, in a speech at the Melbourne Writers Festival, former prime minister Paul Keating declared that, 'We are currently living through one of those rare yet

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[21] Respondents were given a list of twelve options to rank in order of importance; three-quarters of respondents nominated 'protecting the jobs of Australian workers' as the most important (Hanson 2010: 7–8).

transforming events in history, a shift in the power in the world from West to East'. The subject of Keating's speech was the strategic and economic shift that developed in the wake of the Cold War, with the unipolar international order headed by the United States challenged by a rising China. In his speech, Keating excoriated the 'Western liberal press' for its one-dimensional coverage of China, with human rights dominating the analysis and obscuring the tremendous achievements of the state and its people, including 'the massive leaps in progress' and growth in income (Keating 2008).

While Keating's stirring defence of China's economic and strategic status could be viewed as overblown (and probably deliberately provocative), it also nails very precisely the West's discomfort and denial about Chinese power in the era of globalisation. Keating (2008) set out the challenge thus:

> [W]ill we regard China as a force for stability and good, a partner in the world, or will we continue to treat China as an upstart economic adversary to be strategically watched?

For Australia, the economic implications of China's rapidly growing economy and changing society have been immense, and have become a prominent part of the public discourse about globalisation over the past 20 years. Australians have a well-developed sense of China's economic significance. In the 2010 Lowy Institute poll, 55 per cent of respondents identified China as 'the world's leading economic power'—even though the Chinese economy was much smaller than both the EU and the US in terms of GDP (Hanson 2010: 9)[22]. The Lowy poll also revealed very conflicted views among Australians about the economic threats and opportunities posed by China: while 73 per cent of respondents agreed that 'China's growth has been good for Australia', 57 per cent also agreed that the Australian government was 'allowing too much investment from China' (Hanson 2010: 10).

As discussed earlier in this chapter, the introduction of market-based principles to the Chinese economy can be viewed as one of the pivotal moments in the development of globalisation. The liberalisation of Chinese economic policy began in 1978, focused on

[22]Curiously, the Chinese themselves did not share this view: in a similar survey conducted in 2009, only 41 per cent of respondents in China nominated their own country as 'the world's leading economic power' (Hanson 2010:10).

the very ‘pragmatic’ goals of ‘improving living standards and catching up with developed countries’ (DFAT 1997: 20). This would not be economic ‘shock therapy’ of the kind imposed on post-Soviet Russia and Central Europe by the IMF, with wholesale privatisation and marketisation (Harvey 2005: 122). Instead, China’s entry to the globalising economy was home-grown and cautious: the initial 1979 law on foreign investment was restricted to joint ventures, and then only in four special economic zones. Following Premier Deng Xioaping’s revelatory tour of southern China in 1992, investment liberalisation leapt forward, as did foreign investment flows (DFAT 1997: 198). Economic liberalisation also had political undertones: Harvey (2005: 125) describes it as an attempt by the Communist party to sanction the consumerist aspects of Western democracies while keeping the democratic aspects strictly circumscribed. However, once unleashed, the wealth creation dynamic of the market can be difficult to control. By 2004, some observers calculated that the urban/rural income differential was greater in China than in any other country (Harvey 2005: 127).

China is Australia’s largest trading partner, with the total flow of goods and services between the two countries worth almost double that of the next most valuable bilateral trade relationship (with Japan) (DFAT 2013a: 25). Australia exports (mostly) primary products to China, and China sends in return (mostly) consumer goods. In the first half of the 1990s, Australian merchandise exports to China more than doubled, and services exports also recorded strong growth; on the other side of the ledger, Australia’s imports from China *tripled* over the same period (DFAT 1997: 154). Nevertheless, the relationship currently works strongly in Australia’s favour. In 2012–13, China was Australia’s largest export market, with goods and services exports worth A$85 billion; iron ore accounted for a massive A$42 billion of this export income. China was also Australia’s largest source of imports, worth A$46 billion, amounting to a trade surplus for Australia of A$39 billion (DFAT 2013a: 5, 39). Over the five years to 2012–13, trend growth in Australia’s exports to China stood at 24 per cent, while trend growth in imports from China was 7 per cent (DFAT 2013a: 64, 69). China’s demand for raw materials has provided several years of extraordinary buoyancy for the Australian economy, even during recession in the rest of the world (Morling & McDonald 2011).

In 1997, the total stock of Australian investment in China was almost A$1 billion. Over the next 15 years, this rose to nearly A$20 billion. In 2012, total Chinese investment in

Australia was worth A$23 billion (up from A$2 billion 15 years earlier)— a figure dwarfed by investment in Australia from the UK, US and Japan. But the level of bilateral investment is increasing rapidly, with growth rates of 30 per cent over the last five years in both directions (DFAT 1997: 185–6; DFAT 2013b: 15–16)[23].

There is clearly money to be made in China—but not without difficulty. The formal and informal restrictions and complications experienced by foreign investors in China are well known (see DFAT 1997: 200–4; Harvey 2005: 134). The degree of difficulty, and the high stakes in play, can be glimpsed in diplomatic cables revealed by the Wikileaks organisation. In 2009, reporting cables from the US Consulate in Melbourne gave an insight into the high-level strategy involved in big business in China. Marius Kloppers, the CEO of BHP Billiton, met with the US Consul-General to discuss his suspicions that industrial espionage was being conducted by the Chinese government (as well as by rival company Rio Tinto and Australian authorities). Mr Kloppers asked the American diplomat 'several times about his insights into Chinese intentions, offering to trade confidences' into the bargain (Dorling 2011).

The soaring value and volume of Australian minerals exports to China mask the harsher underlying problem: that China is a highly successful, highly adaptable competitor for Australian industry. This factor was one of the 'large, long term forces' changing the structure of the Australian economy, according to the then Secretary of the Australian Treasury, Ken Henry (Henry 2009: 3). The threat posed by China to the Australian manufacturing industry will be examined in Chapter Three.

2.6 Legacies of the Hawke/Keating reforms

Mainstream economists and institutions have been fulsome in their praise for the Hawke/Keating reforms, concluding that the 'surge' in productivity and output growth in Australia in the 1990s was principally the result of the economic reforms conducted in the previous decade (Banks 2001: 4). In the fifteen-year period 1991–2006, per capita GDP in Australia grew faster than the OECD average, bringing Australians to a point where, in the words of the Treasury Secretary, they were 'enjoying unprecedented prosperity' and had it almost as good as citizens of the US (cited in Kelly 2008).

[23] Investment includes direct, portfolio and equity investment.

According to the Productivity Commission (2008: 6.5), the microeconomic reform project launched by Hawke 'generated or facilitated significant changes in the Australian economy', such as structural change based on market signals (which are now unmuffled by government interference in the market), increased R&D spending by business, strong growth in exports (but also in imports) and much higher productivity and incomes, thanks to booming labour productivity in the 1990s. In the wake of the 2008 global financial crisis, the Treasury Secretary declared that,

> the Australian economy has just demonstrated to the rest of the world that, for some time now, it has quite possibly been the best governed, most flexible, most resilient of all industrialised economies (Henry 2009: 28).

Outside the closed circle of the state, the view was different. Maddox (1989: 184) highlights the change in economic policy discourse over the course of the Hawke government:

> We work within a *mixed* economy, with a heavy admixture of socialistic features bequeathed to us by earlier socialists and liberals sympathetic to social democracy, yet it suits the climate of neo-conservative politics to contain discussion within a capitalistic framework.

The state's embrace of economic rationalism had powerful effects at several levels: reducing the real value of wages and redistributing national income to an already privileged elite; reducing the size and capacity of the state; and reducing society to a collection of 'individual producers and consumers' (Pusey 1992: 239–41). Quiggin (2006: 18, 24) challenges the 'narrative … about the idea of a "new" or "miracle" economy in Australia', stating that the productivity surge of the 1990s (based on the ABS multifactor productivity series) was 'a statistical illusion'. Nevertheless, Quiggin concedes that the mainstream analysis has enormous rhetorical appeal:

> According to the 'New Economy' story the program of microeconomic reform that began with the floating of the Australian dollar in 1983 has, after some initial disruption, produced a new, more flexible and more productive Australian economy. Thus, the pain of structural adjustment has been more than offset by the gains from sustained high growth (Quiggin 2006: 21–2).

In Quiggin's view (2006: 22–3), macroeconomic conditions are just as plausible as microeconomic reform as an explanation for Australia's productivity growth—but this lacks the 'rhetorical appeal' of a tale about 'hard work and sacrifice' in the Hawke era. In a similar vein, a recent analysis of monetary policy undermines the dominant cause-effect narrative, this time on the question of 'responsible economic management'. Weber (2005) explains that, once the Australian dollar was floated, no one—not even the monetary authorities in the Reserve Bank—could control real interest rates any longer. While there had long been a connection between Australian and US interest rates, in the wake of the Hawke government's exchange rate reform and financial deregulation, international economic conditions became far more influential in the movement of Australian interest rates (Weber 2005: 124, 127). Despite this, governments continue to claim (or imply) that interest rates are an indicator of their economic management skills.

While wealth was certainly created on the back of the Hawke/Keating reforms, the outcomes for equity have been dispiritingly poor. The neoliberalisation of economies is almost guaranteed to effect wealth redistribution and create social inequality, an observation borne out by years of data from the US, UK and most of the OECD (Harvey 2005: 16–19). In Australia, economic inequality has increased substantially over the course of the last generation, and with it poverty, poor health and social disengagement. (Leigh 2013). Neoliberal policies 'directly intensify economic inequality', but this fact, and its implications, have been 'downplayed' in political and public debates in Australia, where the emphasis is typically on 'equality of opportunity' rather than equality of outcomes (Stilwell & Jordan 2007: 2–3). Writing about trade liberalisation, Pritchard (2000) points out that the net national income effects are divorced from the distributional aspects of the economic gains. The insistence of many economists on remaining a step removed from distributional concerns helps to create 'policy silences on questions of equality, community and quality of life' (Pritchard 2009: 97). Yet economic inequality matters enormously, because it 'sets the character of society as a whole' (Stilwell & Jordan 2007: 16).

Australia's performance in the era of globalisation mirrors that of the United States. In the US, the share of GDP allocated to wages in 2006 was lower than in any year since 1947; and in the decade 2000–10 (which includes the global financial crisis), the net

worth of Americans fell by 13 percent, in stark contrast to an increase of 142 percent in the period 1950–2000 (Baradat 2012: 95). Although the project of economic liberalisation might have created wealth through productivity and efficiency gains, it has failed to share those gains through wages. In the US, hourly labour productivity in the non-farm business sector grew by around 85 per cent in the period 1980–2011; over the same period, real hourly wages grew by only 35 per cent. Surveying 36 developed economies over the period 1999–2013, the ILO estimated that average labour productivity had grown 'more than twice as much as average wages' (ILO 2013: 45–6).

The deregulation of much of Australia's financial system also enabled the corporate pillaging and pilfering that marked the post-1983 Australian economy. As journalist Paul Barry (1991) documents in his analysis of the rise and fall of Alan Bond's business empire, the removal of controls on the banking system ushered in a heady era of profligate lending by bankers:

> Not only had deregulation scrapped most of the controls that held irresponsible lending in check, but it had doubled the number of banks in the market so that after 1984, three dozen banks were fighting for business adequate to feed only half that number. In such a cut-throat climate, two things had happened: the banks had been forced to become less fussy about whom they lent to, and the style of their lending had been dictated by the most rapacious among them (Barry 1991: 356).

In the case of the ostentatious Alan Bond, the incautious lending of a host of financial institutions underwrote a dangerously unstable business, which collapsed, taking with it billions of dollars of other people's money. As late as 1987, and with Bond Corporation already mired in debt and embroiled in questionable business practices, Prime Minister Hawke was still publicly backing Alan Bond, a man he described as one of the 'great entrepreneurs and risk-takers of our country' (Barry 1991: 401–2). For Pritchard (2001: 42), 'neo-liberalism provides the stage' for notorious corporate criminals such as Bond, Christopher Skase and Robert Maxwell.

The experience of unfettered capital accumulation in the US was similarly dire. Baradat (2012: 92) is scathing in his assessment of the behaviour of the corporate world in a deregulated environment:

> Born of greedy, selfish, irresponsible, unethical, and illegal behavior by many in the business world, and also by the willful ignorance and pecuniary avarice of much of the general public, American capitalism is caught up in a series of recurring spasms threatening the vitality and even the continued viability of the system.

The 'spasms' to which Baradat refers include stunning incompetencies and brazen crimes: the insider trading of the 1980s; the Savings and Loan deregulation and subsequent scandals of the 1980s and 1990s; the collapse of mega-corporations such as Enron and WorldCom; and the loan-fuelled collapse of the housing market and the near-collapse of large banks and financial institutions in 2008, creating the global financial crisis (Baradat 2012: 92–3).

Viewed against this backdrop, the government-led blitz in the 1990s that encouraged Australians to seize the opportunities offered by globalisation was insulting. Precious little space for equity and social justice was created in the new economic landscape, which is dominated by global competition, individual endeavour and limited government. As Conley (2004: 195) observes, 'redistribution can only be a marginal phenomenon in an economic liberal, globalised political economy'.

Neoliberalism quickly became the default setting for economic policy; its adoption by a Labor government, as part of a sweeping process of policy 'modernisation', rendered almost meaningless the traditional political distinctions in Australia between right and left (Beilharz 1994: 19, 50–1). By the end of Hawke's prime ministership in 1991, two things were clear: first, the new orthodoxy of neoliberalism had become firmly established within government and the bureaucracy, and largely bipartisan; and second, industrial relations and national wage-fixing would be the next political battleground, with the Coalition hell-bent on wage deregulation (Capling & Galligan 1992: 257–9). Labor's old socialist-inspired goal of creating a community-oriented society seemed utterly unrealistic (Maddox 1989: 181). Or, as Conley (2004: 4) put it wryly,

> Labor had succeeded where governments in other countries had failed: it had managed the transition to increased economic and social polarisation more fairly.

By the time Labor made its way back into office under Kevin Rudd in 2007, neoliberalism had, in a sense, ceased to exist in tangible form. It had become absorbed

so deeply into the fabric of state and society that it was no longer a philosophy or an approach—it was just ‘the ways things are’. In a brochure advertising a training course in economics for public servants*,* the prestigious Australia and New Zealand School of Government stated simply that, ‘Economics is the science of decision-making’ (ANZSOG 2009).

2.7 The Howard approach to globalisation

As prime minister (1996–2007), John Howard’s rhetorical explorations of globalisation were simple (and sometimes simplistic): globalisation was a natural phenomenon (‘an extension of the tendency throughout human history towards increasing specialisation and trade’); the economic reforms it generated would improve lives (‘the goal …is human contentment and human achievement and human happiness’); and it would be the saviour of the world’s poorest countries (‘their ‘ticket to prosperity’) (Howard 2000).

Howard (2000) also stressed that ‘the greatest challenge’ for governments was ‘to communicate the benefits of globalisation to their citizens’. For the Coalition government, the task of persuading and coercing Australians into a neoliberal vision of globalisation was quite different than it had been for Labor, for three reasons: first, much of the hard work had already been done, leaving the Howard government with the task of ‘consolidat[ing]’ neoliberalism; second, the electorate had changed, with many now hostile to globalisation (and a grab bag of associated external threats); and third, the economic gains of the Hawke/Keating reforms had combined with the mining boom to create scope for quite lavish public spending (Conley 2004: 187; Manne 2006: 22; Kelly 2008). There was, therefore, considerable irony in the fact that, during the 1996 election campaign, Howard promised a reassuring vision of a ‘comfortable and relaxed’ Australia, while simultaneously lauding the importance of financial deregulation and labour market reform; indeed, Howard indignantly claimed authorship of these ‘two greatest ideas that have affected the Australian economy’ (in ‘An average Australian bloke’ 1996).

Certainly, John Howard was keen to portray himself as having been the only true neoliberal in the Fraser Cabinet, thwarted by the policy timidity of others. Malcolm

Fraser himself tells a different story, and Kelly (1992: 79) concludes that, as Australian Treasurer (1977–83), Howard 'lacked reforming drive and clout'. In his political ideology in the 1980s, Howard espoused strong support for free market economics, social conservatism, and a foreign policy built around the Australia-US alliance (Kelly 1992: 228–9). However, in transforming this free market ideology into an attractive political program, Howard led the Coalition down a difficult and winding path during his term as Opposition Leader (1985–89). The neoliberals within the Liberal party struggled to win the economic arguments against opposition from their moderate colleagues, and failed comprehensively to sell their message—one of hard-edged reform—to the public (Kelly 1992: 237–51).

Restored to the Liberal leadership, and after 13 years of Labor government, Howard won the prime ministership in 1996. And he seemed to have learned valuable lessons in political pragmatism over the previous few years. In his first term in office, Howard generally adhered to the policy and rhetorical trajectories established by the Hawke and Keating governments in relation to economic policy (Conley 2004: 189; 2009: 209–10; Kelly 2008). As Kelly (2008) describes it, Howard had a 'sense of mission' throughout his prime ministership, which was 'to complete the economic transformation' begun by Hawke and Keating. Kelly (2008) refutes the description of Howard as a 'neoliberal', due to Howard's regular departures from the standard neoliberal script: his social conservatism; and his profligate spending on voter-friendly measures, especially preceding elections. However, as Harvey (2005: 70–8) pointed out, the contradictions between neoliberal theory and the actions of neoliberal states are bountiful, and the ideologically dubious (but personally or politically advantageous) decisions taken by governments do not render their natures any less neoliberal. This dualism accords with Kelly's (2008) description of Howard as 'a mixture of pragmatist and believer'.

The Howard government was very adept at one important aspect of neoliberal rhetoric: lowering expectations. Howard advocated publicly for small government, arguing that, in a globalised economy, there were limits to what any government could achieve (cited in Conley 2004: 191). This was an extension of traditional liberal views on the role of the state and the fundamental importance of individual freedoms, in which the Howard government added globalisation to the list of factors that made 'self reliance' an essential attribute of good citizens. Perhaps the ultimate legacy of the Hawke/Keating

era was an enduring shift in the balance of ideas and values in the Australian political economy:

> The marginalisation of notions of economic and social protection, the celebration of continual economic adjustment, and the reinforcement of these ideas through policy changes, have encouraged and coerced citizens to think of themselves as economic actors, succeeding and failing on market terms (Conley 2004: 193).

The Howard government made no dent in the steadily increasing rates of income and wealth inequality in Australia. Since the mid-1990s, the top 10 per cent of wage earners have been increasing their incomes at a vastly greater rate than the bottom 10 per cent; and among the leading 100 CEOs in Australia, average annual earnings jumped from A$1 million to A$3 million in the period 1993–2009 (Leigh 2013). A variety of data show that, by 2000–01, the wealthiest 10 per cent of households owned around 45 per cent of privately-owned wealth (Kelly 2008). Although Kelly (2008) highlights the extent to which the Howard government redistributed taxation (through 'a strongly progressive transfer system'), this should not distract from the structural inequality created by neoliberalism.

One policy area in which the Howard government outstripped Labor's appetite for reform was industrial relations. While we may disagree with Hirst and Thompson's (1996) approach to globalisation (see Chapter One), their views on labour relations in a globalising economy were prescient. One of the factors that led Hirst and Thompson to dismiss globalisation as a myth was the dearth of evidence (at that time) of 'mobile capital' relocating to places offering 'the best deal in terms of labour costs and supply'; if globalisation were real, they wrote, we would see '(f)urther decline in the political influence and economic bargaining power of organized labour' (Hirst & Thompson 1996: 12). Today, it is de rigeur for national governments to conspire in driving down wages and conditions in order to achieve a competitive national advantage in a globalising economy. While labour markets around the world are still far from liberalised and there is no single global market for labour, the aggressive industrial relations program enacted by the Howard government was drawn up precisely in order to compete globally and attract capital to, or retain capital in, Australia.

The Howard government's WorkChoices legislation (the *Workplace Relations*

Amendment Act 2005) was designed to achieve both ideological and practical ends: to cripple the union movement, and to strip enterprise bargaining power from unions, in order to reduce the business costs of hiring, employing and dismissing workers (Kelly 2008). While the ALP has since fought a rearguard action to preserve a (reduced) enterprise bargaining role for unions, the Howard government's policy was a continuation of Hawke-era reforms, designed to increase Australia's global 'competitiveness'. The logical end-point to this drive for competitiveness, in Australia and elsewhere, is lower wages and poorer working conditions:

> Growing inequality in the advanced industrial countries was a long predicted but seldom advertised consequence [of globalization]: full economic integration implies the equalisation of unskilled wages throughout the world. Although this has not (yet) happened, the downward pressure on those at the bottom is evident. Unfettered globalisation actually has the potential to make many people in advanced industrial countries worse off, even if economic growth increases (Stiglitz 2006).

2.7.1 Trade and investment: putting the politics back into economic policy

In trade and investment policy, the Howard government was compelled by a mix of impulses: strong neoliberal orthodoxy coloured by populism and romantic visions of Australia's future. Perhaps the preeminent example is the government's initiation, and completion, of a preferential trade agreement with the US (officially, a 'free trade agreement'). Since the mid-1950s, Australian officials and trade ministers had worked tirelessly to achieve multilateral trade liberalisation through the GATT and the WTO (Capling 2001:1–2, 63–5; 2005: 20). The launch of bilateral Australia-US trade negotiations was part of a shift by the Howard government away from the WTO and towards bilateral preferential deals (Capling 2005: 42). The strategy of shifting to trade bilateralism may have been based on a degree of pragmatism, representing an attempt to create economic opportunities while WTO member states grappled with the launch of a new negotiating round. However, Howard's new strategy also played well to a variety of domestic constituencies, including those who were 'spooked by many aspects of globalisation' such as Australia's participation in the WTO (Capling 2005: 42).

In the months leading up to the start of the Australia–US negotiations, trade officials in Australia were, variously, puzzled, bemused and alarmed at the prospect[24]. These reactions tallied with public statements by former senior Australian trade officials, such as Professor Stuart Harris (in Capling 2005: 51), who laid bare both the political imperatives and the dismal chances of success:

> Do we really think a president from a beef producing state, whose brother is governor of a sugar producing state, and who depended on farming states for his election is likely to change fifty years of United States willingness to give heavy protection to its farmers?

The negotiating process also diverted valuable resources away from the WTO's new Doha Round, prompting some observers to note that Australia had gone 'missing in action' (Capling 2005: 80–1). The final outcome—the Australia–US Free Trade Agreement—excluded vital aspects of Australia's agricultural trade, while including sensitive social and cultural policies such as Australia's Pharmaceutical Benefits Scheme and local content rules for television. Given the asymmetries in the political and economic relationship between Australia and the US, the result could not have been otherwise, suggesting an astonishing level of naievity on the part of the Howard government (Weiss, Thurbon & Mathews 2004). The trade agreement was signed by Howard in 2004, against the advice of his Trade Minister and officials (Capling 2005: 56–7). The most credible economic modelling suggested the deal would deliver a 'tiny' economic gain for Australia, and high-profile economists decried the intellectual property provisions in the agreement as 'economically indefensible' (Capling 2005: 58; Garnaut & Vines 2007: 516). Sectors excluded from the deal were compensated by the Australian government in other ways, such as the A$444 million adjustment package for the Australian sugar industry (Capling 2005: 67).

Populism was prominent in other economic decisions by the Howard government that defied neoliberal orthodoxy. In tariff policy, the government studiously ignored the results of Productivity Commission inquiries—which the government had commissioned—into automotive vehicle manufacturing and textiles, clothing and footwear manufacturing. In both instances, the Productivity Commission recommended

[24] Personal reflection. The author worked in the Department of Foreign Affairs and Trade for several years, and was seconded to the Federal Parliamentary Labor Party as a trade policy adviser in 2002.

the continuation of tariff reductions, pushing on with the painful work of Hawke and Keating; in both instances (and at odds with his Treasurer), Prime Minister Howard rejected the recommendations, instead announcing tariff freezes (Capling 2001: 180–1). As Capling (2001: 179–180) noted, the Howard government was very happy to extol the virtues of trade liberalisation in general terms, but 'failed the credibility test' when it came to pivotal decisions on sensitive industries.

Investment policy provides further illuminating examples of the difficult politics of globalisation. In an era of global competition for capital, Australian governments are always hungry for foreign investment—the government's Invest Australia service exists for this sole purpose. By 2007, Invest Australia had 14 overseas offices, concentrated in Asia but spreading as far as Europe and the United States (DITR 2007: 6). However, a government's ardour for foreign investment may cool when a specific proposal creates political discomfort. In 2001, Treasurer Peter Costello intervened spectacularly in the Australian resources sector, rejecting a A$10 billion takeover offer from the Dutch-owned resources giant Shell for Australian company Woodside Petroleum. The takeover bid had been subject to approval by Australia's Foreign Investment Review Board, the body that administered the *Foreign Acquisitions and Takeovers Act 1975*. When the board could not reach a decision, it referred the matter to the Treasurer, enabling the government to reject the proposal on 'national interest grounds' (Costello 2001a).

In rejecting Shell's offer, Treasurer Costello stated that he was concerned about the capacity of a foreign owner to maximise Australian returns on the North West Shelf gas project, which Woodside operated. He noted that Shell ran competing gas projects in other parts of the world, and implied that only an Australian owner could act in Australia's economic interests (Costello 2001a, 2001b). Thus, the Treasurer made it clear that the ownership of a major Australian company was of critical importance to the Australian government: 'I want to boost Australia's export income and that is in our national interest' (Costello 2001b). Also clear were the political considerations in play: several Western Australian Liberal politicians had conducted frantic lobbying of their own Treasurer, fearful for their seats in a political climate hostile to foreign ownership of Woodside. They declared themselves 'absolutely delighted' with Costello's decision

(‘Government rejects Shell bid for Woodside Petroleum’ 2001)[25]. However, as one informed commentator noted, the decision was ‘an important exception’ to the rule that the purchase of corporate assets in Australia is generally unfettered (Pritchard 2001: 26).

Such actions are not unique to Australia. When Chinese oil company CNOOC made a takeover bid for Unocal in the United States, it ignited a ‘fierce political storm’. The US Congress responded to China’s bid by amending legislation, in effect complicating the existing foreign investment review process for the Chinese. In announcing its decision to abandon its acquisition plans, CNOOC cited ‘unprecedented political opposition’ as the sticking point. The head of a Washington-based economic think-tank admonished the Congress for ‘a violation of all the sanctimonious preaching [about free trade] that both Republicans and Democrats have engaged in over the years’ (Walker 2005: 1, 12).

2.8 Conclusion

Understanding the relationship between globalisation, neoliberalism and the state is essential to comprehending the economic changes experienced in Australia since the mid-1980s. Neoliberalism is the policy orthodoxy of globalisation: it has been essential in creating the economic structures that support and extend globalisation. Clearly, the state has survived the globalisation era intact. Far from riding roughshod over national policies, globalisation and neoliberalism have provided states with the means to reshape national policies in globalisation’s image. Neoliberalism and globalisation have strengthened and consolidated one another, via the decisions and actions of state actors, and especially national governments.

Accordingly, since the mid-1980s, successive Australian governments have stripped away barriers and regulations which had previously been judged necessary for the management of industries, social outcomes and the national economy as a whole. The promise of neoliberal globalisation was of greater efficiency, capital accumulation and wealth for the nation and its people. The vision of globalisation promoted by Labor and Coalition governments since 1983 has been one of survival of the fittest. In the interests

[25] The Rudd Labor government experienced similar anguish when Chinese resources firm Chinalco made a bid for Rio Tinto. Rudd was spared the pain of rejecting the bid when the Chinese withdrew, under heavy behind-the-scenes pressure from Australia’s BHP Billiton (Dorling 2011: 2).

of the efficient allocation of economic resources, the state has sought to tread lightly on the market, lest it disturb the natural order. The reality is that neoliberal economic policies have created highly variable outcomes in Australia, including in wealth and income.

While neoliberalism has well and truly won the day, policy anomalies—in which the state intervenes unapologetically in the market—remind us of two things: the continuing ability of the state to shape the economy; and the continuing importance of political and electoral imperatives in government decision-making. The case studies in this thesis examine in detail the process of neoliberalisation of two existing industries, and the anomalous development of state support for one hand-picked emerging industry. In the next two chapters, the focus narrows to the impact of globalisation in the Australian manufacturing and agricultural sectors.

CHAPTER THREE: Globalisation and Australian industry: manufacturing

> We can't compete on price without cutting Australian living standards, and we can't close our markets and turn our back on the world without cutting our own throat—*Senator Kim Carr, Minister for Innovation and Industry* (Carr 2009e: 4).

3.1 Overview

In the words of one former Minister for Industry, 'there is a tendency to write manufacturing off—to dismiss it as a thing of the past' (Carr 2009a:1). This widespread tendency is based not on a sense that the Australian economy has somehow evolved beyond the steam-and-pistons of the production line; rather, it stems from the understanding that Australia has chosen a future in which manufactured goods will be delivered by countries with lower wages, cheaper infrastructure and, very often, poorer working conditions and environmental protection. The choice to 'open up' the Australian economy to competition from foreign manufacturers was made by the Hawke Labor government in the mid-1980s, and has been supported by every government since.

Changes in the Australian economy are often presented in a simplistic framework of the 'new' versus the 'old' economy. Within this framework, manufacturing is part of the old economy, generating a commonly-held view that 'manufacturing is dying' (Beer, Maude & Pritchard 2003: 108). Yet this is far from the truth. The manufacturing sector still generates a significant number of jobs in Australia, and a large share of export income. With tariffs and other protective measures largely removed, securing export income has become increasingly important for Australian manufacturers. As the chair of a parliamentary inquiry into manufacturing noted, 'Only a few Australian manufacturers will be able to produce solely for the small-scale domestic market', which means that Australian manufacturers must deploy 'export survival strategies' (HRSCEFPA 2007: iv). In many regions of Australia outside the capital cities, manufacturing is critically important to local economies (Beer, Maude & Pritchard 2003: 108–9). While manufacturing remains an important part of the Australian economy and of Australian communities, the sector has undergone sweeping changes as a result of the globalisation-induced program of economic reform introduced by the Hawke government. This chapter outlines the effects of the state's radical economic program on the manufacturing industry.

3.2 Manufacturing in Australia

In the period 1978–2008, manufacturing output (value added) grew by an annual average of 1.6 per cent, while the Australian economy as a whole recorded annual average growth of 3.3 per cent (Wheatley 2009: 20). Taking this very long view, manufacturing appears as an economic sector outpaced by other, more profitable industries. However, these average figures, viewed over a long timespan, mask significant changes in the fortunes of Australian manufacturing. More detailed figures show that the manufacturing industry generally kept pace with nationwide economic growth, and occasionally ran ahead of it, notably in the late 1980s. However, when the Australian economy dives, manufacturing falls much further, much faster, than the national average (Wheatley 2009: 21).

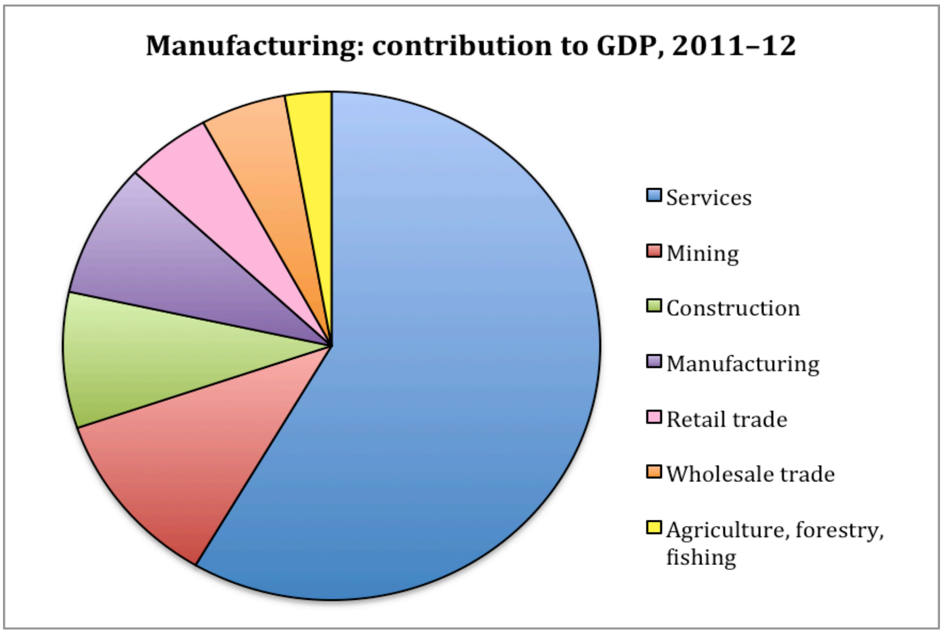

Figure 3.1 Australian manufacturing: sectoral contributions to GDP, 2011–12
Source: Department of Industry (2013).

Changes to the policy settings affecting Australian manufacturing have been accompanied by a shift in jobs throughout the economy. Over the decade 2002–12, 1.7 million jobs were created in Australia's services industries, and smaller (but significant) employment growth occurred in construction, mining and retail trade. In the manufacturing sector, however, there was a net loss of 117,500 jobs over the period (Department of Industry 2013). In the five years to 2011–12, employment in the mining industry jumped to 260,000—an increase of 120 per cent—while manufacturing

employment slid under the 'magic million' mark, to 972,000 (MCA 2012: 4; Department of Industry 2013).

The value of manufacturing jobs requires careful analysis, because wages in manufacturing vary greatly between sectors (ABS 2008b; Wheatley 2009). When the differences are averaged out across the board, manufacturing jobs in Australia are well-paid, at 19 per cent above the average for all Australian industries, although working hours are also higher than average (Wheatley 2009: 6; PC 2003a: 90, 93). Manufacturing workers also stick with their employers for longer than the average Australian employee (Wheatley 2009: 29; PC 2003a: 98). However, there is great variation in rates of pay. The lowest hourly wages are found in the most highly feminised areas of manufacturing: textiles, clothing, footwear and leather manufacturing (Wheatley 2009: 6, 10)[26]. Although only a small number of industry sectors can be classified as 'low-paid'—among them, furniture, food and wood product manufacturing —these low-paid sectors account for 45 per cent of manufacturing jobs (Wheatley 2009: 26). The manufacturing workforce also remains resolutely blue-collar. In 2008, 27 per cent of all manufacturing industry employees were qualified tradespeople (in the 'high-skilled' category) and a further 43 per cent were 'low-skilled' (Wheatley 2009: 28).

Today, manufacturing businesses tend to be large (employing 200+ people), and there are far fewer small businesses in the manufacturing industry than in the Australian economy overall (Wheatley 2009: 15). The size of individual manufacturing enterprises has implications—positive and negative—for the communities in which they are located. While large factories might create a large number of jobs, the price of enterprise failure is also commensurately large. The spread of wages, employment and profitability varies markedly between industry sectors. For example, the food products sector accounts for 20 per cent of employment and 9 per cent of profit in manufacturing, while the pulp and paper sector employs only 2 per cent of industrial workers and generates just 1 per cent of total profit (see Table 3.1).

[26] The Australian manufacturing workforce is overwhelmingly male, but the low-paid jobs in manufacturing tend to be held by women (Wheatley 2009: 6).

Table 3.1: Selected subdivisions of Australian manufacturing: 2006–07

	Share of total manufacturing industry (%)			
Manufacturing subdivision	**Income (sales & service)**	**Wages & salaries**	**Employment**	**Profit***
Food products	17	17	20	9
Petroleum and coal products	10	1	1	4
Textile, leather, clothing and footwear	2	4	5	2
Pulp and paper	3	3	2	1
Transport equipment manufacturing#	9	12	10	3

*Operating profit before tax (OPBT).
#Including automotive vehicle manufacturing.

Source: ABS (2008b).

Manufacturing is an overwhelmingly urban industry, but its economic significance varies from location to location. In 2007, 62 per cent of all manufacturing jobs in Australia were located in the metropolitan areas of Melbourne, Sydney and Brisbane (Wheatley 2009: 25). Although most manufacturing production (measured as value added) is centred in the three most populous Australian states—New South Wales, Victoria, Queensland together account for 77 per cent—the *relative* importance of manufacturing enterprises is far higher in two other, much smaller jurisdictions: Tasmania and South Australia (Wheatley 2009: 16–17). Tasmanian manufacturing comprises just 2.4 per cent of Australia's total manufacturing output, but it accounts for 15.2 per cent of all economic activity in Tasmania. In South Australia, manufacturing accounts for 8.1 per cent of national manufacturing output, but 15.1 per cent of economic activity in the state (Wheatley 2009: 16–17). Even the Productivity Commission (2003a: 46) concedes that structural economic changes can have negative employment effects in places such as Wollongong and Newcastle in NSW, and the North East region of England. This evidence runs counter to the neoliberal mantra on deindustrialisation, that,

> structural change can also be seen as a desirable trait, since the benefits of trade liberalisation and other microeconomic reforms are often realised by resources being shifted to more efficient activities (PC 2003a: 57).

3.3 The change in Australian manufacturing

How have the fortunes of Australian manufacturing changed so dramatically over the last 30 years? The explanations vary. The Productivity Commission nominates two major causes: first, the trend for well-off consumers to spend their disposable income on services, rather than goods; and second, the trend for manufacturing enterprises to outsource ancillary services (such as accounting and cleaning), removing a chunk of economic activity from their ledger books (PC 2003a: 32–48; Banks 2008: 10). Wheatley (2009: 21) dismisses the view that international trade liberalisation has given developing economies a competitive edge over Australian manufacturers, describing the trade impact as ‘modest’.

Yet the removal of protective tariffs from Australian manufacturing industries was a deeply significant act, because of the immediate and long-term effects on manufacturing enterprises—and also because tariff reductions presaged a much broader economic shift (at macro and micro levels) to neoliberalism in business and politics[27]. The shift away from tariffs was also an historic moment for the Australian state. Protectionism had ‘underpinned the creation of a manufacturing sector of greater size and importance than would have been possible’ under a free trade regime (Conley 2007: 96). Bipartisan political support for protectionism lasted for many years, allowing manufacturing to flourish in Australia (Conley 2007: 96). In 1970–71, the effective rate of assistance to the Australian manufacturing sector stood at around 35 per cent—this rate was halved by the end of the 1980s (PC 2009: 20).

Capling and Galligan (1992: 3) chart the move from a ‘protective’ to a ‘corrective’ state in the Australian political economy, beginning in the early 1980s[28]. In the manufacturing sector, this transformative change took the form of ‘winding down’ tariffs on manufactured imports, ‘in order to expose Australian manufacturing to international market competition’, coupled with the application of industry plans to assist struggling industry sectors (Capling & Galligan 1992: 3–4). While economists, senior bureaucrats and politicians were most heavily implicated in the ideological shift,

[27] Tariffs—albeit at a low rate—still apply to many manufactured goods entering Australia. In 2011–12, a tariff of five per cent applied to more than half of all manufactured imported goods, generating A$5.6 billion in net tariff assistance (PC 2013: 35–6).

[28] Lucarelli (2003: 77) notes that Australian manufacturing began its decline in the mid-1970s, but that this was ‘accentuated’ by the Hawke and Keating governments.

Capling and Galligan (1992: 8, 9) conclude that the change was possible ‘only because of a quiet revolution in trade union thinking’: by the early 1990s, some Australian trade unions had become ‘major advocates of industry restructuring, public sector reform and improved management and work practices’.

Importantly, and in keeping with the explicitly statist approach they take to their subject, Capling and Galligan (1992: 4) emphasise the critical and central role of the state in effecting change in Australian manufacturing. They cast the state as the primary determinant of national policy, which was ‘influenced but not set’ by external economic forces and ‘the interplay of social groups or classes’. This point—the impact of public pressure group influence on the state and policy making—is explored at length by Capling and Galligan (1992: 32–6), who give an incisive account of the weaknesses in pluralist approaches to Australian politics. They are similarly thorough in picking out the inconsistencies in corporatist treatments of the subject, settling on a more nuanced version to explain the policymaking of the Hawke and Keating Labor governments: ‘sectoral corporatism’, in which the preparation and execution of industry plans for sectors like automotive manufacturing and textiles, clothing and footwear were ‘quasi-corporatist … with a strong statist element’ (Capling & Galligan 1992: 54). Thus, the state is revealed as the instigator and driver of the neoliberalist project that cut tariffs, exposed Australian industry to international competition and sought to ameliorate the negative effects in the most highly exposed manufacturing sectors.

In the very early 1990s, with neoliberal policymaking surging but not yet at its peak in Australia, the model of sectoral corporatism used by Capling and Galligan was well-chosen. In examining the 20-year period following the publication of their work, this thesis will demonstrate that the increasingly congruent interests and ideologies of state and industry mean that actions attributed to ‘the state’ must also—as always—be closely examined for the influence of private capital. While this thesis takes a statist approach to its consideration of globalisation and local impacts, the evidence presented in the case study chapters suggests two things: first, that the rise of neoliberalism has engendered a kind of ‘group think’ common to both the state and industry (although sectors of the economy and community continue to resist pure rationality in economic policy); and second, that, in spite of this shared macro-level commitment to neoliberalism, the overlapping political and personal interests of leaders from business

and government are still capable of subverting rational economic policy, via policies of protectionism.

3.3.1 Winding back tariffs

The change from protectionism to free market neoliberalism was far from smooth. The Hawke and Keating governments were operating in a field of competing and conflicting aims and interests. The Hawke government had committed itself to the transformation of the Australian economy—and of the lives and livelihoods of millions of Australians—through the removal of many of the traditional elements of state support and protection. This was not, however, unadulerated neoliberalism. Complicating the picture were a tangle of political impulses and social and electoral considerations, which saw the Labor governments create a range of innovation- and export-oriented services for industry, along with restructuring packages for the most vulnerable industry sectors.

For several years following its election in 1983, the Hawke government took a cautious and piecemeal approach to cutting tariff rates. But in 1988, the government announced across-the-board reductions on all tariffs over 10 per cent, cutting them back to either 15 per cent or 10 per cent over a period of four years (although this did not apply to the automotive and textiles, clothing and footwear (TCF) sectors, which remained protected by high tariff walls while they were subjected to restructuring). This was the first across-the-board tariff reduction since the Whitlam Labor government's 25 per cent cut in 1973 (Capling & Galligan 1992: 150–1, 108–9). For the Hawke government, the tariff cuts were the key to engineering great structural changes to the Australian economy. Looking back in 2013, former Labor Treasurer and Prime Minister Paul Keating was strident in defending the neoliberal policy shift, and unrepentant about the human cost in the manufacturing industry:

> **Interviewer**: Looking now at the state of manufacturing today, the rustbelts around the major cities, industries like cars and steel and ship-building still in trouble, so many skills lost, jobs exported to Asia—are you still sure it was the right thing to do, the way you did it?
> **Keating**: Oh, absolutely. I mean, it advanced us donkey's years.
> …
> **Interviewer**: But many of those working people were now staring at lost jobs. Many of those working people in factories in various jobs—skilled, semi-skilled, unskilled—gone.

> **Keating**: Yeah, gone. You know what they found? A better job a week later, in a growing economy with employment growth. We got them off the factory floor. The aim was not to leave them doing repetitive jobs on the factory floor, but to get 'em off the factory floor doing better, professional jobs out in the big service economy of Australia. I mean, all these people got picked up (*Keating* 2013).

For his part, the then Industry Minister John Button was convinced that Australia could emulate Sweden in its embrace of low-tariff policies and high-tech industries. A visit to Sweden in 1984 helped Button 'to understand better where industry was going internationally—up-market, higher value-added, higher technology' (in Leigh 2002: 498). While Lucarelli (2003: 96) supports Button's goal of 'industrial upgrading and technological reconversion', he rues the fact that the Hawke and Keating governments never created the 'coherent structural policy' required to attain it.

The government's reforms seemed to lift the performance of some manufacturing enterprises, but improvements were slow to materialise. By the end of the 1980s, the Australian manufacturing industry was showing some signs of greater output and efficiency, but positive results were patchy and many sectors had failed to follow the government's cues (Capling & Galligan 1992: 155). In a final push, the Hawke government announced in 1991 that the general tariff rate would be cut to 5 per cent by 1996 (although no further change would occur in the automotive and TCF sectors). The cuts would be accompanied by a familiar arrray of assistance programs, including the retention of the new R&D tax concession and more funding for apprenticeships (Capling & Galligan 1992: 157–9).

The removal and reduction of barriers to importing manufactured goods into Australia had a transformative effect on Australian manufacturing. The effects were highly concentrated in particular regions, cities and suburbs. At a macro level, Australia lost much of its manufacturing industry. On the ground, factories closed, people became unemployed, and families and communities suffered. Some of the most concentrated negative effects accrued in the TCF sector. Wheatley (2009: 12) describes the decline of TCF manufacturing as '[t]he most significant change in the composition of the Manufacturing [sic] industry over the past 20 years'. In the ten years to 2007–08, the value of TCF production in Australia fell from A$7.8 billion to just A$2.8 billion—or from 10 per cent of all manufacturing value added to 2.7 per cent (Wheatley 2009: 12).

The plunge in TCF production was the direct result of two related factors (both products of globalisation): the reduction in tariffs on TCF products; and increased productivity in factories in developing economies, built on wage rates far below Australia's (Wheatley 2009: 12).

The human effects of the decline of TCF production were stark: almost half of all jobs in the sector disappeared in the period 1990–2009, at a loss of around 55,000 positions (Wheatley 2009: 31). These jobs were overwhelmingly held by older Australians with lower skill levels, often migrants from non-English speaking countries, a demographic combination that 'reduce[d] their chances of gaining another job' (Wheatley 2009: 31).

The impact of the Hawke/Keating reform program on the Australian political economy cannot be overstated. By the time Labor was turned out of office in 1996, protectionism had become a four-letter word (even if forms of industry protection still existed), and the political establishment was wedded to neoliberalism as the guiding doctrine in trade and industry policies. The parliamentary committee that investigated the future of Australian manufacturing in 2006–07 reported, unanimously, that protectionism was dead:

> As a middle-sized, trade-exposed economy, it is not in Australia's interests to prop-up uncompetitive businesses. As far as the committee is concerned, protectionism belongs to a bygone era; protectionism as a policy approach has failed and should not be revived (HoRSCEFPA 2007: xxi).

3.4 The political economy of industry policy

While the neoliberal case for the efficient mobilisation of capital has won the day in Australia, it exists in tandem with political and social considerations that make manufacturing important beyond its profitability. The ongoing changes to, and arguments over, structural adjustment policies reflect the fact that manufacturing *matters*, especially (and even if only symbolically) to the Australian Labor Party. As Prime Minister, Kevin Rudd neatly encapsulated the political imperatives attached to manufacturing when he stated that, 'I never want to be prime minister of a country which doesn't make things anymore' (Rudd 2013). Put another way, in the words of the former Labor Industry Minister: 'You cannot have a balanced economy without manufacturing' (Carr 2009d: 2).

The combination of unapologetic neoliberalism and a certain wistfulness about Australia's manufacturing heritage is not as strong on the Coalition side of politics. In fact, advocates of neoliberalism were often surprised and disappointed by the actions of the Howard government, which 'continually mixed its messages' on trade and industry policy, as it sought to manage political, social and economic pressures (Conley 2009: 209–10). The Howard government's initial forays into industry policy were halting: the government froze the program of tariff cuts for automotive manufactures and TCF, and then developed an emphasis on innovation (its Backing Australia's Ability program), supplemented by a grab-bag of 'handouts to industry', including sugar growers and ethanol manufacturers (Conley 2009: 211; Banks 2008: 3). Treasurer Peter Costello was reported in the press as declaring, 'We don't need an industry policy, as we have got the fundamentals right' (Conley 2009: 211).

Nevertheless, support for free trade at an ideological level was bipartisan, ensuring that the Howard government (eventually) adopted the cause of tariff reductions. In January 2005, tariffs on automotive vehicles, automotive parts and clothing and footwear were reduced, and in May 2005, the 3 per cent *ad valorem* tariff was removed from goods 'for which there was no competing domestic production' (PC 2009: 5)[29]. Net tariff assistance to Australian manufacturing fell from A$4.6 billion in 2000–01 to A$1.04 billion in 2007–08 (PC 2001: 7; PC 2009: 5). Overall, the effective rate of assistance to the manufacturing sector fell from 6 per cent per cent in 1996–97 to 4.5 per cent in 2007–08, or by A$9.4 billion (PC 1998: xi; PC 2009: 15, 19–20).

Conley (2009: 220) contrasts the approach of the Howard government with that of the subsequent Labor government of Kevin Rudd (2007–10): the former 'shunned industry policy' but eased off on tariff reductions, while the latter was 'keen to establish its free trade credentials' and equally keen to promote competitiveness in Australian manufacturing. There is obvious continuity in Labor approaches to manufacturing and trade liberalisation; the Rudd government's policies were entirely in keeping with the Hawke–Keating–Button approach, which we might characterise as 'neoliberalism with Labor characteristics'.

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[29] An *ad valorem* (or general concessional) tariff of 3 per cent had been applied to business input items in this category in 1996; a zero tariff applied to consumer goods in the category (PC 2000a: xviii).

With macro-level economic policy in Australia now largely settled, the focus of policy development has shifted to the complex layer of sectoral or enterprise-level assistance measures. It is in this realm of policy that industries are assisted (in WTO-compliant ways), encouraged to pare back and shape up, or hung out to dry.

3.5 The rise of industry assistance

Weiss (1998) has insisted that, far from being obsolete, the state is an important actor in the industrial competitiveness of national economies. The role of the state in coordinating economic change 'is vital to induce firms to engage in activities where the risk level would be so great as to deter firms acting alone' (Weiss 1998: 6). The rise of neoliberalism in the Australian political economy did not spell the end of industry assistance—but it did change the way industry assistance was conceived, delivered and presented. It also highlighted the disparities, inconsistencies and hypocrisy in the state's treatment of particular industry sectors and particular communities in Australia (as we shall see in the case studies in the final three chapters).

The wildly differing results achieved by industry assistance measures in different locations is well known. Although there are significant political differences between Australia and the United Kingdom (including the role of trade unions in economic restructuring), a reliance on industry policy also pervaded Thatcherite policies. Under the Thatcher government, economically disadvantaged communities were expected to pick themselves up by the bootstraps, using minimal government assistance, relying instead on *the market*. As Hudson and Sadler (1989) explain, the British government's 're-industrialisation' policy of 1979 established a network of local enterprise agencies in regions devastated by steel mill closures. This structure 'epitomize[d] the classic characteristics of the Conservative government's self-help philosophy" (Hudson & Sadler 1989: 111). Enterprise zones were introduced in 1981, seeking to lure investment to depressed regions through tax concessions (Hudson & Sadler 1989: 116–17). For Hudson and Sadler (1989: 118), the results of closures in UK steel towns could be summarised as 'high unemployment, low wages, and new employment conditions'. This was the case even in areas where public funds had been spent on alternative employment creation. Based on his case study of ManufacturingCo in North East England, Pike (2001: 55) argues that there is a role for the state in ameliorating the

effects of capital retreat in particular places, but 'to date the state power and political will necessary … has been largely absent'.

In Australia, industry assistance via traditional (market-distorting) means was attacked and largely dismantled by the Hawke government, but this was accompanied by a rise in taxpayer-funded programs to achieve 'enterprise adjustment' and increased efficiency (PC 2008a: 6.4). Capling and Galligan (1992: 119) describe this as a shift to 'a more selective policy of corrective intervention'. While there was nothing new about sectoral industry plans within developed economies, the Hawke government's introduction of structural adjustment while *simultaneously* reducing tariffs and non-tariff protection was unusually demanding (Capling & Galligan 1992: 132–3). This was a 'carrot-and-stick' approach: in return for their forbearance of cuts to tariffs and the abolition of import quotas, industry sectors could reap benefits from a host of assistance policies, including bounties, R&D grants and export market development programs (Capling & Galligan 1992: 133). As tariff rates have fallen, industry assistance measures delivered through federal government programs and payments have soared. In the five-year period from 2002–03 to 2007–08, budgetary outlays to Australian industry climbed from A$2.4 billion to A$4.7 billion (PC 2009: 15).

3.5.1 Industry assistance in the post-tariff era

> Sometimes assistance is seen as addressing the 'problem' of trade imbalances in particular sectors or product categories. But such imbalances are simply a manifestation of the gains from trade. We need to specialise in what we do well and import what we don't. Industry policy should complement trade policy in supporting this effective use of our scare resources, not resist it—*Gary Banks, Chairman, Productivity Commission* (Banks 2008).

The state-run Productivity Commission (2008a: 2.1), which conducts annual reviews of assistance measures, groups industry assistance into three categories: tariffs on imports; budgetary measures (payments and tax concessions); and agricultural pricing and regulatory measures[30]. The budgetary measures encompass the most targeted—and changeable—elements of industry assistance, including grants, tax concessions and statutory marketing arrangements. Some industry sectors also derive additional benefits

[30] Other, lesser forms of assistance exist, but are not measured by the commission, such as government procurement preferences and regulatory restrictions on competition (eg media ownership policy).

from the work of government-owned enterprises, such as the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and Tourism Australia. By 2008, tariff assistance accounted for around three-quarters of all net assistance to the manufacturing industry, with budgetary assistance making up the remaining quarter (Banks 2008: 6). In real terms, budgetary assistance to manufacturing has roughly doubled in Australia since the 1960s (Banks 2008: 7). In 2006–07, the Productivity Commission counted 'well over 100' separate types of industry assistance in the burgeoning category of budgetary measures. In that year, the total quantum of assistance to Australian industry (in budgetary and other measures) was estimated at A$15.7 billion (PC 2008a: 6.1).

The Productivity Commission, not surprisingly, takes a sceptical approach to industry assistance[31]. The fundamental problem with industry assistance, the commission explains, is that 'assistance enjoyed by one industry or activity typically comes at a cost to other industries and activities across the economy', sometimes with negative consequences for 'the community as a whole' (PC 2008a: 6.6). According to the commission, while many rationales are advanced for industry assistance, not all of them are sound. One of the most over-used concepts in the field of industry assistance is that of 'market failure'. In the view of mainstream economists, most warnings of market failure are overhyped and just plain wrong: 'No market is without its imperfections but, for instance, the failure of particular enterprises does not constitute market failure' (PC 2008a: 6.7). In fact, the commission has assembled a handy checklist of policy 'propositions' used to argue for industry assistance that, in fact, fail the test of sound, rational economic policy:

- that assistance is necessary to boost exports
- to protect jobs or increase employment
- to enhance the viability or competitiveness of particular firms and regions
- to promote the growth of 'strategic' sectors and transform industry structures
- to reduce or rectify trade imbalances in particular sectors
- to hasten business outcomes

[31] In accordance with the legislation that governs its operations, the Productivity Commission is guided by the need to, inter alia, 'improve the overall economic performance of the economy through higher productivity', 'reduce regulation of industry' and 'encourage … efficient … enterprising, innovative and internationally competitive' industries (*An Act to establish the Productivity Commission, and for related purposes 1998*: Part 2, s.8(1)).

- or to counteract the effects of exchange rate appreciation or competition from low-cost foreign suppliers (PC 2008a: 6.8; formatting added).

The commission's list covers many of the arguments used by governments over the last 20 years to support industry assistance measures. The Productivity Commission also frowns on structural adjustment packages, of the type unfurled by governments in the wake of an enterprise collapse or industry slump. According to the commission, existing measures, including social security programs and tax policies, are usually sufficient in 'assisting the adjustment process and moderating adverse distributional impacts' (PC 2008a: 6.10). Daley and Lancy (2011: 26–7) analyse a range of structural adjustment programs, including for the automotive industry, and conclude that they have had very little ongoing impact on employment trends or regional growth; at best, they 'may have ameliorated the immediate impact of the closure'.

The new orthodoxy of Australian industry policy is based on the proposition that 'there is a need to get the broad economic environment right for all firms', rather than protecting particular firms from competition (PC 2008a: 6.3). Macroeconomic reforms since the 1980s have 'heighten[ed] the pressure on firms to be cost-conscious, innovative and productive' (PC 2008a: 6.3). Nevertheless, some firms and industries continue to benefit from measures aimed squarely at shielding them from competition. As the Productivity Commission notes, 'political economy considerations' are significant factors in the development of industry assistance measures—and, once in place, an industry support measure may become practically irreversible, due to pressure from interested parties (PC 2008a: 6.16; Banks 2008: 17).

The nature and quantum of recent industry assistance programs tells us much about what has changed, and how much remains the same. In 2006–07, the Howard government maintained a wide range of support programs for the manufacturing industry, the bulk of which were administered by the Department of Industry, Tourism and Resources (see Table 3.2). The support programs can be broadly divided into three categories, based on their goals: the first, promoting *innovation*; the second, supporting *existing production*; and the third, *creating employment* following industry closures in

particular communities[32]. The largest funding category was *innovation*, which accounted for more than one-third of all payments, and was dominated by the R&D Tax Concession scheme—indicating a significant measure of continuity with Hawke-era manufacturing policy. Another measure of continuity is the quantum of payments to *existing production* in the automotive sector: 28% of all assistance measures within the industry portfolio were destined for Australia's automotive manufacturers. In contrast, just one per cent of support funds were directed to *creating employment* in communities affected by significant industrial decline: Beaconsfield (Tasmania); Port Kembla (NSW); and industrial areas of South Australia (DITR 2007b: 68–87).

Table 3.2: Industry support: programs administered by the Department of Industry, Tourism and Resources, 2006–07

Recipient sector or program	Amount (A$m)	Share (%)	Component programs
Automotive	533.2	28	Automotive Competitiveness and Investment Scheme; GM Holden Australia
Ethanol	36.3	2	Biofuels Capital Grants; Ethanol Production Grants; Ethanol Distribution Program
Textiles, clothing and footwear	166.0	9	TCF Corporate Wear Register; TCF Expanded Overseas Assembly Provisions; TCF Post-2005 Strategic Investment Program Scheme; TCF Product Diversification Scheme; TCF Small Business Program; TCF Structural Adjustment Program
Innovation	672.7	35	R&D Tax Concession; Commercial Ready; Commercialising Emerging Technologies; Industry Cooperative Innovation Program; Innovation Investment Fund; Intermediary Access Program; Pooled Development Funds; Pre-Seed Fund; Renewable Energy Equity Fund; Venture Capital Limited Partnerships Fund; Australian Stem Cell Centre; National Biotechnology Strategy
Community-based structural adjustment	18.1	1	Beaconsfield Community Fund; Port Kembla Industry Facilitation Fund; Structural Adjustment Fund for South Australia
Other	492.7	26	Pharmaceutical Partnerships Program; LPG Vehicle Scheme; Tradex; and other miscellaneous programs
TOTAL	1,919	100	

Source: DITR (2007b).

[32] Innovation goes beyond 'technological advances', including 'changes to all facets of an enterprise's operations, its relationships with its workers, its suppliers and its customers' (Banks 2008: 12).

The emphasis on innovation has become much more deeply embedded in industry assistance policies over the almost 30 years since the Hawke government's groundbreaking R&D tax concession (see below). In essence, this is a response to the discomforting fact that Australian manufacturing can no longer compete globally on price. With developing economies quickly assimilating the knowledge and skills required to match Australia in basic and advanced manufacturing, Australian governments have placed their hopes in 'quality and originality', driven by 'innovation' (Carr 2009a, 2009d).

3.5.2 Will innovation save us?

As leader of the Federal Parliamentary Labor Party (and just two months before his election as Prime Minister), Kevin Rudd convened a National Manufacturing Roundtable in September 2007, gathering together manufacturers, peak industry bodies, research agencies and economists. Labor's leitmotif at the roundtable was 'innovation'. In the issues paper prepared for the roundtable, the party stated that 'a focus on innovation' is 'critical to the survival of manufacturing in Australia' and declared: 'Labor says that in the 21st century innovation policy is industry policy' (ALP 2007: 3, 7). The Rudd government's focus on innovation, and the claim that it could rescue Australian manufacturing, relied on the partial abandonment of volume-based competition as a goal for Australian manufacturing, and the new hope that we could instead compete on our 'smarts'.

The innovation strategy in Australian industry policy had its genesis in the Hawke government. One manifestation of the Hawke government's heavy emphasis on international competitiveness was its research and development (R&D) policy. This was part of a suite of measures to improve the efficiency and competitiveness of Australian manufacturing, inspired by the Swedish model of industrial reform, which relied heavily on—and reaped the benefits of—large-scale investment in R&D and commercialisation of technology (Capling & Galligan 1992: 128–9). The Hawke government's introduction, in 1985, of a 150 per cent tax concession for R&D spending by business was bold, and seemed to have almost immediate effects (Capling & Galligan 1992: 134-5). The impact of the R&D policy was also long-lasting: in 2008, the Productivity

Commission (2008a: 6.5) found that business expenditure on R&D had roughly trebled in Australia, as a proportion of GDP, since the mid-1980s.

As time went on, however, economists expressed concerns about the economic efficiency of R&D tax concessions: for example, the Productivity Commission described the Pharmaceutical Industry Investment Program as providing a 'free lunch' for half of industry recipients; and studies by several authors found that 'the majority of subsidised activity would have occurred anyway' (PC 2008a: 6.12, 6.13). Rorting of the R&D tax concession scheme and some other R&D programs was widespread in the 1990s (PC 2008a: 6.15). Nevertheless, the focus on innovation continued under the Howard government, which, in its first year in office, introduced the R&D Start Program to fund business innovation and commercialisation of research (PC 1997a: 16).

In 2001, the Howard government released the innovation policy package *Backing Australia's Ability – An Innovation Action Plan for the Future*. The A$2.9 billion package contained the basic elements that would guide industry policy for almost the next ten years: a focus on fusing science and technology with industry (biotechnology, nanotechnology, pharmaceuticals); and structural adjustment assistance for 'old' industries (DISR 2001; DITR 2006b: 3, 8; DIISR 2009: 4). The tone of the policy document was buoyant, with Prime Minister Howard lauding the Australian people as 'creative and determined' and bound 'rise to the occasion' in dealing with competitive challenges (DISR 2001: 3)

With the Labor Party back in government at the end of 2007, the focus on innovation as the salvation of Australian manufacturing became more intense. As Industry Minister Kim Carr explained, the innovation strategy was prompted by two imperatives: first, the need to create a broad base for economic output 'in the widest possible range of industries'; and second, to avoid being 'left behind' in the global race for commercially-focused research and development (Carr 2009c: 3, 5). The Rudd government's centrepiece policy document, *Powering ideas: an innovation agenda for the 21st century*, was described by its authors as 'a ten-year strategy to lift Australia's innovation capacity and performance' (Carr 2009c: 1). The strategy relied on 'investments in education and research', which would produce 'the people and resources' required to generate new science, technology and design. Equipped with this

new scientific and technological knowledge, and its associated products, old industries would be 'reconfigured and retooled', while new industries were created (Carr 2009a: 2–3). Senator Carr declared that 'the Australian Government's industry policy is all about innovation':

> It is about building competitive advantage by increasing the capacity of individual firms, strategic industries, and the innovation system as a whole (Carr 2009a: 2).

One of the most prized elements in Senator Carr's innovation policy architecture was Enterprise Connect, a national network of R&D hubs and consultants, all focused on making SMEs 'more innovative, efficient and competitive' (DIISR 2008: 3). Manufacturing was a particular focus of the Enterprise Connect network, which soon included manufacturing strategy centres in Sydney, Melbourne, Adelaide, Brisbane, Perth and Burnie (Tasmania) (DIISR 2008: 3; 2009: 22) .

Governments in the United States and the United Kingdom, and in most other developed economies, have followed very similar strategies, trying to carve niches in 'knowledge-based', 'high-tech, high-value' manufacturing (Carr 2009e: 2–3; Banks 2008: 12). This is problematic for two reasons. First, as Carr (2009e: 3) acknowledged, 'We are all elbowing our way up the value chain … engaged in the same race to the top'. Competition among developed economies to carve the high-value niches in manufacturing is fierce. And second, carving these niches is only the start—defending them from developing country competitors will prove extremely difficult over time. The threat posed by developing economies, and China in particular, is the greatest policy challenge for Australian manufacturing.

3.6 Australian manufacturing in a globalising world: China v. the rest

> So this is the challenge Australia faces. We have the prospect of China and India being reinstated to the position they occupied for eighteen centuries before the Industrial Revolution, when together they accounted for half of the world's output—*Senator Kim Carr, Minister for Innovation and Industry* (Carr 2009c).

The economic relationship between Australia and China is complex and evolving. The exponential growth in China's manufacturing industries presents great opportunities for Australia. This was never more evident than during the global financial crisis of 2008,

when China's continuing demand for raw materials was one of the factors keeping the Australian economy afloat (Morling & McDonald 2011). While most economies in the developed world suffered devastating and lasting cuts to wages as a result of the global financial crisis, wages growth remained 'very strong' in China, and 'subdued' in Australia, which was a significant achievement (Morling & McDonald 2011; ILO 2013: xviii). However, China is also the ultimate economic threat to Australian manufacturing. With its unmatched set of investment assets—a large population, low wages and a stable (authoritarian) political environment—China has been an ideal candidate for massive flows of investment from the West for more than two decades. Once the Chinese Communist Party moved to allow foreign investment, it was inevitable that China would experience an economic boom (Garnaut, Fang & Song 2013). This was an 'uninhibited investment expansion model of growth', which lasted from 1985 to 2011 (Garnaut, Fang & Song 2013: 1). Industrial development was fuelled by the 'absorption' of rural migrants, whose wages grew at a lesser rate than labour productivity, and whose manufacturing output became increasingly technologically advanced and bound for export markets (Garnaut, Fang & Song 2013: 1–2).

By 2003, China was the world's largest recipient of foreign direct investment, overtaking the United States, and much of the investment flow was directed to manufacturing enterprises (UNCTAD 2004b:10)[33]. Strong foreign investment and low labour costs have fuelled China's export boom. The value of China's exports of manufactured goods has been growing at an exponential rate. Between 2002 and 2012, China more than doubled its share of the world's exports, from 7 per cent to 15 per cent (WTO Secretariat 2014: 60). This growth has occurred as China has lowered tariff barriers, from an average of 40 per cent in 1985 to less than 10 per cent in 2014 (WTO 2007: 70).

The challenge that China poses to Australia's manufacturing industry rests on two main factors: first, low wages; and second, technical expertise and manufacturing infrastructure. The first of these factors is changing, to Australia's advantage. According to official figures from China, real average wages almost tripled in the period 2000–10, 'prompting questions about the possible end of "cheap labour" in

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[33] This number one ranking excludes the 'special case' of Luxembourg, which would be in first place if transshipments (the intermediate movement of investment funds) were counted (UNCTAD 2004b: 10).

China' (ILO 2013: 20). However, despite continual growth in wages, labour in China remains irresistably cheap in a global frame of reference. Using figures from 2007 and 2010, the US Bureau of Labor Statistics estimated hourly rates of pay in the manufacturing sector of selected countries, as follows[34]:

- Denmark: US$34.80
- Australia: US$28.55
- United States: US$23.30
- Brazil: US$5.40
- The Philippines: US$1.40
- China: US$1.36
- India: US$1.17 (ILO 2013).

In China, the unique combination of several factors—including authoritarian social controls, poor industrial democracy and the new industrial practices of Western corporations—has created an increasingly productive and flexible labour force, albeit one that functions in spite of discernable levels of disquiet. Harvey (2005: 148) is scathing of this 'super-exploitation of labour power', which rests on 'unregulated, despotic, and exploitative' conditions that would put Industrial Revolution Britain to shame.

Zhang (2008) paints a stark picture of management and labour control in China, based on extensive fieldwork and interviews with workers and managers in one of China's designated 'pillar industries', automotive manufacturing. Contrary to Western notions of growth driven by abundant labour in China, the Chinese automotive industry has been increasing production even as it slashes employment. In the nine years to 2007, production in China grew from 1.6 million to 7.28 million vehicles per annum; over the same period, employment in the sector fell by 18 per cent (Zhang 2008: 25). Although the physical environment for automotive workers is 'generally good', twelve-hour shifts are common, along with compulsory unpaid overtime. Wages fell in most of China's automotive plants in the period 2004–06 (Zhang 2008: 28–30). Old-style Fordist mass production practices are the bedrock of the Chinese automotive industry, but the 'lean

[34] In presenting this information, the ILO (2013: 10) notes that the data for China and India were generated in a separate study, and use 'a different and non-comparable methodology'; however, the ILO considers that they nevertheless represent a useful point of comparison.

production' model pioneered by Toyota is the new aspiration of Chinese managers (Zhang 2008: 28). The only question is how far the automotive manufacturers will tip the balance away from traditional (permanent) employment towards institutionalised job insecurity and low wages, in the form of casual 'agency workers' (Zhang 2008: 31). The large-scale shift to casual workers—to complement or even replace entire permanent workforces—is a massive industrial and cultural change in China.

While sweeping industrial changes in other countries might unleash oppositional forces, things are different in China. The disparity in wages and conditions between permanent and casual automotive workers in China has generated resentment, and even some industrial sabotage, but the carefully cultured impotence of China's trade unions ensures that workers' unrest is contained and dampened (Zhang 2008: 36–8). Zhang (2008: 42) implores China's workers to 'confront neoliberal ideology' and 'recogni[se] … their own bargaining power'—but concedes that this is difficult in the face of 'formidable political barriers'. Some of the forces shaping the future of China's automotive workers are not so different from those affecting their Australian counterparts.

3.7 Automotive manufacturing: a study in orderly decline

The automotive manufacturing sector is the most prominent example of protectionism in Australian industry policy. In 2012, the Australian automotive industry employed 55,500 people (with another 200,000 jobs supported indirectly by the industry) and purchased around A$1.3 billion in locally manufactured iron and steel (Gillard 2012; Malone 2012). On the cost side of the ledger, the Productivity Commission estimated that, in 2006–07, government assistance to automotive manufacturers cost the federal budget A$1.3 billion each year (PC 2008b; Banks 2008: 9). The components of this assistance are many and varied, but fall into two categories: tariffs on imported vehicles; and budgetary support.

However, the massive injection of financial support over several decades failed to buy a future for automotive manufacturing, despite regular, public guarantees from car manufacturers—and private undertakings to governments—about their commitment to Australian jobs and Australian-made vehicles. Evidence of the success of the program of tariff reductions, combined with direct financial assistance from government, was

shaky. The Australian automotive industry suffered regular convulsions, as manufacturers announced job cuts and the consolidation of manufacturing facilities, or appealed for further government assistance.

Government protection of the Australian automotive industry began during the First World War and took on greater depth and weight in 1936, when the Lyons government made a concerted effort to encourage the production of engines and chassis in Australia. Even at this early stage, the Tariff Board was unimpressed, describing the government's assistance package as 'unwise' (Capling & Galligan 1992: 197–8). By the 1960s, Australian consumers were increasingly attracted to smaller, more economical Japanese cars—despite protective tariffs of 45 per cent. Between 1966 and 1973, the share of passenger vehicle sales in Australia from domestic manufacturers fell from 84 per cent to 68 per cent. The chipping away of support for the sector, and the *pas de deux* between the government and industry over assistance measures, began in 1973, when Prime Minister Whitlam asked the Industries Assistance Commission to inquire into the efficiency of the sector. Unions, manufacturers and the South Australian premier all expressed outrage at the IAC's recommendations, which included cutting tariffs to 25 per cent (Capling & Galligan 1992: 200–2). This was the first of many reviews to be conducted by the IAC and its institutional successors, all delivering the same message about the distorting effects of state support[35]. The IAC did not get its way, but neither did the automotive sector's fortunes improve. The global economic crisis of the 1970s reinforced consumers' preference for cheaper, more efficient cars from Japan. This prompted the Fraser government to lift tariffs on passenger vehicles to 57.5 per cent and entrench the supposedly temporary policy of import quotas (Capling & Galligan 1992: 203–4).

The Hawke government, in keeping with its corrective industry policy, took a new approach to the automotive industry, combining financial support with trade liberalisation and industry rationalisation. The government had identified the large range of cars, produced in small volumes, as the central problem. The so-called 'Button plan' for the automotive industry aimed to make the industry viable, which meant that

[35] The Industry Commission, and later the Productivity Commission, released inquiry reports on the efficiency of, and future options for, the Australian automotive industry in 1990, 1997, 2002, 2008 and 2014 (Industry Commission 1990; PC 1997b, 2002a, 2008, 2014a).

'no more than three' manufacturers should be left standing by the early 1990s. As it turned out, this number was not reached until 2008, when Mitsubishi closed its Australian manufacturing operations (see Table 3.3) (Capling & Galligan 1992: 210, 213; Conley 2009: 213). Under the Button plan, the import tariff on vehicles was cut to 45 per cent in 1988, and the government applied very direct and targeted pressure to encourage manufacturers to cease production of low-volume models (Capling & Galligan 1992: 212, 213–4). In 1991, the government committed to reducing the tariff to just 15 per cent by 2000—a promise on which it could not make good, losing office in 1996.

Table 3.3: Automotive manufacturers in Australia: closures

Year of closure	Manufacturer	Notes
1974	Leyland	
1980	Chrysler	Bought by Mitsubishi
1981	Renault	
1982	Nissan	
2008	Mitsubishi	
2016 (projected)	Ford	Announced in 2013
2017 (projected)	General Motors Holden	Announced in 2013
2017 (projected)	Toyota	Announced in 2014

Sources: Capling & Galligan (1992); Conley (2009); Ford Australia (2013); General Motors Holden (2013); Toyota Australia (2014).

The sweeping changes envisioned by Hawke and Button were largely realised. The Howard government initially 'baulk[ed] at', but subsequently followed, the Hawke government's tariff reduction plan (Banks 2008: 3). The government cut the tariff on automotive vehicles to 22.5 per cent in 1997, with a scheduled cut to 15 per cent in 2000 (PC 2000b: 18). In 2002, the Howard government unveiled a ten-year assistance package for the automotive industry worth A$4.2 billion, and passed legislation to cut tariffs to 10 per cent in 2005 and to 5 per cent in 2010 (Conley 2009: 212). Over a period of fewer than 25 years, the changes in the Australian automotive industry were astounding. When Labor came to office in 1983, the effective rate of assistance to manufacturers of passenger motor vehicles stood at 140 per cent; when John Howard took office in 1996, that figure stood at just 28 per cent; and it dropped to 11.9 per cent by the time the Coalition was voted out in 2007 (PC 1997a: 53; PC 2009: 16, 19).

While tariff cuts might have been serving the cause of 'rationalisation' of the Australian automotive industry, and industry assistance measures were softening the blow, other elements of the Howard government's trade policy were at odds with some of these aims—and highlighted the inconsistencies of international trade negotiations (see Chapter Two). As part of its fervent pursuit of preferential trade deals, the Howard government negotiated a bilateral trade agreement with Thailand, which would allow immediate tariff-free access to the Australian market for Thai automotive vehicles, with a longer timeframe for the dismantling of the prohibitive tariffs and volume limits applying to Australian automotive exports to Thailand (Conley 2009: 214). However, the deal did not reap many benefits for Australia, at least in the short term. While Australia dropped all tariffs on Thai-manufactured passenger motor vehicles in 2005, Thailand undertook to reciprocate only in 2010; in addition, Thailand restructured its motor vehicle excise rates *after* the bilateral trade agreement came into force, placing some Australian manufacturers at a distinct disadvantage. By 2008, Thailand had become the second-largest supplier of imported cars and parts in Australia (Bracks 2008: 52). Little wonder that, in his review of the sector, former Victorian Premier Steve Bracks nominated 'preferential treatment for major emerging automotive economies such as Thailand and China' as potential threats to the Australian automotive industry (Bracks 2008: 56).

In the campaign for the 2007 federal election, the Labor Party committed itself to a Green Car Innovation Fund—a A$500 million plan to supplement Australian automotive manufacturers to 'develop and produce low emission vehicles with improved fuel efficiency', part of Labor's innovation mantra (DIISR 2008: 3). Following its election victory, Labor announced a review of the Australian automotive industry. The review report, released in 2008, called on the government to redouble the efforts of the previous two decades—including the emphasis on trade liberalisation, exports and innovation—with a new focus on environmental sustainability (Bracks 2008: 1–2). In response, the Rudd government unveiled a new policy, *A new car plan for a greener future*, which comprised three main elements: a A$1.3 billion Green Car Innovation Fund; an Automotive Transformation Scheme (a revamped version of the Howard government's scheme); and a new structural adjustment program, all of which amounted to an impressive A$3.2 billion in new funding to the year 2021 (DIISR 2009:

4; Conley 2009: 225–6; Tunny 2011: 15). Soon after, the Green Car Innovation Fund was slashed heavily, and then closed to new applicants in January 2011 (Tunny 2011: 19).

3.7.1 Australian automotive exports

In the 1970s, the same forces squeezing Australian manufacturers were affecting car makers in the US. Industry giants General Motors and Ford responded to the threat posed by Japanese manufacturers by developing the 'world car' concept, which aimed to standardise the production of components in their plants around the world, in order to achieve economies of scale (Capling & Galligan 1992: 204). The concept certainly caught on: by 2005, only 54 per cent of the components in an Australian-made Holden Commodore were actually made in Australia (Conley 2009: 213). This simple fact highlights the challenges faced by automotive vehicle and components manufacturers in Australia. If a car could be pieced together from components sourced in a variety of (low-cost) industrial economies, the future of Australia's automotive industry could only look grim.

As a result of the Hawke government's focus on trade liberalisation and industry productivity, automotive exports became an important part of Australia's overall manufacturing export performance. Between 1996 and 2005, Australian automotive exports grew by an annual average of 14 per cent (Conley 2009: 212). But Australia was only a small player in the global market: in 2007, Australian output amounted to just 10 per cent of South Korea's automotive production, and 7 per cent of Chinese production (Bracks 2008: 9). By 2011, China had become the largest producer of automotive vehicles in the world (Tunny 2011: 16). China and India are likely to be the world's leading automotive producers in the next 10–20 years, and both have formidable protective tariffs: 25 per cent in China and 105 per cent in India (Conley 2009: 224, 226). The recent history of iconic car maker Volvo gives an indication of how fast fortunes can change in the globalised automotive industry. In 2006, Volvo began manufacturing some of its models in China. Four years later, a Chinese automotive manufacturer bought Volvo Cars—from the Ford Motor Company—for $A1.98 billion. By 2011, China had become the third-largest consumer market for Volvo motor vehicles (Preel 2010; Volvo Car Corporation 2012).

3.7.2 The political economy of the automotive industry

The political economy of the Australian automotive manufacturing industry has generated regular (and predictable) moments of public drama. These were usually prompted by announcements from the automotive manufacturers about dire sales figures and pressure from head office in the United States or Japan. A percentage of the workforce was suddenly made redundant—often thousands of automotive workers in one fell swoop. The spectacle reached its climax as the Australian government, aided by the South Australian or Victorian government of the day, put a new aid package on the table. Calm was restored and the sector limped on.

By 1981, the Australian government's assistance measures meant that taxpayers were subsidising the cost of each locally-manufactured vehicle by A$2,000–$3,000 (Capling & Galligan 1992: 205). But did the taxpayers mind very much? The automotive and components manufacturing sectors made a massive contribution to employment and GDP, and were particularly important in the economies of Victoria and South Australia. In 2006, the automotive industry still employed 33,000 people in Victoria (half the national automotive workforce) and another 11,000 in South Australia, and employees were heavily concentrated in just a handful of urban locations (Bracks 2009: 75–6). According to the industry, for each job in automotive manufacturing, another 6.5 jobs were created in the wider economy (Bracks 2009: 77).

In 2012, the remaining automotive plants in Australia were mostly located in (increasingly scarce) safe federal Labor seats: Altona (the seat of Gellibrand); Geelong (Corio); Broadmeadows (Calwell); Elizabeth (Wakefield); and Port Melbourne (Melbourne Ports). In Victoria, the seat of Melbourne Ports has been held by the ALP since 1951; Gellibrand has been Labor-held since 1955; Corio has been Labor since 1967; and Calwell has been held by Labor since the creation of the seat in 1984 (AEC 2013)[36]. Before she moved to the Prime Minister's Lodge, Julia Gillard lived within walking distance of the Toyota factory in Altona (Malone 2012; Osborne 2012). Only in South Australia was the sole manufacturing operation located in a safe Liberal seat (Wakefield, which was nevertheless won by the ALP at the 2007 election) (AEC 2013).

[36] The seat of Calwell became nominally Independent in 2000–01 when the incumbent ALP member, Andrew Theophanous, resigned from the party ('Theophanous announces resignation from ALP' 2000).

In contrast, support for the automotive industry has been less constant and assured on the conservative side of politics. In 1996, the incoming government of John Howard was careful to avoid alienating the so-called ‘battlers’—former Labor voters it had lured to the other side. Part of Howard’s strategy was to maintain a pro-manufacturing industry policy, despite calls within the Coalition caucus to cut all government assistance to manufacturing (Malone 2012). When it comes to the practicalities, and the politics, of automotive industry restructuring, both sides of politics have proven to be perfectly adept at crisis management. The slow death of Mitsubishi Motors in Australia illustrates the point.

In 2004, at a time when the Australian economy was booming, Mitsubishi Motors announced the closure of its engine plant in Lonsdale, South Australia. Almost 700 factory jobs were lost, as well as an estimated 1,600 jobs indirectly associated with the plant. In explaining the decision, and outlining the company’s own uncertain future, the president of Mitsubishi Motors Australia portrayed the company as a victim of globalisation: ‘Customer preferences are changing, free trade agreements are coming in, duties are falling and it will be a totally different market [after tariff cuts in 2010]’ (McGuire, Sproull & Armitage 2004: 17). The response from Doug Cameron, then the National Secretary of the Australian Manufacturing Workers Union, echoed these sentiments:

> Stop selling off manufacturing jobs through free trade agreements and develop an industry policy, a plan and a vision for manufacturing jobs in this country (in ‘Mitsubishi to close Adelaide plant’ 2004).

In its response to Mitsubishi’s announcement, the Howard government unveiled a A$50 million package to train sacked workers and attract other manufacturers to the Adelaide suburbs (Howard 2004; DIISR 2008: 29).

Over the next four years, Mitsubishi Motors Australia struggled to shore up its business, before finally closing in 2008, after 28 years of manufacturing and many millions of dollars in aid from national and state governments (Dornin 2008). It seemed inevitable that the remaining Australian automotive manufacturers would follow Mitsubishi’s lead. In January 2012, Toyota Australia cut 350 jobs at its plant in Altona, Victoria. The company’s president blamed a dramatic decline in export sales, abetted by the high

value of the Australian dollar; even with a smaller workforce, he conceded, it would be difficult to convince head office in Japan to keep the Australian operation open beyond the next five years (Heasley 2012). Perhaps fearing a similar jobs disaster elsewhere in the industry, in 2012, the Gillard Labor government threw everything it could into keeping General Motors Holden in Australia, signing a contract with the car manufacturer and handing over A$275 million (A$60 million of which came from the South Australian and Victorian governments). In return, Holden agreed to build two new models at its Adelaide plant. The Prime Minister termed the payment to Holden Australia a ‘co-investment’, and highlighted the large sum that would be invested by Holden in its Australian manufacturing operations: A$1 billion over ten years, which Holden predicted would generate around A$4 billion in economic activity (Gillard 2012). However, Holden’s Australian operations seemed to be in decline already: the new models would merely be ‘localised’ versions of international designs, rather than products of Australian expertise (Martin & Lucas 2012).

In 2013, Ford Australia announced that it would close its Australian manufacturing operations in 2016, with the loss of 1,200 jobs in Geelong and Melbourne (Ford Australia 2013). This was the announcement that felled the two remaining dominos. In December 2013, General Motors Holden declared that it would cease automotive manufacturing in Australia by 2017, and Toyota followed suit in February 2014, announcing the same timetable for withdrawal from Australian manufacturing (General Motors Holden 2013; Toyota Australia 2014). General Motors and Toyota listed a common set of factors behind their decisions: the strong Australian dollar, high labour costs and small economies of scale. While the manufacturers did not mention it, the Coalition had declined to match Labor’s support for the automotive sector since Tony Abbott ascended to the Liberal Party leadership in 2012. In government (2013–present), the Abbott Cabinet has been dominated by economic ‘dries’ who refused to extend assistance to keep the remaining manufacturers in Australia. In the wake of the decisions by General Motors and Toyota to wind up the Australian automotive industry, one Coalition minister referred to having ‘won the war’ on automotive industry assistance (Massola & Bourke 2015).

3.8 Conclusion

As we saw in Chapter Two, the rise of neoliberalism in Australia was a state-sponsored project, in which tariff protection of Australian industry was a major target for ‘reform’ by the Hawke and Keating Labor governments. The clean lines of neoliberal-inspired macroeconomic policy shaped the new Australian manufacturing industry from the early 1990s: open to global competition, focused on creating new export markets (in order to enable larger economies of scale in production), and harnessing cutting-edge research to steal a march on foreign competitors. However, in a globalising economy, the policy orthodoxy that hails the benefits of capital flowing freely to meet the needs of markets and producers means that Australian manufacturers are competing with lower-cost producers in (rapidly) developing economies for capital and markets. The burgeoning manufacturing industries of China, in particular, have posed an economic threat to Australia for more than two decades.

The Hawke government’s approach to manufacturing industry reform—trade liberalisation combined with sector-specific industry plans—survived the change of government to the Coalition parties in 1996. As outlined in Chapter Two, the Howard government showed little of the reformist zeal of Labor in the ‘big picture’ of macroeconomic reform (apart from its fierce efforts to achieve labour market reform through a sustained campaign against central wage fixing and arbitration). But under the Howard government, industry assistance measures expanded rapidly and generously. By the time the Coalition government lost office in 2007, budget outlays to industry—across a tangled web of assistance policies—had replaced a good portion of the budgetary gains made through tariff cuts.

As Chapter Nine will show (in a case study of the Manildra Group’s ethanol manufacturing operations), the corporate largesse offered to some industry sectors by the Howard government was generous. It was seemingly de-coupled from ‘rational’ considerations and buttressed by ad hoc trade restrictions to keep out foreign competitors. The age of globalisation and neoliberalism may be upon us, but the state has not abandoned the game. Australian governments are still willing and able to intervene in the economy, at macro and micro levels—for a variety of reasons, both altruistic and base.

CHAPTER FOUR: Australian agriculture and the dairy industry

> Where intervention was seen as supportive, it is now seen as constraining. The objective of policymaking has become one of ‘releasing’ farmers so that they have the ‘freedom’ to develop their industries (Gray & Lawrence 2001: 59).

4.1 Overview

The experience of globalisation has been just as challenging for Australian farmers as it has been for manufacturing enterprises and workers: some farmers have forged successful livelihoods in an environment of shrinking state support, warped global competition and long supply chains; others have not. The process of change in Australian agriculture is the subject of this chapter, with a particular focus on the dairy industry, which forms one of the case studies in the thesis.

Much of the flux experienced in rural and regional Australia since the early 1980s has been caused by changes in market conditions and policy frameworks for agricultural producers. Although farm numbers are in decline and the size of the farming workforce continues to fall, agricultural production remains significant: in 2009, domestic production accounted for 93 per cent of all the food consumed in Australia. Small-scale family farming is also maintaining a foothold in the rural landscape: Australia has around 135,000 farm businesses with agricultural operations valued at less than A$100,000 per annum (ABS 2012b).

Over the last four decades, globalisation has had a profound impact on Australian agriculture. Both the state and industry have worked to squeeze the life out of agrarianism, through the neoliberal trade and industry policies devised by successive federal governments, and through the power of transnational food businesses and international supply chains. For many years, globalisation was held at bay in the Australian dairy industry, which became one of the most highly protected and richly supported sectors of Australian agriculture (and of the economy more broadly). With the removal of the last vestiges of state protection in 2000, dairy farmers had further to fall than many other agricultural producers—and fall they did.

4.2 The state and agriculture in Australia

Agriculture made colonial Australia rich. Exports of fine wool to England reaped handsome profits, and in the nineteenth century, the Australian colonies constituted one of the wealthiest national economies on earth (Brett 2011: 27)[37]. By the time Australia had become a unified nation-state in 1901, the importance of agriculture for national income and 'settlement' of the vast interior of the continent was clear, and was supported with public funds. In the 1920s and 1930s, governments built railways and irrigation schemes in remote areas of the country at enormous cost. Following the Second World War, the Australian government also brought the agriculture sector under the same protective umbrella that the manufacturing sector had enjoyed for more than 40 years. The state supported agricultural production (including wool, wheat and dairy) through multifaceted market intervention and tariff and non-tariff protection, which would continue in most sectors of agriculture until the 1980s (Gray & Lawrence 2001: 58–9; Brett 2011: 21, 23–4, 27).

Agriculture thrived in Australia in the first half of the twentieth century. At the time of the agricultural boom of 1952–53, agricultural produce accounted for 78 per cent of the value of Australian exports (Botterill 2003: 3). However, this was shortly before the end of the golden age of agriculture. The composition of the Australian economy shifted, quite swiftly and irrevocably, from riding on the 'sheep's back' to 'railway trucks full of coal, and alumina and iron ore' (Brett 2011: 36–7). In 1963–64, the leading Australian export item—comprising 35 per cent of export value—was wool. Today, that mantle has been taken by iron ore, in first place, and coal, in second place, which together contribute the same proportion (35 per cent) of export earnings (DFAT 2014: 5). By 2010–11, Australian agricultural production comprised just 2.4 per cent of GDP and contributed 11 per cent of national export income (ABS 2012b).

4.2.1 The political economy of Australian agriculture

Colonial Australia was a highly lopsided economy. The bulk of the wealth was generated by fine wool exports and, while most agricultural sectors were 'highly efficient', they did not generate sufficient employment to spread the benefits of the

[37] As Lawrence (1987: 103) points out, this was mutually beneficial. The surplus value generated in Australia 'generally enhanced capital accumulation both in Britain and Australia'.

wool boom throughout the colonies (Brett 2011: 27). In fact, farmers in Australia's vast agricultural regions were able to retain 'a much higher proportion' of their production surplus than farmers in countries like Britain, due to their ownership of the land they worked (Lawrence 1987: 106). For this reason, labour-intensive industrial development was supported by the state. As Brett (2011: 27) explains, the redistribution of national income via manufacturing was widely supported at a popular level, and remained so for one hundred years:

> Until the 1980s and 1990s the debate about tariffs and protection was not primarily about economics, but about what sort of society Australia was to be: a society with a few wealthy landholding families running hugely profitable businesses exporting wool, or a more populous society offering a decent life to many, many more people.

With manufacturing and agriculture both supported by the state, organised labour and farmers often had a common goal: 'protection from market forces through state regulation' (Brett 2011: 25)[38]. While both sectors have suffered from the removal of state protection, agriculture still enjoys an iconic status in Australia, a legacy of more than 100 years of economic growth, lionising and myth-making (Brett 2011). However, this cultural legacy creates difficulties for governments, particularly Coalition governments that claim (through the National Party) to be the natural representatives of rural Australia[39]. In an era in which neoliberal economic policies are the only acceptable option in mainstream politics, Coalition governments have found themselves occupying an uncomfortable middle-ground when it comes to agriculture.

One example illustrates the point. In July 2005, McDonald's Australia announced that it would abandon many of its Tasmanian potato suppliers in favour of cheaper imports from New Zealand. The announcement sparked a remarkable chain reaction, beginning with local protests by farmers and escalating into a national campaign, 'Fair Dinkum Food', which spawned a tractor convoy across the mainland, terminating at Parliament House in Canberra (Canning 2005). The response from the Australian government was swift: the National Party's Agriculture Minister, Peter McGauran, attended the rally outside Parliament House then entered the House of Representatives chamber and

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[38] Lawrence (1987: 109) explores this 'ideological confusion', which was caused by the 'ambiguous class location' of family-based farmers.

[39] The role of the National Party and rural constituencies in policymaking is examined in greater detail in Chapter Five.

announced that the government would spend A$3 million on ‘business training, market development and leadership’ to help Australian farmers compete with imports (Australia, House of Representatives 2005: 102). While A$3 million is hardly a pot of gold, the fact that the government felt compelled to demonstrate its support for Australian farmers in their (market-based) negotiations with a multinational food business is telling. It is also worth placing these events into a broader political context: at the same time, in mid-2005, Australian unions were mounting a national campaign, this one against the Howard government’s radical industrial relations reforms. The unions, however, failed to achieve any softening of policy positions, or any public sympathy from government MPs.

Contemporary state support for agriculture emphasises the primary role of private capital and the importance of innovation, with a heavy emphasis on productivity improvements (Botterill 2003: 4; Lawrence 1987: 149). Beyond assistance for on-farm productivity and export sales, Australian governments (and especially Coalition governments) continue to provide support for ‘farming families’, notably through drought assistance[40]. A nationwide drought affecting many agricultural regions began in 2002. By March 2005, the federal government had approved 32,000 applications from farmers for income support and 15,000 applications for interest rate subsidies (even at a time of historically low interest rates in Australia). In this period, the government provided farmers with more than A$626 million in drought assistance (Truss 2005: 9). The provision of such substantial financial support was controversial, given that some farmers had access to alternative emergency resources, and in view of the growing debate over the viability of farming on marginal land. Prime Minister Howard rejected the criticism, declaring that, ‘We would lose something of our identity as Australians’ if farm numbers dropped below ‘a critical mass’ (Conley 2009: 212)—a statement that echoed the Labor Party’s allegiance to manufacturing workers and presaged Kevin Rudd’s pledge that, ‘I never want to be prime minister of a country which doesn't make things anymore’ (Rudd 2013).

[40] The emotional pull and sentimentality of the term ‘farming families’, with its evocation of farming as a ‘way of life’, contrasts strongly with the neoliberal emphasis on efficiency in the allocation of resources and ‘rationalisation’ (ie reduction in the number) of farms in Australia. As a shorthand aid to political rhetoric, ‘farming families’ might be considered the National Party’s answer to ‘working families’ (beloved of the Labor Party since the early 2000s) and ‘small business’ (long a favourite of the Liberal Party).

However, the argument about drought assistance missed a much greater point: that the quantum of state assistance to agricultural producers had fallen sharply. The effective rate of assistance to the agriculture sector stood at 25 per cent in 1970–71, but was slashed to just 8 per cent by 1974–75. Assistance levels have risen temporarily since then, mainly as a result of drought, but the baseline level of 'normal' assistance now sits at around 3 per cent (PC 2013: 36–7). How and why state support for agriculture evaporated is the crux of this chapter.

4.3 Protectionism and its discontents

State intervention in Australian agriculture was designed to meet several goals, as identified by Lawrence (1987: 182). These were to:

- expand agricultural output and sales
- increase efficiency
- stabilise farm incomes
- compensate producers for adverse seasonal or market conditions
- populate rural areas and ensure economic and social equity on a spatial basis.

The policy instruments used to pursue these objectives run to a long list. Those of most relevance to this thesis are: import restrictions; production subsidies; output quotas; monopoly boards and statutory corporations; and bilateral and multilateral trade agreements (Lawrence 1987: 183–4).

In the protectionist era, agricultural support policies, and the policy-making process itself, were never very coherent (Lawrence 1987: 179). Governments in Australia made decisions about agricultural assistance largely on the basis of advice from farmers' representative organisations (Botterill 2003: 9–10). This resulted in a profusion of support instruments and significant differences in support levels between sectors of the agricultural economy. One common element was a preference for regulated floor prices for agricultural products, a system in which consumers covered most of the cost of supporting the industry (Lloyd (1982), cited in Botterill 2003: 8–9). From 1952, the state's explicit aim was to expand agricultural output to meet the needs of a growing population, and to increase Australia's exports. As output soared, rates of protection rose over the 1950s and 1960s (Lawrence 1987: 188–9, 191).

The political will to grow a strong agricultural economy was due, in large part, to the legendary influence of Country Party leader John (Jack) McEwen. A minister in the Menzies, Holt and Gorton governments, McEwen held the pivotal commerce and trade portfolio for an impressive 22 years. As Brett (2011: 44) explains, McEwen's experiences as a soldier-settler after the First World War, battling to farm on marginal land and buffeted by falling prices, were instrumental in forming his iron-clad views on protectionism. The doctrine of 'McEwenism' became synonymous with agricultural protectionism, but extended well beyond this to encompass increased immigration and expansion of the manufacturing industry. This was the closest that any Australian minister had come to 'squaring the circle of "protection all round"' (Capling & Galligan 1992: 102). Within the Menzies cabinet, McEwen was a man of his time; by the late 1960s, the policy tide was turning, but McEwen was 'unpersuadable' about the economic benefits that might flow from exposing the Australian economy to competition (Brett 2011: 44).

International market conditions have always been critically important for the Australian agricultural sector, and the state has responded to external price pressures in a variety of ways over time. Price fluctuations and support mechanisms in competitor markets provided the rationale for Australian governments to establish many of the interventionist policies of the post-Second World War period (Botterill 2003: 3). Yet, by the end of the twentieth century, Australia had emerged as one of the leading proponents of global free trade in agriculture. As the founder of the Cairns Group of agricultural exporting nations, Australia has, for more than 20 years, championed the cause of free markets in agricultural goods. This conversion from protectionism to free market evangelism is a central part of the globalisation story in Australia.

Both Lawrence (1987) and Botterill (2003) conclude that the big shift in Australian agricultural policy was achieved through a combination of political and institutional change. The Coalition government of the early 1970s began to emphasise 'productive efficiency' as a goal for agriculture. However, the advent of the Whitlam Labor government in 1972 was pivotal, creating a window of opportunity for the agricultural economists who had been pushing for reform since the 1960s. These economists had been publicly critical of many aspects of agricultural policy, from the role of industry groups to the use of price controls as de facto welfare for farmers, but considered

themselves largely ignored in the agricultural policy process (Botterill 2003: 10, 12). The Whitlam government took a big step towards bringing the economists in from the cold; from this point on, debate about agricultural policy was 'couched in [their] terms' (Botterill 2003: 21).

Two decisions, in particular, demonstrated the Whitlam government's intentions and provided much greater opportunity for like-minded economists to reinforce the reform program. The first was a 'green paper' on rural policy, which sought to establish economic rationality as a guiding principle, sharing top billing with social equity (Botterill 2003:13). The second was the establishment of the Industries Assistance Commission (IAC), which 'transformed' the rural policy-making process (Botterill 2003: 12; Lawrence 1987: 194). The policy guidelines for the IAC injected the concepts of efficiency, structural adjustment and consumer rights into the agricultural policy debate, marking a clear break with the past.

However, the shift to neoliberal policies in agriculture was not simply foisted upon Australian farmers: they were complicit (at the very least) in the shift away from state support. Across agricultural industry peak bodies, as well as state agencies, the 'prevailing trade orthodoxy' became one of unstinting support for free trade and non-distorted domestic markets (Pritchard 2000: 93). As Lawrence and Gray (2000: 44) note:

> Producers have—particularly in the last three decades—been quite prepared to follow the lead of their economically 'dry' masters in the National Farmers Federation and National Party to seek overall economic advantage[41].

This level of complicity might be explained by many things, but one of them is surely the ubiquitous econometric modelling flourished by supporters of trade liberalisation. Pritchard (2000: 94) points out that the modelling of the domestic benefits of free trade is usually subject to very little public examination or debate, and is often presented in 'a partialised and politicised manner' by neoliberal proponents. He insists that the question of who benefits from trade liberalisation—and especially which elements of

[41] Formed in 1979, the National Farmers Federation represented 'farmer dissatisfaction' with the Fraser government's heavy emphasis on manufacturing over agriculture as an agent of national economic recovery (Lawrence 1987: 198–9).

internationalised commodity chains—is an essential one (and one to which we will return later in the chapter) (Pritchard 2000: 101).

The Whitlam government did not mark the end of all state support for farmers—intervention in the market continued. But it was the beginning of a cultural shift among political leaders, away from the certainties of the socially-oriented past and towards the certainties offered by neoclassical economics. The Fraser Coalition government allowed the emerging orthodoxy to stand, demonstrating ‘that it was no longer willing to interfere with economic forces so as to favour the interests of family farmers’ (Lawrence 1987: 197). By the mid-1980s, Australia had a notionally social democratic government and a farmers’ lobby group (the National Farmers Federation) that were ‘broadly in sympathy’ with each other’s commitment to free trade and free markets (Botterill 2003:14, 20). The first major rural policy statement by the Hawke government emphasised that the market would dictate conditions in the agricultural sector. Labor retained price supports and the underwriting of a few sensitive sectors, including dairy, wheat and wool; but it also abolished or reduced tariffs and quotas on many items and scrapped statutory marketing authorities (Botterill 2003: 17–18; Brett 2011: 49). Generations of policy about, and for, rural Australia were swept away by a tide of economic neoliberalism.

As in the manufacturing sector, which attracted structural adjustment assistance, agricultural producers were not left entirely stranded by the changes in state support. In fact, structural adjustment assistance to farmers in difficult circumstances predated the onslaught of neoliberal policymaking; however, perhaps inevitably, it also fell victim to neoliberal pressures. The Rural Adjustment Scheme was introduced by the Fraser government in 1977 and initially aimed to redistribute capital to promote farm viability. However, the scheme changed over time and, from the late 1980s, it included explicit reference to ‘efficiency’ and ‘self-reliance’ considerations (Gray & Lawrence 2001: 61). When the scheme was scrapped by the Howard government in 1997, the switch in emphasis from financial assistance to self-management was complete[42].

[42] The Howard government replaced the Rural Adjustment Scheme with a suite of policies that included the Farm Family Restart scheme and Exceptional Circumstances assistance (PC 1997a: 15).

In any event, as Gray and Lawrence (2001: 11) observe, adjustment packages are of little value where farmers are strongly integrated into their communities and see no alternative future for themselves:

> It is of no use to suggest that adjustment should proceed in a clear-cut fashion in a way which frees up society's resources for better use elsewhere if the people who possess those resources choose to retain them.

Brett (2011: 50) is scathing of the fact that neoliberalism 'stripped farmers of their previous cultural and nation-building roles' and created a misery that some sought to escape through suicide. In the new era, farmers were recast as 'business owners and entrepreneurs' whose talents would determine the success or failure of their businesses. If farmers could not get big enough to generate reliable profits, they were encouraged to leave the sector. When they fell victim to drought, they were now simply 'bad risk managers' (Brett 2011: 49–50). This was a cruel reframing of the structural economic problems facing farmers: 'it is highly unlikely that farmers who have worked most of their lives in agriculture have fallen victim to a sudden bout of managerial ineptitude' (Lawrence 1987: 201).

Today, government payments to Australian farmers amount to less than 2 per cent of their income, down from 10 per cent in the late 1980s. This represents a fall in expenditure from A$2 billion in the period 1986–88 to A$1.2 billion in 2011–13—a period in which total farmgate production more than doubled. This was the promise of economic neoliberalism: less state intervention and more economic output. Australia is lauded by the OECD for having the second-lowest level of producer payments to farmers in the developed world (behind New Zealand), and for the fact that state support programs for agriculture are delivered in non-market-distorting ways. Payments to Australian farmers are primarily delivered through structural adjustment programs, drought assistance and natural resources management measures. Half of all state transfers to Australia's agriculture sector are in the form of 'generalised support', such as research and development, training and marketing (OECD 2014: 38–9, 60, 74–8). The OECD's advice to Australia is to continue on the path of neoliberal development, and to place its faith in 'innovation and the adoption of new technologies and practices' in order to achieve further productivity growth in agriculture (OECD 2014: 74).

With the new rationalist policy parameters in place and inefficient producers headed for oblivion, Australia agriculture must surely have been in an excellent position to compete globally. If only foreign markets were also operating according to Australian principles! As it turned out, Australia's policy purity on agriculture did not serve it well in the world of international trade.

4.3.1 Agriculture and trade in a global context

According to neoclassical economic theory, comparative advantage should be the guiding principle in international trade, because it induces cost-effective specialisation and economies of scale and thereby maximises income and wealth in each nation state. Australia, New Zealand and the United States are considered to have a comparative advantage in agricultural production, while countries such as Japan and Korea are not (Roberts, Nair & Jacenko 2005: 211) [43]. However, 'the reality is that most countries have protectionist and/or supportive policies for their agricultural sectors', as they strive to meet domestic demand for agricultural goods through domestic production (Roberts, Nair & Jacenko 2005: 210). In 2013, farmers in OECD countries received US$1,271 billion in on-farm income, and around 18 per cent of that amount was due to state transfers (OECD 2014: 71). For Australian farmers, the global market is 'notoriously unstable' and full of impediments to rational production, and their role within it is 'likely to become increasingly vulnerable' (Lawrence 1987: 112)

In the developed economies of the world, state support for agriculture is delivered in a variety of ways, from direct payments to farmers (calculated on the basis of acreage or production) to 'border protection' measures, such as tariffs, tariff quotas and export subsidies. The precise mix of methods will have significant impacts on production, trade or farmer income, or a combination of the three. The OECD targets border measures and price regulation as the most market- and trade-distorting (OECD 2014: 29, 31).

In the world of multi-layered state support for agriculture, the European Union (EU) became the leading exporter of agricultural products (European Commission 2014). The

[43] Although the US is an efficient producer of some agricultural products, its dairy and sugar industries are protected by high tariff walls and tariff quota restrictions (Roberts, Nair & Jacenko 2005: 214).

Common Agricultural Policy (CAP) of the EU is probably the best known set of farm protection measures in the world—and is certainly the most reviled within Australian political circles. Australia's former minister for trade, Tim Fischer, recalls a meeting in Paris with the French Minister for Agriculture, Jean Glavany, in the late 1990s. In discussing the CAP, Mr Glavany conceded that 'the part of French agriculture that does the best is actually non-subsidised products, such as cut flowers'. When Mr Fischer pounced on this admission and asked why France persisted in its defence of the CAP, the French minister responded: 'It is the Parisians. They must have their view of tidy farms with hedges and a tapestry of crop colours to gaze at as they sweep past in the TGV [train grande vitesse]' (Fischer 2004: 84–5). The public re-telling of this anecdote by the former Australian minister is a very mild jibe in a long history of what Murray (2007: 267) calls the 'tense engagement' over the rules of agricultural trade, which has 'cast a blight over all perceptions of the EU' in Australia.

Agriculture contributes only 1.2 per cent to GDP in the United States, but attracts a vast array of state support measures. Subsidies apply to only a limited number of agricultural activities (wheat, cotton, rice, soybeans, sugar and dairy), but can deliver exceptionally large sums to farmers in these sectors. In the period 1995–2003, US farmers received US$131 billion (A$170 billion) in government subsidies. Over those nine years, one rice farm in Arizona alone received US$519 million (Wahlquist 2005: 11). In 2005, the Boston Consulting Group estimated that wheat growers in the US received A$147 per tonne in government support, while their counterparts in the EU pocketed A$170 per tonne; Australian wheat growers, by contrast, received A$9 per tonne (Wahlquist 2005: 11). Even with the reforms contained in the 2014 Farm Act, US farmers remain highly favoured: for example, dairy farmers are eligible for direct payments when milk prices fall too far (or when feed costs rise too steeply), and the US government pushes up market prices by making interventionist purchases for food banks (OECD 2014: 194).

Despite entrenched political interests, state support for agriculture is being wound back, reconfigured and reframed in many countries, including the world's leading producers. In 2013, the OECD measured support to farmers in developed economies at only half the level of the mid-1980s. The OECD has also noted a trend over the last 30 years away from the most 'market distorting' methods of state support, towards methods that are decoupled from production decisions. However, the quantum of state support

continues to vary wildly across the globe. While farmers in Australia, New Zealand and Chile receive less than 3 per cent of farm-based income from their governments, in Japan, Korea and Switzerland (among others), the figure sits somewhere between 50 and 66 per cent. Meanwhile, the old enemy in Australia's agricultural trade battles— the EU—recently earned praise from the OECD by cutting its support measures back to 19 per cent of farmer income (OECD 2014: 13, 28).

The delivery mechanisms for agricultural support have also changed over time. The concept of ecological stewardship—and of farmers as environmental protectors—has gained considerable traction in Europe and the US, but is yet to make its mark in Australia. Payments under the CAP (A$540 billion for 2014–20) are divided into two programs, one providing direct support and financial market measures, and the other devoted to rural development and 'agri-environmental' measures (OECD 2014: 21). One estimate of agri-environment expenditure by governments shows that, in 2005, the UK spent A$25.10 per hectare on such programs and the US A$9.70 per hectare, with Australia lagging at A$0.10 (Brett 2011: 60).

For decades, Australian governments have targeted agricultural support through multilateral trade negotiations in the GATT and the WTO. The last global treaty on agricultural trade, the Agreement on Agriculture (AoA) of 1995, reduced some export subsidies and tariffs, but had minimal effects in practice. The negotiating parties negatively affected by the AoA—notably Japan, the US and the EU—simply devised new ways to deliver state support to their farmers. The cuts to bound (or notional) tariff rates were also rendered meaningless in cases where the applied (or actual) tariff rate was already lower[44] (Roberts, Nair & Jacenko 2005: 210; ACIL Consulting 2003: 4–5). The pace of WTO negotiations is also notoriously slow, with consensus required among 160 member states. The current Doha Round of negotiations has been in (stop–start) progress since 2001 and has foundered due to the highly diverse interests and needs of its members. While Australia and the Cairns Group continue to push for free trade in agriculture, some developing countries have advocated higher levels of trade protectionism 'as a means of achieving the objective of development', for example

[44] The bound rate for a tariff line represents the maximum level allowed under international trade agreements. In practice, many countries apply lower rates on some tariff lines, whether across the board or only to selected trading partners.

through stronger tariffs on 'sensitive products' and staple foods (Roberts, Nair & Jacenko 2005: 216). Some of these countries—notably China—represent potentially stiff competition for Australia. In 2000, China and Australia recorded around the same value of agricultural exports (3.0 per cent of total world exports); by 2006, China had increased its share to 3.4 per cent, while Australia's share had fallen to 2.3 per cent (WTO 2007: 51). The trajectory of Chinese agricultural output will continue, albeit with gaps and weaknesses that should allow countries like Australia to profit (Zhou et al. 2012).

The frustrations of negotiating in the WTO prompted the Australian government, under Prime Minister John Howard, to begin a series of bilateral trade negotiations, with the aim of concluding Free Trade Agreements (FTAs). Since then, Australia has signed FTAs with several Asian trading partners and the United States. Despite their title and the fanfare surrounding them, these agreements have not resulted in the free flow of goods and service across borders (unlike the CER agreement between Australia and New Zealand). Rather, they allow *preferential* access to the markets of each country, a formula that allows each of the parties to the agreement to maintain barriers to particular items of trade. Australia's FTA with Korea, signed in 2014, demonstrates the difficulties in negotiating market access improvements when one party (Australia) already offers almost unfettered access across most tariff lines. On agriculture, the Australia–Korea FTA delivered immediate tariff-free access for all Korean agricultural products; for Australian producers, however, the pay-off would be a phasing out of Korean tariffs on Australian beef (40%) and dairy (36%) over a period of *20 years* (OECD 2014: 79). Similarly, the Australia–United States FTA provided only a modest benefit for Australian dairy farmers through the removal of the (already low) US tariffs on import quotas. The sticking point was the quotas themselves, which would not actually be abolished, but would increase gradually over time (Ashton 2005: 82). In 2015, the head of one of Australia's multinational dairy businesses, Parmalat Australia, provided some perspective on the likely benefits and timeframes of bilateral trade agreements:

> It is not so much the detail. It is more the symbolic coming together of countries saying we want to trade long term … Long-term free-trade agreements are really important,

> because behind that you can develop a capital investment plan over a 10-year horizon (Craig Garvin, quoted in Binsted (2015)).

4.4 Productivist agriculture and the rise of agribusiness

Gray and Lawrence (2001: 7–9) identify the productivist agricultural model as one of the reasons for rural Australia's social, economic and ecological vulnerability in the age of globalisation. Productivist agriculture developed in the United States following the Second World War, as a way of massively increasing agricultural output for export and for foreign aid. Fed by agrichemicals, synthetic fertilisers, new machinery and modified seed varieties, productivist agriculture achieved its goal—but at a huge cost to individual farmers, farming culture and the environment. It has been 'both a blessing and a curse' (Gray & Lawrence 2001: 8). Pollan (2009: 7) describes this as 'the industrial revolution of the food chain', a process in which fossil fuels (in the form of artificial fertilisers) have displaced the sun as the creator of calories in the plant world. In 1920, an Iowa farmer could produce 20 bushels of corn per acre; by 2000, this had grown to at least 180 bushels (Pollan 2009: 36).

The state played a pivotal role in the development of industrial agriculture, beginning with the US government's decision in 1947 to convert leftover munitions inputs into chemical fertilisers, to be marketed to farmers. Interventionist agricultural policies had started earlier, under the New Deal, in an effort to soften the harsh financial edges of natural boom-bust agricultural cycles. The basic tenets of US farm policy remained the same until the 1970s—despite campaigns by some economists and political leaders to dismantle farm support. It was under the Nixon administration that agricultural 'rationalisation' became a reality, with farmers told by the Agriculture Secretary to 'get big or get out' (Pollan 2009: 41, 49–52). The policy shift, which involved moving from price supports in the market to direct payments to farmers, had the effect of lowering market prices for crops and pushing up production, as farmers scrambled to plant more in order to make a living. By 2005, most corn farmers in the US were paid one dollar *less* for each bushel of corn than it cost them to grow it (Pollan 2009: 52–3).

Productivist agriculture led to massive global overproduction of some commodities; the crisis was not resolved by governments, but by 'private global regulation' provided by TNCs, exerting their market power (Gray & Lawrence 2001: 31–2). In the era of

globalisation, 'the integration of world capital has blurred any previous distinction between "agriculture" and "industry"', with profound implications for farmers and consumers (Gray & Lawrence 2001: 32). While global-scale agribusiness has generated massive output and corporate profits, it has also created unsustainable pressures on farming families, communities and the environment[45]. Farmers have little choice in where to sell their products, due to 'concentration and centralization' in the food manufacturing industry (Lawrence 1987: 108). Once enmeshed in global value chains, 'farmers are vulnerable to international market fluctuations and to the pricing policies of agribusiness firms' (Gray & Lawrence 2001: 8). Through their supply chain contracts, TNCs are able 'to decide what products farmers will produce, when, and with what inputs' (Gray & Lawrence 2001: 32).

Value chains separate the farmer from the consumer and link well-known brands under a small number of transnational corporate owners. The rise of transnational agribusiness has narrowed dramatically the market choices for farmers, stripped profit from the farm gate and moved it to corporate headquarters, and exerted powerful pressures on governments to facilitate capital accumulation in corporate agriculture (Lawrence 1987: 149–53). As well as creating enormous pressures that reduce the prices paid to farmers, transnational business structures can also deprive the state of tax revenue. Pritchard's (2001) analysis of the behaviour of food business behemoth Nestlé is illuminating. In 1995, the food division of Australian business Pacific Dunlop was sold to new foreign owners. The iconic Australian brands Peters (ice cream) and Yoplait (yoghurt) were acquired by the Swiss-based Nestlé Corporation. Both businesses were booming, and continued to do so under new ownership. However, through its (legal) structuring of business units, royalty payments and trademark ownership, the Nestlé group managed to minimise its taxation payments to Australian governments. By 2000, the Australian operations of Nestlé were repatriating around $500 million each year to their parent company in Switzerland and other foreign affiliates, yet paying significantly less tax in Australia than they had when owned by Pacific Dunlop (Pritchard 2001: 31–3).

As a market sector, the dairy industry provides an intriguing window onto the world of agribusiness and the position of farmers in a global value chain. The dairy industry in

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[45] Agribusiness is defined as 'those firms which integrate, through horizontal and vertical linkages, those operations associated with agricultural production, processing and distribution' (Lawrence 1987: 114).

the Shoalhaven region forms one of the case studies in this thesis (Chapter Seven), and so the remainder of this chapter will focus on the effects of globalisation on the operating environment for Australian dairy farmers.

4.5 Globalisation and the Australian dairy industry

For decades, the Australian dairy industry was subject to generous state support and heavy regulation. Imports of foreign dairy produce were subject to border measures (such as tariffs), and domestic milk sales were restricted geographically, with fresh drinking milk banned from crossing state borders within Australia. The industry enjoyed regulated prices at several points in the value chain: at the farm and factory gates and at the points of wholesale and retail trade. In 1999–2000—a time when most of the Australian economy had already been stripped of state protection—the effective rates of assistance to the dairy industry were 19 per cent for manufacturing milk, but a massive 200 per cent for fluid (or market) milk (Edwards 2003: 75)[46].

Although assistance to some parts of the dairy industry was reduced by the Whitlam and Fraser governments in the 1970s, full-scale deregulation was not launched until the arrival of the Hawke Labor government (Botterill 2003; SRRATRC 1999; Edwards 2003). In 1986, the Minister for Primary Industries and Energy, John Kerin, unveiled the government's plan to make milk production more responsive to market signals and more focused on international competition. This was later described by the Australian Dairy Corporation as 'a radically different approach to local industry support' and one that explicitly aimed to 'promote industry rationalisation' (SRRATRC 1999: 6)—which meant a reduction in the number of enterprises in the dairy sector and an increase in output and profitability for those that remained. The Kerin plan was more 'carrot' than 'stick'—it introduced a levy on all milk produced in Australia to fund payments to dairy exporting companies, which were concentrated in Victoria. (The Australian dairy industry was clearly split between seasonal milk production for manufacturing—chiefly in Victoria—and year-round production for fresh drinking milk in the other states, with separate prices and support schemes for the two industry sectors.) The major effect of the Kerin plan was to kick off a phase of rationalisation by dairy companies and

[46] Manufacturing milk is used as an input for the production of dairy foods (such as cheese), while fluid milk is processed and then sold in cartons and bottles. Most Australian reporting uses the term 'market milk', but we have opted for the more self-explanatory term 'fluid milk', as per the OECD (2005).

manufacturers, which sought to achieve economies of scale and invest in new product development and marketing to gain an advantage in increasingly competitive domestic and international markets (SRRATRC 1999: 20–1). The new policy direction of the Hawke government was firmly towards export-led growth, and the risks and commercial pressures associated with it.

The development of the Australian dairy industry was also affected by the Australia New Zealand Closer Economic Relations (CER) Trade Agreement, which came into force in 1983. By 1990, the CER agreement had eliminated all tariffs and quantity restrictions on the movement of goods between the two countries (DFAT 1997). In this new environment, and aided by their lower costs of production, New Zealand dairy manufacturers made deep inroads into the Australian marketplace. The Australian manufacturers most affected by the trans-Tasman competition were Victorian dairy manufacturers Bonlac and Murray Goulburn, but they decided there was something they could do about it: their new business plan depended on complete deregulation of the Australian dairy industry.

Under the National Competition Policy (NCP) of 1995, the Commonwealth, state and territory governments committed themselves to reviewing—and correcting—all legislation deemed to unnecessarily restrict commercial competition[47]. Under the auspices of the NCP, the states and territories duly undertook reviews of their regulatory regimes for fluid milk, but these produced markedly different results and recommendations (ACCC 2001: 5–7)—an outcome that highlights the highly subjective nature of judgements about 'the public interest' (Banks 2001). Tellingly, it was the Victorian government under the pugnacious Premier Jeff Kennett that emerged as the most strident proponent of quick, comprehensive deregulation of the fluid milk sector (ACCC 2001: 6). The Kennett government had outsourced its review of Victoria's dairy industry legislation to a 'prominent pro-liberalisation consulting firm', the Centre for International Economics, and industry deregulation followed the clean path outlined in its report (Edwards 2003: 84).

[47] For more on the NCP, see Chapter Two.

The arguments for and against dairy deregulation were examined in detail by the Senate Rural and Regional Affairs and Transport Committee, which conducted an inquiry into the matter in 1999. The committee's report made it very clear that the case for farmgate deregulation was being advanced solely by the Victorian dairy industry:

> Deregulation is supported principally by the large Victorian co-operatives and the United Dairyfarmers of Victoria. No other state supports market milk deregulation, nor is it supported by other dairy farmer organisations. However, Victoria produces almost two thirds of Australia's milk and the market in that state is dominated by two co-operatives, which are heavily geared towards the export market—it is this export market exposure which is the main commercial driver behind deregulation (SRRATRC 1999: 37).

The lobby group led by the United Dairy Farmers of Victoria (UDV), Bonlac and Murray Goulburn argued that the interventionist policy settings in the Australian dairy industry were working against them in two ways: first, by increasing retail prices and giving New Zealand dairy exporters a price advantage in the Australian market; and second, providing a competitive advantage to the Victorians' main domestic rival—the Dairy Farmers co-operative, centred in NSW and Queensland (SRRATRC 1999: 24). With the right economic arguments (and export earnings) on their side, one farmers' union and two dairy companies led the introduction of a major policy change, even in the face of strong opposition from every other state of Australia[48]. Through their public advocacy, the leading manufacturers in Victoria were lobbying for the full integration of the Australian dairy industry into the globalising economy. This was heartily endorsed by the Australian Dairy Industry Council (ADIC), which told the Senate inquiry that an earlier round of partial deregulation (at the wholesale and retail levels) had produced 'rationalisation' and 'a globalisation of the Australian dairy industry' through the entry of foreign investors. Full deregulation would, according to ADIC, result in even further rationalisation and productivity improvements, which were essential in order for Australia to compete with other leading dairy manufacturing countries (SRRATRC 1999: 38–9).

[48] Cocklin and Dibden (2002: 33–4) point out that not all Victorian dairy farmers—and not all members of UDV—supported deregulation. Nevertheless, Victorian dairy farmers voted overwhelmingly (more than 80 per cent) in favour of deregulation.

4.6 (Im)balances of power in the dairy supply chain

With full deregulation of the Australian dairy industry in place from July 2000, there were two sets of forces at play in establishing the prices Australian dairy farmers received for their milk: global competition; and power imbalances in the dairy sector in Australia. Both factors existed before 2000, but only assumed critical importance once deregulation was completed. Deregulation led to consolidation throughout the dairy supply chain: farm numbers dropped, herd sizes increased on the remaining farms, and the number of milk processors fell as market power was concentrated (SERC 2010: 2015). Although productivity increased, Australia's milk production fell: from 11.3 billion litres in 2001–02 to 9 billion litres in 2009–10 (SERC 2011: 134).

As a result of deregulation, international commodity prices quickly became 'the major factor in determining the price received by farmers for their milk' in Australia (Dairy Australia 2003; Judd 2009: 2). However, in the international market, Australian dairy producers were (and are) at a distinct disadvantage, bearing the brunt of the protectionist policies enjoyed by competitors in the European Union and the United States. The aims of domestic self-sufficiency in dairy products and financial viability for farmers in these foreign markets 'can only be achieved in conjunction with restrictions on competitive imports' (ACCC 2001: 16). The tariff and non-tariff barriers in the EU, in particular, are very effective in keeping Australian dairy products out, and this is one of the reasons that most of Australia's dairy exports are to Asia (SRRATRC 1999: 32). Trade barriers leave European dairy producers free to produce for a captive market, capitalising on economies of scale—and domestic subsidies—to create excess production, which is sold onto world markets at artificially low prices. For this reason, the three biggest producers in the EU (Germany, France and the Netherlands) together accounted for 44 per cent of world dairy exports in 1998, compared with just 12 per cent from Australia and New Zealand (ACCC 2001: 17). The quantum of subsidies paid to dairy exporters in the EU (and the US) is therefore one of the major determinants of world dairy prices (Spencer 2004a; SRRATRC 1999; PC 2014b).

One of the stated aims of liberalisation of the Australian dairy industry was to boost its competitiveness in international markets. However, Australia's export performance has not kept pace with its rivals: Australian dairy exports fell from 15 per cent of global

trade in 2002 to just 7 per cent in 2012 (PC 2014b: 56). Carving out new markets close to home—especially in China—represents Australia's best chance of reversing this trend. As in every other sector of the Australian economy, China is a tantalising prospect for agricultural exports. A major report commissioned by the Australian Department of Agriculture predicted that China would become an increasingly lucrative export market for food producers around the world. While China has the capacity for self-sufficiency in wheat, rice and eggs, the country is forecast to import dairy products (mostly milk powder and whey) for years to come. Per capita consumption of dairy products skyrocketed in China in the period 2000–10 (Zhou et al. 2012: ix, 25–6). While China has a domestic dairy industry, consumer faith was rocked by the melamine milk scandal of 2008—in which a Chinese dairy factory padded out its milk powder with a deadly chemical to reduce production costs—and foreign supplies are now seen as safer. During 2013, China's imports of milk powder climbed by 79 per cent, with increases in both quantity and value (European Commission 2014: 4). Australia has benefited massively from these changes in Chinese consumer tastes and preferences: Australian dairy exports to China (excluding cheese) leapt from A$100 million in the year 2011–12 to A$325 million in 2013–14 (DFAT 2014: 100).

The distribution of dairy export income within Australia is the second major factor influencing prices paid to dairy farmers, and it points to the power of the dairy manufacturers. As a result of history and geography, the performance of the export-oriented Victorian dairy industry is an important element in setting milk prices in Australia. Only 27 per cent of the milk produced in Australia is processed and sold as liquid (fresh and long-life) milk. Most undergoes further processing into cheese, butter, skim milk powder and whole milk powder, the majority of which is exported (Spencer 2004a: 19; Ashton 2005: 76; PC 2014: 35). For more than 20 years, the Victorian industry has dominated dairy manufacturing in Australia, with the largest number of dairy farms and the largest dairy manufacturing industry (built in part with the Hawke government's export subsidy) (ABS 2004: 446; Davidson 2002). Dairy manufacturers in Victoria calculate the prices paid to farmers after accounting for retail prices in export markets, plus their own capital costs and working capital (Spencer 2004a: 33). With geographical restrictions lifted and milk from Victoria free to flow into retail markets around Australia, 'every dairy farmer's farm gate price for milk is now ... affected by world prices no matter where they live within Australia' (ABS 2004: 450).

In simple terms, because of its size and international exposure, the Victorian dairy industry is the 'price maker' for milk in Australia, and dairy farmers in other states are 'price takers'. This power shift has been exacerbated by mergers and acquisitions in the dairy manufacturing sector, which have served to reduce competition and undermine the bargaining position of farmers.

4.6.1 Milk processors: concentration of ownership—and profits

Dairy processing began as a co-operative endeavour in Australia— most dairy factories were owned by farmers and operated to meet small-scale, local needs. This traditional model has been dismantled in a process of consolidations and mergers that began in the 1980s and accelerated rapidly (Davidson 2000: 100). Today, dairy is big business and the manufacturing side of the industry is dominated by large transnational enterprises. New Zealand's Fonterra is the world's largest exporter of dairy products. The company operates as a co-operative, owned by 95 per cent of New Zealand dairy farmers, and exports to more than 100 countries. Significantly, the Fonterra business model was built around a strong regulatory framework and involvement by the state, flying in the face of recent Australian experience. Fonterra was formed in 2001 through a merger of two co-operatives and the New Zealand Dairy Board, which was the statutory monopoly purchaser and exporter of dairy products in the country. Unsurprisingly, Australia's Productivity Commission has reacted with disdain to suggestions from Australian dairy farmers that Fonterra could be used as a model (PC 2014: 4–6). In Australia, Fonterra acquired the Bonlac milk processing company over the period 2001–06 (Fonterra Co-operative Group 2013). This was just one step in a larger, longer process of change in the Australian dairy industry, leading to greater concentration of ownership.

The turbulent journey of National Foods illustrates the relentless 'rationalisation' of the dairy industry in Australia. At the time of farmgate deregulation, the Australian-owned National Foods was one of three large processers (along with Dairy Farmers and Parmalat Australia) that dominated the liquid milk market (Spencer 2004a: 22). In 2004, National Foods became the subject of two competing takeover bids: the first from San Miguel, the multinational brewing company based in the Philippines, and the second from New Zealand's Fonterra. While San Miguel won the battle, it held onto National Foods for only three years, before selling the business on to Japan's Kirin conglomerate.

Shortly afterwards, Kirin acquired Dairy Farmers and then went on to buy Lion Nathan, the trans-Tasman brewing giant (see Table 4.1). As a result, Kirin owns (and subsequently merged) two of the major fluid milk processors in Australia. This is a story repeated around the world, as transnational corporations buy stakes in, or buy out, national dairy manufacturers, especially in emerging growth markets. The trend towards concentration of ownership in the milk processing sector has been evident in most dairy producing countries over the last 25 years (ACCC 2001: 23; Beatty 2005: 5).

Table 4.1: Milk processors in Australia, 1999–2011

Top five processors (by volume, 1999)	Ownership (1999)	Ownership (2011)	Notes
Murray Goulburn	Australia	Australia	
Bonlac	Australia	New Zealand (Fonterra)	Bought by Fonterra in 2006.
Dairy Farmers	Australia	Japan (Kirin)	Bought by National Foods in 2008; merged with Lion Nathan in 2009 and launched as Lion Dairy & Drinks in 2011.
National Foods	Australia	Japan (Kirin)	Bought by San Miguel in 2004; bought by Kirin in 2007; merged with Lion Nathan in 2009 and launched as Lion Dairy & Drinks in 2011.
Parmalat	Italy	France (Lactalis)	Italian parent company was bought by Lactalis in 2011.

Sources: SERC (2010); SERC (2011); Lion Ltd (2015); Fonterra Co-operative Group (2013); Lactalis International (2015).

The impact of ownership changes on dairy farmers can be difficult to pinpoint (although the particular case of farmers in the Shoalhaven will be examined in the case study in Chapter Seven). However, there is clear evidence of changes in retail milk prices and in the distribution of profit throughout the supply chain since 2000. Before deregulation, Australian dairy farmers captured 42 per cent of the retail sales value of fresh milk; by 2003, this had shrunk to just 25 per cent (Spencer 2004a: 24). Over the same period, retail milk prices barely shifted[49]. This meant that, in the few years following deregulation, retailers gained a A$300 million windfall in 'margin gains' from fresh milk (Spencer 2004b: 7). The question of where the profit now lies in the dairy industry

[49] The steady prices following deregulation were due in part to the price impact of the Dairy Industry Adjustment Levy—11 cents per litre—which was paid by milk processors, but, in effect, passed on in full to consumers (Spencer 2004a: 24).

is still being debated vigorously in the industry and in political circles. Supermarket retailers have emerged as disproportionately influential in the value chain of a deregulated market in Australian dairy products.

4.6.2 Milk processors and the supermarket duopoly

Australian supermarket retailing represents the apotheosis of monopoly capitalism. In December 2013, the two leading retailers—Woolworths and Coles—accounted for 72.5 per cent of supermarket spending in Australia (Roy Morgan Research 2014). In 1985, the figure was 45 per cent—at that time 'representing the biggest concentration of food retailing in any country in the world' (Lawrence 1987: 144). Australian retailers pounced to capitalise on the changes brought about by deregulation of the fresh milk sector. The leading supermarket retailers set up national supply contracts for their own 'home brand' (private label) milk, to be sold at discounted prices. With overcapacity a significant problem at that time, milk processors were unable to resist bidding for low-priced supermarket contracts 'in order to optimise plant throughput' (Spencer: 2004a: 24; SRRATRC 1999: 32; ACCC 2001: xvi). The milk prices under the supermarket contracts were so low that they triggered a major change in the distribution of profit throughout the milk supply chain. Using their price advantage, the supermarket retailers decimated the traditional dairy labels on the supermarket shelves. The supermarkets lifted their share of sales in the 2-litre milk category from less than 30 per cent to around 60 per cent in the three years to 2003 (Spencer 2004a: 24).

Milk processors were also implicated in the process of stripping profit away from dairy farmers. In 2001, Woolworths announced that it would pay milk processors an extra 15 cents per litre under its private label contract, which seemed welcome news for the industry. Yet, in the next financial year, the average price paid by the milk processors to NSW dairy farmers increased by only 0.3 of one cent (Dairy Australia 2004: 11, 39). The trend was that, 'as changes occur [in price], it is typically the manufacturer and/or marketer that absorbs or enjoys the changes in margin between farmgate and retail selling prices' (Spencer 2004a: 29). By 2004, the Howard government was sufficiently concerned to consider launching an inquiry into the dairy manufacturing sector, under the auspices of the Productivity Commission. Trade Minister Mark Vaile noted that farmers 'believe they're carrying their share of the efficiency burden ... I just want to

ensure that the rest of the industry ... is also up to world standards' ('Dairy inquiry being looked at' 2004).

The changes in the dairy supply chain in Australia were a logical outcome of deregulation, and were foreseen before deregulation was completed. The Queensland Dairyfarmers' Organisation put it succinctly in 1999:

> If we have 1,600 dairy farmers in this state dealing with two processors, who deal with three major retailers, who deal with the public, where is the equity in the value chain? ... We need some countervailing power in the hands of the producer to allow the negotiations to be carried out on a level playing field (SRRATRC 1999: 58).

The imbalance in negotiating power prompted dairy farmers to come together to bargain collectively with processors over milk prices. In late 2004 and early 2005, dairy processors Norco, Parmalat and National Foods were locked in fierce competition for milk supply in NSW, prompted by fears of a supply shortage. Norco offered a 10 cent per litre incentive payment to encourage farmers to switch from their existing processor. National Foods announced two price increases in two weeks—a total of one cent per litre—to lure the dairy farmers' collective bargaining groups back to the negotiating table ('Milk price war' 2004). By 2010, there were 16 collective bargaining groups in operation around Australia, representing 530 farmers (SERC 2010: 69). Yet there is evidence to suggest that the milk processors work to undermine the collective bargaining groups when this suits their commercial interests (SERC 2010: 70).

The question of how power is exercised, and where profits accumulate, in the dairy supply chain enjoyed a renewed public focus in 2010 and 2011, when a Senate committee conducted two inquiries into competition, pricing and supermarket power[50]. The inquiries by the Senate Economics References Committee were prompted by two headline events: first, the decision by processor Murray Goulburn to cut farmgate milk prices mid-contract in 2008–09; and second, the retail milk war sparked by the Coles supermarket chain in 2011, when it cut the price of its private label milk to $1 per litre, less than half the price of the established dairy brands (SERC 2010: 10–11; SERC 2011: 2). Both events highlighted the perilous position of dairy farmers in the deregulated market.

[50] Both committees were dominated (numerically and otherwise) by non-government Senators.

In the case of Murray Goulburn, the co-operative's decision to 'step down' the prices paid to farmers within existing contracts was 'almost unprecedented' in Australia, with the last instance occurring in the 1970s (Judd 2009: 2). The decision was prompted by weakening international prices for dairy produce, and was matched by the other large milk processors, creating the biggest price shock the Australian dairy industry had experienced since deregulation in 2000. Farmers in Tasmania, for example, suffered a cut of 6 cents per litre, generating a total loss of A$7.8 million spread across 90 suppliers (SERC 2010: 11).

The Senate committee's inquiry into the market power of Coles in the dairy chain was particularly heated, with government and opposition Senators splitting into two camps and inserting separate (and conflicting) comments and recommendations into the final report. The opposition committee members (including an unlikely alliance between the conservative Senator Bill Heffernan and Greens leader Christine Milne) expressed grave concerns about the presumed negative impact of retailer discounting on farmers, which would, they felt, ultimately cause farmgate price cuts, farm closures and loss of production (SERC 2011: 133). The committee was unable to forecast precisely the impact of the Coles retail price cut on farmers, beyond noting an estimate by peak industry body Australian Dairy Farmers of a 2-cent per litre cut to farmgate prices (SERC 2011: 63–4). This turned out to be a remarkably accurate prediction: in NSW, average farmgate prices fell by 1.9 cents between 2010–11 and 2012–13 (Dairy Australia 2014).

Yet the Senate committee grappled with what the government—any government—could do to stop the erosion of retail value: after all, the Australian Competition and Consumer Commission (ACCC) had already investigated Coles' conduct and found no evidence of predatory pricing. Apart from voicing its concern and urging the government to review competition legislation, there was nothing that a Senate committee could do, either. As the committee's report noted, competition law was not really the problem, nor the solution, because 'the milk pricing issue is fundamentally a matter that reflects imbalances of bargaining power at various points in the dairy industry supply chain' (SERC 2011: xv–xvii). In its earlier report (SERC 2010), the committee had already reached the view that the dairy value chain was horribly twisted,

operating to the overwhelming benefit of the Coles–Woolworths supermarket duopoly and squeezing dairy farmers and, to a lesser extent, the dairy processors.

In addressing the problems it had identified, the Senate committee recommended substantial government intervention in the market, through, inter alia: major changes to the *Trade Practices Act 1974* and its successor, the *Competition and Consumer Act 2010*; a 'moratorium' on takeovers and mergers in the dairy processing sector; and a forensic examination by the ACCC, to hunt out 'predatory pricing or misuse of market power' (SERC 2010: 3–4). It would have surprised no-one, not least the Senators themselves, that the Gillard Labor government was resolute in rejecting this approach to the dairy market. The government insisted that the pricing structures and contracts for fluid milk were 'a commercial matter for industry', and while transparency and consistency were to be 'encourage[d]', these were not matters in which government could take on a role (Australian Government 2012: 1–2). Of the 30 recommendations made by the committee across two inquiries, the Gillard government 'agreed in principle' to only six—and its responses to these six recommendations involved no changes to policies, no new funding and no commitment to new action[51]. For the government, the bottom line was that the Australian dairy industry must focus on global competitiveness above all else (Australian Government 2012: 2). Government Senators on the committee expressed full confidence in the laws of supply and demand, which would protect farmers from the prospect of cripplingly low farmgate prices (SERC 2011: 31)

Perhaps in an effort to support the outrage of its (then opposition) Senators in the two inquiries, the incoming Abbott Coalition government asked the Productivity Commission to conduct a limited study of the 'cost structures' of the Australian dairy industry (this was to be a case study report, and not a full-blown inquiry). On the basis of its research, the commission found that 'most costs are largely driven by market factors and the commercial decisions of businesses, where policy interventions are not warranted' (PC 2014: 3). Case closed.

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[51] There were 31 recommendations in total (including minority recommendations), but two of these were identical in wording.

4.7 Conclusion

The role of the state in Australian agriculture has undergone radical change. Where the state once protected Australian farmers from global economic forces, it now insists that they ‘help themselves’ through productivity improvements, increasing scales of production and a greater focus on export markets.

Within a global framework, Australia is in a very small minority in its fierce advocacy and implementation of neoliberal policies in agriculture. As we saw in Chapter Two, the Australian economy did reap benefits from the unilateral trade liberalisation introduced by the Hawke government in the 1980s. However, there was a clear downside—in international markets, many Australian producers could not overcome the trade barriers and production support maintained by other countries. The Australian dairy industry has been waiting for the rest of the world to level the playing field for many years. All the indications are that it will take many more years for this to occur.

Deregulation of the Australian dairy industry was prompted by the global market ambitions of dairy companies in Victoria, and endorsed by governments eager to encourage further internationalisation of the industry. The removal of state support for the dairy industry established a direct link between local prices, global market conditions and the trade and industry policies of other states. In a very real sense, foreign governments—through their agricultural and trade policies—now play a bigger role in the Australian dairy industry than Australian governments do, albeit in a distantiated way. The direct link between the state and price has been replaced by a longer chain of links stretching around the globe, no less powerful for the distances involved.

The perception that deregulation of the Australian dairy industry was inevitable was rarely challenged in what passed for the public debate about the withdrawal of state support: the ‘dominant discourse of economic efficiency, competitiveness and productivity’ was almost unassailable (Cocklin & Dibden 2002: 39). To expect a government to stand in the way of economic progress would have been absurd. Yet, in an interview just before deregulation was introduced, one Victorian dairy farmer pointed out the obvious:

> [T]hey said no one can stop it [deregulation]. Well, why have government if government can't stop it? Government can stop it (Cocklin & Dibden 2002: 38).

The Senate inquiries of 2010 and 2011, and the responses from the Gillard and Abbott governments, demonstrated the impotence of the parliament and the satisfaction of the executive government in the face of serious structural inequities in the dairy value chain. For all its good intentions, and despite testimony demonstrating the effects of power imbalances, the Senate committees could do nothing to change the circumstances of dairy farmers. It is difficult to imagine any Australian government of recent times—or into the near future—pursuing options that would buffer dairy farmers from inequities in foreign markets and the domestic processing and retail sectors. Certainly, re-regulation of some aspects of the dairy industry, or expansionary changes in the quantum or nature of budgetary support, could have this effect—but these are anathema to governments operating in the neoliberal policy framework. Politics is the art of the possible, and market intervention to stabilise milk prices seems well beyond the realms of possibility in Australian policymaking today.

CHAPTER FIVE: Globalisation in regional Australia

> Just as with the trade-off between tariffs and wages, there was a trade-off between the country and the city, brokered and administered by government … And, just as with tariffs and arbitration, neoliberal policymakers systematically attacked the terms and conditions of the trade-off and the ideas embedded in it (Brett 2011: 18–19).

5.1 Overview

According to one view, globalisation is characterised by the 'shrinking' of space and the compression of time, such that distance is no longer a barrier to communication, action or interaction. Other observers, however, have insisted that location and distance still matter (see Giddens 1990), a proposition borne out by Australia's experience of globalisation. The Australian population is overwhelmingly urban and coastal, and concentrated in the south-east corner of a very large continent. In the fifty years before the Second World War, the rural population of Australia barely grew, while the populations of Sydney and Melbourne swelled (Brett 2011: 20). By 2008, nearly seven in every ten Australians lived in a major city, and just 2.3 per cent of the population lived in remote areas (DITRDLG 2008: 4). Strong population growth continues in cities and towns along the coast, while most inland regions are experiencing much slower growth or even population decline (Daley & Lancy 2011: 10, 13–14).

For both theoretical and practical purposes, the relationship between globalisation and place deserves attention. In an increasingly urbanised Australia, to live far from the cities is to have different—lesser—opportunities. For example, while information and communications technology has compressed time and distance in many settings, and for many purposes, access to web-based technology is not universal. Australia has not developed an equal opportunity cyber-economy, due to the cost of installing infrastructure across such distances[52]. At a time when almost anything is taken to be possible (provided the technology exists), many Australians are struggling to shape their own futures and to grasp the opportunities that more privileged citizens take for granted.

After surveying current preoccupations in the field of regional studies, Beer, Tually and Cutler (2004: 6) concluded, unflinchingly, that 'Australian researchers may have lost

[52] For this reason, the ALP's commitment to constructing the National Broadband Network—a near-universal high-speed system at low cost to the user—was the 'clincher' that won the party the support of rural independents following the 2010 federal election, and thus government (Brett 2011: 5).

the ability to take on some of the more complex research tasks' that were crying out for attention. However, in a later survey of the (much broader) field of economic geography, Beer (2012) noted the laudable efforts of researchers to address the big issues in Australia's economic development, notably globalisation and neoliberalism. Globalisation, including its effects in particular places, has been a 'major theme' in Australian economic geography since the 1980s (Beer 2012: 271). This thesis is an attempt to contribute to this discourse on regional Australia, globalisation and neoliberalism, drawing on the literature of regional studies and geography. While it does not stay strictly within the bounds of a political economy approach, the chapter is strongly influenced by the rigorous work of political economists such as Frank Stilwell and Geoff Lawrence.

5.2 What makes a region?

The region is 'an elastic concept', with a scale that can range from continents down to suburbs (Stilwell 1992: 47). The distinctions between regions—including metropolitan, regional and rural areas—need to be understood in order to make sense of the effects of globalisation in Australia. However, dividing the continent up into regions using coherent categories is notoriously difficult, as the Australian Bureau of Statistics (ABS) has made clear. The ABS (2001a: 1) acknowledges that,

> [m]any users of statistics and administrative data have expressed a need for a standard classification which defines metropolitan/regional/remote or … a variety of other terms which in general refer to the urban/rural dichotomy.

The ABS resisted these pleas for a definitive ruling, for the simple reason that 'these terms mean very different things to different people' and can have 'conflicting meanings in different applications' (ABS 2001a: 1). Taking a broader view, Stilwell (1992: 45–7) sets out three different approaches to defining a region, based on (a) homogeneity; (b) function; or (c) programming. This thesis uses, most obviously, the last of these approaches, in which the boundaries of a region derive from institutional structures (such as local government area boundaries). However, it should be noted that the Shoalhaven region also contains a great deal of homogeneity in terms of its geography, demography and living standards. This internal cohesion lends greater

validity (if any were required) to the choice of the Shoalhaven as the subject of this thesis.

The concept of the region takes on a different hue when the adjectival form ‘regional’ is introduced, and especially when it is paired with ‘rural’, generating the ubiquitous term ‘rural and regional Australia’. Of course, this conceptualisation invariably has consequences at the policy level. Beer (2012: 277) notes, with some frustration, the strong non-metropolitan bias in regional policy in Australia, which ‘is seen to encompass non-metropolitan regions alone’, leaving urban regions invisible in much of the public and political discourse. For example, while the ABS Remoteness Structure uses five categories to define regions—including ‘major cities’—the bureau acknowledges that the two categories ‘inner regional’ and ‘outer regional’ are ‘what most people consider “regional Australia”’ (ABS 2001b: 14). Taking a pragmatic view, McManus and Pritchard (2000a: ix) note that usage of the term ‘rural and regional Australia’ in both the media and political discourse tends to mean ‘the areas outside the capital cities’, and that this seems as good a definition as any[53].

The idea of non-metropolitan Australia as an area defined by what it lacks (in comparison to urban areas) is at the heart of the academic discourse on regional Australia. For Gray and Lawrence (2001), the difference between regional and rural Australia, on the one hand, and metropolitan Australia, on the other, is not primarily a matter of distance or population size. Rather, it comes down to a fundamental imbalance in power, resources and opportunities. The state and territory capitals are where ‘the dominant activities of Australian political, social and economic life take place’ (Gray & Lawrence 2001: 2). By definition, everything else is marginal. Thus, Gray and Lawrence (2001: 2) define regional Australia as ‘that part of Australia and its population which has a distinctive relationship, sometimes incompletely described as dependency, with metropolitan Australia’.

Gray and Lawrence include in their definition of ‘regional’ not only villages, but large industrial centres, such as Wollongong and Newcastle. Other authors, too, are at pains to emphasise that regions are also found in metropolitan areas, such as the outer suburbs

[53] This thesis most often uses the term ‘non-metropolitan regions’, but also uses the vernacular ‘rural and regional Australia’ where this makes sense.

of large cities like Sydney (see Beer, Maude & Pritchard 2003). At the most basic level, a region is 'a group of adjoining areas or places that have something in common'—and it can be argued that the western suburbs of Sydney have more in common with each other than with the inner city (Beer, Maude & Pritchard 2003: 41).

Depending on its usage, the term 'regional Australia' can also encompass rural areas—although these are often identified separately. 'Rural' is a slightly simpler term to define, given its strong connection to agriculture. Gray and Lawrence (2001: 2) describe rural Australia as those areas, and their populations, 'whose economic and social lives are connected with, if not dependent upon, agriculture'. Where to draw the line can be difficult to decide. Beer, Maude and Pritchard (2003: xi) point out that one of the (many) misconceptions framing debates about regional Australia is that non-metropolitan regions 'depend entirely upon agriculture and its supporting industries'. The relationship between agriculture, globalisation and regional Australia is not as straightforward as some might imagine. Primary industries are located in regional Australia, but this does not mean that the economic performance of communities and towns is *necessarily* dictated by the fortunes of agricultural industries. The economic diversity of regions, and thus their sensitivity to farm performance, varies and some regions rely more, or less, on the economic knock-on effects of farm production, such as locally-based spending on inputs (Beer, Maude & Pritchard 2003: 91, 94–5)

A unit of territory can also be defined by its culture and social meaning. Although 'rural', 'regional' and 'metropolitan' might coexist as points along a common definitional spectrum, in the lived reality of Australia, economic and social relations have long reflected a clear 'city versus country' dichotomy, with the terms describing 'cultural as well as geographic locations' (Brett 2011: 13). This dichotomy was created by, and reinforces, compelling differences between metropolitan Australia and rural and regional Australia—differences which become apparent when we consider the economic, social and political significance of regional Australia.

5.3 Inequality and regional Australia

Spatially-based economic disadvantage is not unique to Australia, but neither is it as pronounced in Australia as in some other countries: the north-south divide in England is

a classic example of inequality writ large (Stilwell 1992: 48–9). The ‘regional problem’ also has very different connotations in different parts of the world, and includes movements for sub-national independence, for example. In Australia, while the nature of the problem is less dramatic, regional inequality is ‘a persistent source of political tension’ between regions, including between urban and rural areas (Stilwell 1992: 44). This political tension became highly visible in the 1990s, leading to a new wave of social and economic research into regional income inequality. For example, the study conducted by Lloyd, Harding and Hellwig (2000: 290–1) revealed ‘a large and growing gap’ between the incomes of city-based Australians and those in the rest of Australia—although inequality *between* and *within* non-metorpolitan regions of Australia was also increasing.

Stilwell (1992: 49–52) explores a range of discursive approaches to the causes of regional economic inequality, each of which yields different answers. Depending on the theoretical approach, regional inequality may be caused by any of the following:

- the internal characteristics of each region
- the natural temporal lag associated with industrialisation across a national space
- the capitalist mode of production, which relies on ‘spatial specialisation’
- the inability of the state to redistribute income across the nation.

Before considering the nature of regional inequality in the era of globalisation, a brief historical overview will help to identify the critical issues.

5.3.1 The trajectory of inequality

Rural Australia (broadly conceived) enjoyed a long and prosperous ascendancy over urban Australia in the early days of the colony[54]. The economic, political and cultural power of rural and regional Australia was based primarily in wool production, which drove the booming Australian economy of the nineteenth century. Wool exports also created significant economic activity in the cities. Brett (2001: 27) explains that Australians in this period ‘did not settle in large numbers on the coast because they liked the beach, but because this was where the ships came in’.

[54] This conception of a prosperous ‘rural Australia’ does not, of course, include Indigenous Australians.

In a nation as large as Australia, maintaining rural and regional communities comes at a cost. For several decades—until the 1980s—the Australian state accommodated the needs of regional and rural communities, despite the financial costs involved. Brett (2011) explains that fairness, or the concept of a 'fair share', has been central to the political economy of regional Australia and the political debate at the federal level. She points to 'regional or spatial equity' as intrinsic to Australian egalitarianism since the time of federation in 1901 (Brett 2011: 7). Under the terms of Australian federation, remote communities were guaranteed equal access to certain services, which linger even today (for now, at least). For example, the cost of posting a standard letter would be the same, regardless of distance, and all Australians would have equitable access to telephone services (Brett 2011: 23). While rural and regional communities have historically been 'fiercely anti-labour', they have been 'as socialist as anyone' in their view that the government's role was to ensure the viability of their way of life (Brett 2011: 8).

Population concentration in Australia's cities has grown since the 1950s, and with it the inexorable cultural rise of metropolitan Australia and the 'push[ing] aside' of rural Australia (Brett 2011: 3–4; Daley & Lancy 2011: 9). The economic basis of this power shift lies in the relative decline of agricultural production as a source of national income, and the rise of both services and minerals as generators of wealth. The larger the cities became, the greater the share of wealth they produced. For Daley and Lancy (2011: 8), agglomeration economics means that large cities—in Australia and throughout the developed world—will naturally create more economic activity and growth than any other type of region[55]. In Australia today, large cities generate nearly 80% of GDP and hold 75% of jobs.

Changes in the political economy of rural Australia have also been reflected in the flagging fortunes of its traditional political party. The National Party (previously the Country Party) has fought for, and won, federal seats for nearly 100 years—but the seats are become fewer, and the party's political influence within the Liberal–National coalition is fading (Brett 2011: 43–7). In 1984, the National Party captured 10.6 per cent

[55] Daley and Lancy (2011: 8) define 'large cities' as those with populations of more than 100,000 people.

of the national vote and 21 seats in the Australian parliament; this had almost halved—to 5.5 per cent and ten seats—by the 2007 election (Brett 2011: 22). The demise of regional Australia as a power centre is also reflected in, and reinforced by, the major parties' growing focus on marginal city electorates. In the wake of the 2010 federal election, which produced a hung parliament and lay the balance of power at the feet of four rural independent MPs, one of them—Tony Windsor—expressed the hope that the result would place rural voters back on the political radar (Brett 2011: 5). Such hopes have withered since then.

5.4 The drivers of regional policy in Australia

From the perspective of government, regions—with their small towns and villages—are often seen as 'problems' to be 'solved'. They may be problematic in terms of their location (remoteness), the size of their populations (too small to justify investment), or the lack of qualifications or skills in their workforces. Problems demand solutions, and so governments have applied a range of different policy solutions to the problems of regions. The solutions have been heavily weighted in favour of the creation of economic activity and employment.

In the years that followed federation, the history of regional policy in Australia (albeit under other names) was one of redressing the imbalances between urban and rural Australians. In the 1920s and 1930s, governments adjusted the electoral system, introduced fiscal equalisation between the states, built large-scale infrastructure in remote areas and supported agriculture through trade protection (Brett 2011: 21, 23–4).

Following the Second World War, governments (at federal and state levels) pursued two sets of policy priorities that had particular impacts in the regions: the growth of manufacturing capacity, aimed at import substitution; and the decentralisation of population. As a result, many regional areas—including the Hunter Valley and Illawarra in NSW—became home to new industries and new jobs. Manufacturers were enticed, through financial incentives offered by the state, to either shift existing industrial enterprises to new regional locations, or, in the case of multinational firms, to set up shop in Australia for the first time, protected by a high wall of tariffs (Beer 2000: 173; Brett 2011: 31, 35–6; Beer, Maude & Pritchard 2003: 25, 160; Stephens & Laughton

2003: 7).

Driving the population out of metropolitan centres and into the great swathes of undeveloped and sparsely populated regional Australia was a hallmark of government policy for a century. From grants of pastoral land to settler families in the 1860s to the soldier-settler schemes that followed both the First and Second World Wars, Australian governments were anxious to populate the 'hugeness' of the continent (Brett 2011: 28–31).

In the post-war era, mainstream economics (Keynesian and neoclassical) have provided the basis for the standard policy prescriptions applying to regional development, such as an emphasis on resource reallocation to generate productivity gains, and investment in regional infrastructure to generate economic activity (Stilwell 1992: 79–84). Some more specific elements of these economic theories, such as 'growth pole theory', were applied to regional development and spawned a generation of programs that would fund (or otherwise support) the establishment of 'key industries' or industrial hubs, in order to establish 'an initial growth lead' in a region (Stilwell 1992: 97–9). For example, the mission of the NSW Department of Decentralisation and Development (established in 1965) was 'to facilitate the balanced and orderly industrial/commercial development of the whole state' (NSW Archives 2010). The method of this 'facilitation' varied over time, but included assistance to industries and enterprises that wished to establish operations in NSW, especially in non-urban areas. These decentralisation programs were described by Beer, Maude and Pritchard (2003: 25) as 'heroic', but ultimately doomed to failure. They failed for a number of reasons, primarily: the 'footloose' nature of the investments; the artificial competitiveness of the subsidised industries; and the 'weak connections' between the new enterprises and existing local businesses (Stephens & Laughton 2003: 7).

With this history in mind, it is time to consider how globalisation has contributed to inequality, development and policymaking in Australia's regions.

5.5 Globalisation and regions: in theory

The transformationalist school of globalisation theory reminds us that globalising forces have a very uneven impact, differing across countries, regions and industries. Although globalisation is, by definition, a global phenomenon, its effects are highly differentiated. Globalisation theory describes the reaction to globalisation at the local level. As people become aware of the global pressures affecting their lives, ‘we see the strengthening of pressures for local autonomy and regional cultural identity’ (Giddens 1990: 64–5). This is ‘localisation’. As Waters (2001: 5) describes it, localisation is ‘a reflexive reconstruction of community’ in response to ‘the dehumanising implications of rationalizing and commodifying’. While this is, potentially, a welcome push against the pressures of globalising capital, Stilwell (1992: 218) cautions that localism and regionalism are not necessarily forces for progressive change: ‘They are all too often parochial in practice’.

Research projects examining change in regional Australia through the prism of globalisation form a growing segment of the regional studies field. Gray and Lawrence (2001) have made a substantial contribution, concentrating in particular on rural areas and the agricultural sector, but extending their analysis to conditions common across non-metropolitan Australia. They identify evidence, across a range of literature, ‘of a process of struggle at the level of community, family and individual’ to resist global forces (Gray & Lawrence 2001: 161).

Gray and Lawrence echo many of the views of the transformationalist school of globalisation theory. Notably, they recognise the culpability and pervasiveness of neoliberal economic policies, and they seek to correct the mistakes of dominant economic theory and practice by including people and power in their considerations (Gray & Lawrence 2001: 38–43, 50–1). Gray and Lawrence (2001: 43–4) contend that any adequate analysis of the economic problems of regional Australia must consider power relations—not only those that spawn public conflict and attract headlines, but those ‘where no overt conflict or debate is apparent’.

5.6 Globalisation: impacts in regional Australia

Gray and Lawrence (2001) view the effects of globalisation as largely negative, more so for Australians in rural and regional areas than for their fellow citizens in the capital cities. In great expanses of rural and regional Australia, banks and businesses have closed, health and community services have disappeared and villages have emptied out as people leave to pursue opportunities elsewhere. Across the country, Australians have been told that change is a necessary precondition for their survival: they must 'participate in a new technically and culturally sophisticated international economy with which very few have had direct contact' (Gray & Lawrence 2001: 41).

The question of precisely *what to do* about globalisation in regional Australia elicits a mix of responses, all of which grapple with the enormity of existing structures, traditions and mindsets. For Gray and Lawrence (2001: 182, 208), the frustration lies in the fact that regional Australia 'is saddled with limited reflective capacity and an interminable powerlessness in its relationship with metropolitan Australia'; and yet, 'there are alternatives' and new possibilities arising from globalisation, if only regional people can understand and exploit 'the contradictions of neoliberalism'. For Beer, Maude and Pritchard, the economic landscape of each region is difficult to change:

> To a certain degree the growth prospects of every Australian region have already been determined. The nature and rate of economic expansion will reflect the mix of industries, resources and opportunities already contained in their boundaries. To a certain measure also, the prospects and rate of growth or decline will be determined by external forces—national or international—that are beyond the control of individual regions (Beer, Maude & Pritchard 2003: 246–7).

This sober assessment highlights two pertinent points: first, that each region is equipped differently to respond to the opportunities and threats presented by globalisation; and second, that the actions of national and international entities—including governments and businesses—have a large bearing on the fortunes of Australia's regions.

At this point, it is essential to acknowledge that partially urbanised regions, too, have been adversely affected by globalisation. In their study of globalisation, restructuring and industrial relations in the Hunter Valley region of NSW, Macdonald and Burgess (1998) highlight the structural impacts of transnational decision-making and neoliberal

policymaking on urban employment. In 1997, resources giant BHP announced that it would close its steelmaking operations in Newcastle by 1999, with the projected loss of 2,500 jobs at BHP and up to 6,000 jobs elsewhere in the local economy (and this on top of massive job losses throughout the 1980s, in a process of largely cooperative industry and enterprise restructuring). The utilities sector had also been an important source of jobs in the region, but state-led processes of 'restructuring, privatisation and corporatisation' in electricity, water and transport destroyed 70 per cent of these jobs in the period 1996–98 (Macdonald & Burgess 1998: 11).

The varied experiences of globalisation across Australia are visible in economic surveys. The *State of the regions report 2002* revealed that 'Australia had very few regions that were highly competitive in the global economy' and that '(e)quality of regional incomes had "drastically" worsened since 1998' (Montgomery 2003). Studies by the National Centre for Social and Economic Modelling (NATSEM) and the National Institute of Economic and Industry Research (NIEIR) produced similar results: some regions of Australia declined, and others prospered, under the new orthodoxy of neoliberalist globalisation (in Beer, Maude & Pritchard 2003: 2–3).

Tonts (2000) demonstrates the importance of taking a nuanced approach to examining regions and evaluating their performance. Put simply, it is not true that *all* rural and regional communities are in decline. By 2000, the evidence showed that coastal regions, 'scenic rural regions' and peri-urban regions were performing above average in economic development terms, due to their attractiveness to visitors, new residents and investors (Tonts 2000: 52, 54–5). However, as a general rule, small towns (with populations of fewer than 5,000) have been particularly vulnerable to the negative employment, economic and demographic effects of rural restructuring since the early 1990s. Nevertheless, even in small communities, population growth is possible, particularly in coastal regions and near capital cities (Tonts 2000: 55–6).

As we saw in Chapter Two, the effects of globalisation vary between industries and this has important implications for regional Australia. There are many factors that help to explain place-based disparities in the impacts of globalisation, ranging from the concentration of particular industries to cultural diversity and the strength of local institutions (Rainnie 2003). Beer, Maude and Pritchard (2003: 4) argue that the key

factor in explaining or predicting the economic performance of a region is its industry profile; the ability of businesses within those industries to 'embrace change' is also crucial.

The flexibility and resilience of a local economy is dependent on more than just industrial capacity and diversity. Gray and Lawrence (2001: 192, 201) show that, in order to develop successfully, rural and regional communities require three inputs: social (collaborative) capital, human capital and economic capital. Hodgkinson and Iredale (2003: 10) note that,

> the increasing emphasis on human capital, as opposed to physical capital, means that regions that have or acquire skilled, creative and entrepeneurial people are bound to see the most development.

These observations are part of a broader debate about whether, and to what extent, regional towns are becoming 'uncoupled' from the agricultural economy and pursuing 'postmodern' economic options such as tourism and IT-based industries (Gray & Lawrence 2001: 110–2). The bottom line is that location matters, and it might just matter now more than ever:

> Change within the economy and change within political processes has meant that, for most Australians, where you live—your region—has become a much more important determinant of quality of life that it was thirty, twenty or even ten years ago (Beer, Maude & Pritchard 2003: 4–5).

Within the globalisation framework, the forces that are brought to bear on regional economies are not just those of big business or foreign governments. The policy decisions made by governments in Australia, and the political ideologies that underpin these decisions, are critically important to how Australia's regions are able to anticipate and respond to globalisation (Beer, Maude & Pritchard 2003: 46). In explaining these impacts, neoliberal economic policies demand particular attention.

5.6.1 Neoliberalism and regional Australia

As we saw in previous chapters, Australian governments of both political persuasions have been heavily implicated in the spread of globalisation and neoliberalism. Beer,

Maude and Pritchard (2003: 2) place their study of regional development in the context of the 'radical economic, social and political reform' program that began in Australia in the 1980s. They identify several policies—mostly at the federal, but also the state level—that have had 'significant knock-on effects' for regional Australia:

- the lowering of tariffs and other trade barriers
- the floating of the Australian dollar
- deregulation of financial markets
- privatisation of government services (Beer, Maude & Pritchard 2003: 2).

It was at the federal level, initially, that the state made pivotal changes that radically altered the political economy—and the possibilities—of rural life. Treading a path of fiscal conservatism and devolution of policy responsibilities, state and territory governments joined the federal government in stripping away many resources and opportunities from Australia's rural towns (Brett 2011: 18; Beer et al. 2005: 50–3). The 'radical rationalisation' of government service delivery led to a spate of privatisations, and, inevitably, the withdrawal of services and jobs (and community capital) from far-flung towns and villages (Brett 2011: 50–1). This became a central part of the neoliberalisation story in Australia: since the 1980s, 'the country has seemed to be in a perpetual state of crisis', marked by 'dying towns' and crippled industries (Brett 2011: 15).

For Gerritsen (2000: 123–4), the negative effects of globalisation in regional Australia have been 'exacerbated' by the new management and policymaking orthodoxy—and 'policy-making atrophy'—of federal and state governments. He draws a direct causal link between globalisation and contemporary regional policy in Australia: globalisation is responsible, 'in part', for the propagation of these policy and management frameworks. Gerritsen (2000: 127) describes how 'New Public Management' has affected rural and regional Australia, through the recentralisation of many functions in state agencies and consequent restructuring and downsizing in non-metropolitan locations. Beginning in the 1980s, the New Public Management approach to governance saw the public sector in Australia replace its traditional focus on administrative process with a focus on results, and an attendant emphasis on efficiency, productivity and competition (Gerritsen 2000: 127). This was an inevitable result of decisions by

governments to withdraw from many areas of the economy and to instead encourage contestability, corporatisation and outsourcing of many functions of the state (Gahan 2007: 232–3).

As Gerritsen (2000: 129) points out, the ripple effects of rationalisation processes emanating from administrative headquarters can travel a long way. When telecommunications giant Telstra (then a government-owned enterprise) closed its Wilcannia depot in remote NSW in 1992, the small town lost 90 jobs immediately; over the next few years, the population declined by more than 90, and the crime rate climbed. Little wonder that discontent with the new paradigm of public administration was eventually expressed, with some force, through voter support for the maverick One Nation party at the Queensland and federal elections in 1998 (Gerritsen 2000: 128; McManus & Pritchard 2000b: 1, 9).

In 2010, in its post-election agreement with two of the country independents, the federal Labor Party made a 'Commitment to Regional Australia', which stated that,

> The quality of healthcare, education, broadband, transport and infrastructure has been allowed to fall behind that of other parts of the nation, leading to continued urbanisation and discontent in regional areas (in Brett 2011: 5–6).

Even allowing for the politics at play in such a document, this was a stark statement about the outcomes of the neoliberal economic policies pursued by the ALP under the Hawke and Keating governments. It was these governments that dismantled what Brett terms the 'sixth pillar' of the Australian Settlement—the 'trade-off between the country and the city', whereby the government of the day would 'compensate country people for the costs of remoteness and sparse settlement, to give them a "fair share" of Australia's resources' (Brett 2011: 18–19) [56].

5.7 Regional policy in the globalisation era

Regional development policies now encourage regions to 'capitalise on region-specific resources, know-how and locational advantages'—this is an environment in which

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[56] This concept expands on Paul Kelly's five pillars of the Australian Settlement: protective tariffs, wage arbitration, state paternalism, the White Australia policy, and a defence policy wholly reliant on ties to a hegemon (Great Britain, the US) (Brett 2011: 17; Kelly 1992).

regions ‘compete against each other in a global market’ (Stephens & Laughton 2003: 7). In the era of globalisation, in addition to the global marketplace, there is also a ‘place-market’, in which localities promote themselves to private capital, fighting for a bigger share of the investment and jobs pie (Hudson & Sadler 1989: 138). Beer, Maude & Pritchard (2003: 19) explain the impact of global markets and globalisation on regional development policies in Australia:

> It is an article of faith within our local and regional development policy in Australia that our domestic markets are too small to guarantee prosperity and that businesses and regions need to inject themselves into international trade in order to secure a more prosperous future.

Gray and Lawrence (2001: 192–3) argue that there *are* things that regional communities can do to become successful and competitive in the age of globalisation—but they cannot do them ‘without support from central government’, and regions must ‘direct that intervention’ from the state. This argument is in keeping with Stilwell’s (1992: 206) case that, although the nation-state ‘remains constrained by the influences of capital and class’, it is not impotent, and it can—and should—implement targeted regional policies for job creation and industry development. Stilwell (1992: 53–4) also highlights the fact that regional inequality not only damages equity, but it has significant potential to drag down national economic efficiency and growth.

A commitment to equity might demand a role for the state in fostering regional development, but the size of that role, and the extent of the development assistance, is a point of contention. Taking a markedly rationalist approach, Daley and Lancy (2011: 6–7) contend that differing growth rates across regions are a natural phenomenon in Australia, and that governments are foolhardy in seeking to induce economic growth in struggling regions—something they liken to ‘push[ing] economic water uphill’. They recommend that Australian governments focus regional development funds on infrastructure and innovation in regions that are *already* growing—mostly those within a 150km radius of a large city or coastal or mining town. Deterministically, they conclude that ‘there is relatively little that governments can do to increase the economic growth rates and population growth of particular regions’, because growth is largely determined by exogenous factors that naturally favour urban agglomeration (Daley & Lancy 2011: 20).

There are inherent dangers in designing policy to meet—rather than challenge—the globalisation orthodoxy. Beer (2012: 276) and McIntosh et al. (2008) list the elements now considered critical by many policymakers and theoreticians to the development of regions: human capital (including local leadership, creativity and innovation); social capital; produced capital; and natural capital. Across this list, there is ample scope for fads and bursts of concentrated policy enthusiasm. Around the developed world, governments have sought to rescue faltering industrial economies and 'even out' inequalities between regions through capitalising (and capitalising on) knowledge production (Hudson 2011). This fervent (but often intangible) belief in the power of 'knowledge' to create high-tech, high-profit industries for the new millennium became a touchstone for regional development in the 1990s and spawned policies designed to incubate knowledge and transfer it to the private sector. 'Cluster theory', which lauded the relationships between firms, suppliers and contractors in close proximity to one another and in related sectors, gained much attention and many proponents, among them the OECD (Beer 2000: 183). A related line of enquiry centred on 'creative milieux', a concept that highlighted the importance of knowledge, information and creativity in regional business success (Hodgkinson and Iredale 2003: 13). Hudson (2011) highlights the many flaws in this approach to development, for example, that a knowledge-based regional economy is still operating within the capitalist system and subject to its weaknesses, and that it is simply not possible for every region pursuing a knowledge-based economy to trump each of its rivals.

Globalisation has also had an explicit impact on theories of regional development, through a paradigm known as 'New Regionalism', which emerged in Europe and was fostered by the OECD (Rainnie 2003: 13). New Regionalism drew heavily on the work of Giddens, particularly his concept of globalisation 'pulling away' power from the nation state while also 'pushing down' pressure for the development of regional or local autonomy (Rainnie 2003:13–14; Giddens 1999: 13). In essence, New Regionalism advocated the development of knowledge-based regional economies, in which clusters of local firms, global corporations, institutions and development agencies collaborate to achieve individual and collective success (Rainnie 2003: 13–15). The argument, as advanced by the Australian Local Government Association, was that regions needed to be assisted to 'attain their knowledge-based potential' and compete with other regions in the global marketplace (in Rainnie 2003: 15). The promise was of 'a more democratic

and inclusive approach to regional development' than neoliberal, market-led policymaking would allow (Rainnie 2003: 17). The parallels with 'Third Way' post-social democratic politics, as advocated by Giddens, were clearly discernible. Rainnie (2003) was wary of the uncritical acceptance of New Regionalism in Australia and expressed concerns about the incorporation of other current—but questionable—regional development fads into New Regionalism, such as cluster theory and 'creative region' theory[57].

The trend towards knowledge-based capitalist production as a regional development policy panacea is generally based on (or assumes) urban attributes. For example, in the case of North East England, major regional universities were pivotal in the effort to generate and translate research into production and jobs (Hudson 2011). However, for many regions in Australia, and especially for rural regions, an emphasis on the capitalisation of knowledge and the development of spatially-concentrated industry clusters simply cannot apply, for reasons of geography and distance. Instead, the aim of many regional development policies in Australia over the last 15 years has been to build the 'resilience' of rural communities. Resilience is a complex psychological concept that centres on an individual's ability to adapt positively 'despite exposure to significant adversity' (McIntosh et al. 2008: 3–4). When applied to groups of people and communities, the concept involves the ability to 'bounce back' from an adverse event, but also, crucially, the capacity to anticipate and plan for change (McIntosh et al. 2008: 3–4). Attempts to build resilience through regional development policy in Australia have had mixed results. In reviewing the outcomes of programs at the federal and state levels, McIntosh et al. (2008: 5) found that the federal Sustainable Regions Program may have had the potential to foster solutions across regions—except that the largest target region (the Darling Matilda Way) received no project funding at all. In NSW, the Strengthening Local Communities program (established in 2001) was 'apparently falling short of the mark', while in WA, there was no information available on the outcomes of the Community Builders Program. In Victoria, by contrast, Wear (2008: 205) is highly complimentary about the state government's Indicators of Community

[57] The 'creative region' was promoted by Richard Florida (2003), who claimed that the prosperity of regions depends on their ability to attract 'creative workers' and build a local economy based on creative enterprises.

Strength database, which he describes as 'an excellent measure' of the strength of spatially-based networks.

The new mantra is 'self-help'—although many authors point out that the capacity to help oneself is highly variable across regions, and that governments need to ensure that communities are sufficiently equipped to forge their own paths (see Beer, Maude & Pritchard 2003; Rainnie 2003: 15; Stephens & Laughton 2003: 9–11). Rainnie (2003: 15) points out that these approaches to regional development are awash in 'the language of empowerment and self activity', and while this might seem democratic and laudable, such concepts,

> can easily fit into a neo-liberal approach which allows the State to wash its hands of responsibility for less favoured regions, arguing that salvation now lies in their own hands (Rainnie 2003: 15).

For Gray and Lawrence (2001: 112), the new style of regional policy upends the traditional notion that this policy area might be concerned with redistribution and equity. Instead, in placing 'an ever-increasing burden of development on to the shoulders of individuals and communities', neoliberal policies are 'deepening … the chasms' between those communities that are naturally equipped to compete and those that are not (Gray & Lawrence 2001: 115).

Many localities in non-metropolitan Australia have made concerted efforts to help themselves. In order to achieve success, these efforts generally require the participation of civic and business leaders and local government (Tonts 2000: 67). Some of the small-scale economic measures undertaken in the early 1990s, as part of 'self help' development, included main street rejuvenation, financial incentives for the establishment of new industries and investment in tourism infrastructure. However, not every community has the human, social and financial assets required to succeed in this type of endogenous development (Tonts 2000: 67–8). Furthermore, the regional development organisations operating at the local level have suffered most from underfunding by government and, partly as a result, have very limited capacity to intervene in their local economies. This is no accident: neoliberalism and its manifestations in regional policy 'have clearly played a major role in limiting both the functioning and the effectiveness' of local development bodies (Beer et al. 2005: 57).

Surveys of regional development policies in Australia over the decades point to a common conclusion: that the pool of regional development policies is quite small and shallow (Beer, Maude & Pritchard 2003; Collits 2008). This impression is reinforced by the frequency with which abandoned policies are recycled. For example, while decentralisation was often pilloried in the wake of the Whitlam government as ineffective and inefficient, it never really died. Its rehabilitation began in the late 1990s at the state level, when the NSW government announced it would move 1,400 public sector jobs from Sydney to regional Australia (Beer 2000: 187–8). State governments around the country followed suit. Decentralisation was also embraced by the federal Coalition parties, which campaigned during the 2013 election on a platform of relocating public servants from Canberra to the Central Coast of NSW, to boost secondary employment in the region via the retail and hospitality sectors (Daley & Lancy 2011: 28–9; Towell 2013). In NSW, the Minister for the Illawarra was forced to concede that the O'Farrell government's Regional Relocation Grants—which sought to lure families out of cities and into non-metropolitan areas of the state—had yielded 'disappointing' results (Paver 2012). On the basis of their analysis, Daley and Lancy (2011: 28–9) conclude that such relocation programs have had 'little material impact' on regional development goals.

5.7.1 The political economy of Australian regional policy

Analyses by authors such as Beer, Maude & Pritchard (2003) and Rainnie (2003) paint an unflattering picture of regional policymaking in Australia: prone to flights of fancy, lacking consistency and bereft of rigorous analysis. Rainnie (2003: 16) points to 'a long line of regional development fads' in Australia, each promising 'to deliver quantities and qualities of jobs and growth in an unproblematic, sustainable and environmentally sound form'. Beer, Maude & Pritchard (2003: 9) are critical of the highly variable performance of the cross-cutting programs and policies of federal, state and local governments, and insist that governments in Australia need to 'adopt new and different roles'.

The political imperatives associated with regional policy are inescapable. It could hardly be otherwise, given that executive power in the Australian federal parliament is based on the capture of spatially-based electorates, and regional policy is all about

addressing (even if only rhetorically) the challenges facing spatially-defined regions. In the post-Second World War period, there has been a clear divide between the approaches to regional policy by Labor and Coalition governments, based partly on their appeal to, and concern for, their natural constituencies, and partly on their broader approaches to economic and social policy. This can be illustrated neatly using Macdonald and Burgess's study of the effects of globalisation in the Hunter Valley region of NSW. Macdonald and Burgess (1998: 19–20) note that industrial transformation in the region had been supported by the state 'throughout the 1980s' (a period of mostly Labor federal governments) via the steel industry program and regional development funding, but that this support began to dry up in the 1990s—partly through corporatisation of state-owned enterprises, but also due to 'a new phase of massive state withdrawal from the region [that] commenced with the 1996 federal budget' brought down by the Howard Coalition government.

Regional policy enjoyed its brightest moment in the sun under the Whitlam Labor government, especially in the area of regional employment creation. However, most of these programs were wound up by the Coalition government of Malcolm Fraser, and the Whitlam approach was subsequently considered by the regional development establishment to have demonstrated little more than the failure of current theories, leading to 'a decade-long policy hiatus' at the federal level (Beer 2000: 174; 2012: 277).

With the ascent of Labor to federal power in 1983, regional policy attracted renewed government attention—albeit in programs that were suited for more economically rational times. The Hawke government ran regional policy primarily through a diverse range of smaller-scale programs, focusing most heavily on labour market adjustment to economic restructuring (Beer 2000: 174–5). Under the subsequent leadership of Paul Keating, Labor finally engaged deeply with regional development, through two initiatives: first, the creation of a national network of local advisory bodies (Area Consultative Committees), which had a strict focus on labour market issues; and second, the Regional Development Program, which sought to help regions become globally competitive and encouraged the establishment of independent Regional Development Organisations at the local level (Beer 2000:176–7).

The Howard government followed a different trajectory on regional development. In one of its first decisions, the government accepted a recommendation from its Commission of Audit to scrap Keating's Regional Development Program, on the (spurious) grounds that regional development was the preserve of state and local governments (Beer 2000: 177). This was the pre-Pauline Hanson era, one in which abolishing regional development programs (and offending regional communities) might have seemed risk-free for a new government. In this initial phase of government, Howard and his ministers 'had no real idea of regional policy … other than to eliminate (or limit) the Keating Government's programs' (Collits 2008: 300).

This disinterest in regional policy might seem curious or perverse, given the place of the National Party in the Coalition. However, a few factors help to explain the discord between image and reality. First, as we saw in Chapter Four, the Australian agriculture industry was heavily implicated in the adoption of neoliberal trade and production policies. While the National Farmers Federation was vocally supportive of the neoliberal program, the National Party was in the 'uncomfortable position' of advocating free market solutions for every economic sector *except* agriculture (Lawrence 1987: 78). Second, the National Party had slipped onto the long, quiet road to political decline by the time of the Howard government. Its bargaining power in matters of regional policy was compromised by a lack of seats and a lack of confidence (or wile) in dealing with John Howard (Brett 2011; *A country road: The Nationals* 2014).

However, this phase was relatively short-lived. By October 1999, the Howard government had come to believe—or evince a belief—in the importance of supporting regional Australia. The government convened a Regional Australia Summit at Parliament House in Canberra. In the summit program, the then Deputy Prime Minister and Leader of the National Party, John Anderson, stated that: 'Australia's future as a cohesive and prosperous nation is critically dependent on the economic, social and environmental well being of our regions' (DoTARS 2000). However, even in the face of the serious problems that the government outlined, and the concerns it expressed, self-help was accorded a prominent role in the list of solutions. Anderson told the audience at the summit that regional Australia was still a land of opportunity—for those with the gumption to seize the day:

> What we have to do, as communities, governments, as a nation, is to honestly recognise the challenges this new age puts before us—but also make ourselves recognise the opportunities the information age presents, and get some ownership of those opportunities (Anderson 1999).

In case the message—'don't look to us for salvation'—was not clear, Anderson spelled out the reasons why the government would take on only a limited role in addressing the threats to regional Australia posed by globalisation:

> - Legislative action is a very poor way to address broad scale social problems and can easily produce seriously flawed outcomes;
> - Asking government to second-guess the market is almost certain to fail; and
> - Government assistance is most effective when communities or sectors both clearly identify problems and have 'ownership' of them. In short, it is best when we work together to deliver local solutions to local problems (Anderson 1999).

True to this vision, the Howard government's regional development policy was distinctly hands-off. As Beer (2000: 178–9) points out, most of the government's modest program measures, in the period up to 2000, were delivered within existing frameworks, and contained no infrastructure funding nor any support for regional development bodies.

Gerritsen (2000: 132–3) describes the regional policy approach of the Howard government as piecemeal and ad hoc, and accuses the government of being 'fundamentally ambivalent' about regional development policy and programs. While the government was well aware of regional discontent with many of its policies (and those of its immediate predecessors), its response involved 'more political activity than policy analysis'. The level of 'activity' in the regional development sphere continued to rise over the course of the Howard government, but this was no indicator of effectiveness. Following the Regional Australia Summit, the government developed a new statement on regional development—'Stronger Regions, A Stronger Australia'—and subsequently amalgamated all of the existing budget-based programs administered by the relevant department under this new banner (ANAO 2007: 9–10)[58].

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[58] At that time, the agency responsible was the Department of Transport and Regional Services. The department responsible for regional affairs has changed several times since then.

Certainly, policymakers and administrators at the local level were frustrated with the performance of the Howard government. In a speech to the 2003 Regional Development and Cooperation Forum of the Australian Local Government Association, the association president, Councillor Mike Montgomery, outlined a series of changes to federal programs over the previous 12 months, including: the establishment of a new Regional Development Council; the rationalisation of regional funding programs; and a new 'Plan for Action' for regional business. Cr Montgomery's assessment of this grab-bag of new policies was necessarily polite, but nevertheless clear:

> The establishment of new policy frameworks and mechanisms, regulatory processes, regional task forces, advisory groups and planning strategies in many cases *defers a real policy initiative* in favour of another addition to an already crowded system of regional governance (Montgomery 2003; emphasis added).

In relation to economic development in Australia's regions, Cr Montgomery (2003) stated simply that, 'the principal impediment … is a lack of coherent policy'.

Lack of coherence was demonstrated spectacularly by the Regional Partnerships Programme, established by the Howard government in July 2003. As part of its reshuffling of programs following the Regional Australia Summit, the government consolidated federal funding that had previously been dispersed among myriad small programs into one central fund, in order to make the application process 'as easy as possible', according to the Minister for Transport and Regional Services (ANAO 2007: 10). The consolidated fund was named the Regional Partnerships Programme, and between 2003 and 2007, it allocated A$409.7 million to regional projects. The size of the individual projects varied widely, from just over A$2,000 to A$10.8 million, and included a range of regional initiatives: tourism planning, community infrastructure, commercialisation of technology, business development and community services. Decisions on which projects to fund were the responsibility of the two portfolio ministers: the Minister for Transport and Regional Services and the Minister for Regional Services, Territories and Local Government (ANAO 2007: 10, 19).

For most of its existence, the Regional Partnerships Programme attracted the ire of the Labor opposition and the minor parties, leading to the establishment of an inquiry by the Senate Finance and Public Administration Committee (ANAO 2007: 16). In its report,

the Senate committee expressed great concern about a large increase in grant approvals under the program in the months preceding the 2004 federal election, and declared itself ‘deeply concerned by the intervention by ministerial offices in the department's assessment processes’ (SFPARC 2005: xix). The program also sparked minor furores in the media, such as the outcry over the dredging of Tumbi Creek, which erupted in February 2005. The local federal Liberal member, Ken Ticehurst, and the then Minister for Local Government, Jim Lloyd, were accused of abusing the Regional Partnerships Programme to ‘buy votes’ in the seat—held by the government by a margin of just 0.4 per cent (Karvelas 2005: 2; SFPARC 2005: xiii).

The integrity of the Regional Partnerships Programme collapsed entirely upon the release, in late 2007, of a damning report by the Australian Auditor-General. After a forensic review of the program, the Auditor-General found that it was ‘open to misuse for political purposes’ and endorsed the Senate committee’s concerns about the quantum of spending unleashed just before the 2004 election (ANAO 2007: 19, 50–1). Among many other tantalising facts, the Auditor-General revealed that, in the lead-up to the election, the Parliamentary Secretary to the Minister for Transport and Regional Services, National Party MP De-Anne Kelly, asked the department to give her one hundred Regional Partnerships project applications for consideration, which she duly assessed in a *nine-day period*. According to the Auditor-General, many of the projects approved in this period were ‘immature or ill-defined’ (ANAO 2007: 51–2). The audit report also noted the inherent political biases in the program: funding was overwhelmingly granted to rural areas (rather than ‘regional’ ones), and most rural electorates were held by the Coalition parties. Furthermore, ministers were more likely to override their department’s advice and approve ‘not recommended’ projects if the applicants were located in Coalition-held seats; conversely, ministers were partial to rejecting ‘recommended’ projects that were located in Labor-held electorates (ANAO 2007: 23–4).

While Collits (2008) downplays the significance of the Regional Partnerships Programme fiasco, and prefers to locate the Howard government’s performance within a ‘traditional’ Coalition regional policy framework of limited interventionism, this conveniently overlooks highly relevant and legitimate questions about the exercise of—and access to—state power, a theme to which we shall return in Chapter Nine.

In addition to the overriding constraints imposed by a neoliberal orthodoxy, financial resources and political commitment emerge as two of the biggest pressure points in the political economy of regional development in Australia. Beer (2000: 170–1) highlights a substantial structural problem built into regional development in Australia: the tier of government with the most resources (federal) is also the one with the least (or most inconsistent) commitment to acting in the regional development arena. State, territory and local governments are much closer to the issues, but lack the financial resources to address them[59].

It did not have to be this way. While all developed economies (and almost every developing one) are enmeshed in a web of global competition, many other governments take a more active, or interventionist, role in mediating the impact of globalisation across regions. As with agricultural policy, Australian regional policy has diverged from the European model of development. The European Union has, for many years, maintained a keen focus on the economic performance and sustainability of its non-urban regions. In 2005, the EU announced the creation of a new fund to assist 'people and regions affected by economic change' and global competition. Total funding for the assistance programs, scheduled to run from 2007–2013, was expected to reach €11.3 billion. In announcing the fund, the then EU Commissioner for Employment, Social Affairs and Equal Opportunities, Vladimir Spidla, made clear the links between globalisation, structural economic change and regional impacts:

> Our aim is clear: we want to help workers adjust to change and provide new opportunities so that the road to prosperity is open to all. We want to support regions suffering most from the effects of globalisation, we want to invest in regions so they can meet the economic challenges of the future (European Commission 2005).

The lack of commitment, insight and stability in regional policy at the federal level in Australia might explain the Howard government's high level of responsiveness to 'crises'. Beer's analysis of regional policy in Australia, taking a regulation theory approach, is that programs and policies will continue to change in response to 'broader

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[59] Lack of resources has not stopped state governments from creating edifices that, at the very least, suggest a political will to address the needs of particular regions. For example, the NSW government of Mike Baird contained ministers for the Hunter, Western Sydney, Western NSW, the Central Coast and the North Coast (NSW Parliament 2014). Precedent can be seen in the UK, where, in a time of national economic downturn and rising regional unemployment, the government appointed its first Minister for the North East in 1963 (Sadler 1992: 179).

crises within the political or economic system', rather than through any measured planning (Beer 2000: 185–6). He concludes that history must lead us to anticipate poor results from governments 'incapable of developing a set of long-term solutions to the problems of our regions' (Beer 2000: 190).

5.8 Conclusion

Globalisation presents opportunities and threats to all individuals and groups—but the opportunities and threats do not fall evenly across an entire nation. It is the role of policymakers, via regional policy, to gain a sophisticated understanding of the spatially differentiated effects of globalisation, and to construct and deliver support for struggling regions accordingly.

The relationship between regional policy and the state has been powerfully affected by the rise of neoliberal globalisation. Australian governments have attempted to recast regional development policies to suit the new age, with an emphasis on competition, knowledge-based growth and endogenous development. While some regions can ride on the coat tails of globalisation (or offer sufficient resistance to its negative effects), others have far fewer options. Many of the differences lie along the rural–urban divide, but this dichotomy is not always helpful: it can downplay the diversity within regions, and has little to say about regions that do not fit neatly into one camp. In an environment in which the national government has stripped away layers of economic and social protection, Australian communities are, to an extent previously unknown in the post-World War Two era, on their own. This is the case despite a profusion of policies and programs that are, ostensibly, aimed at equipping regional Australia with the tools necessary to compete in a global marketplace.

For those who study regional Australia, the challenges posed by globalisation are immense, but not insurmountable. Gray and Lawrence (2001: 103) reject the view that 'economic processes are inevitable and inexorable', and emphasise the fact that, over many decades, rural Australia has been 'full of examples where seemingly powerful economic forces have been modified and turned aside'. Beer, Maude & Pritchard (2003: 47) insist that Australia's regions still have the capacity to shape their own destinies, even within the tight framework imposed by globalisation and neoliberal policymaking.

To see just how true this is, and how it might be achieved, we now turn our attention to the Shoalhaven region, examining the fortunes of the local economy and its people in the era of globalisation.

CHAPTER SIX: The Shoalhaven region of New South Wales

> For us in the Shoalhaven, the closure of traditional industries—Gates Rubber and Dairy Farmers among them—means we have to be clever about crafting our future job landscape. This means looking to new industries and attracting them to the region. It also means breaking free from a cycle of minimum education and dependence on welfare ('A clever approach to jobs is needed' 2005).

6.1 Overview

At this point, we move from the general to the specific. A set of three case studies, set in the Shoalhaven region of New South Wales, is the endpoint of the thesis and seeks to answer the (deceptively simple) question, 'How has globalisation affected one region of Australia?' The Shoalhaven has not been selected because of any special suitability for a study of globalisation, nor because it can somehow represent 'regional Australia'. In fact, this type of framing misses the point, which is this: every region, town and community in Australia is affected by globalisation, and the precise effects of globalisation in each location matter. If we are to understand global capital, neoliberalism and the state in meaningful ways, we must understand them as they operate in, and on, particular places and people. This chapter serves as the introduction to the case studies, building a profile of the Shoalhaven region, focusing in particular on its population and economy.

6.2 A framework for analysis

There is a substantial body of scholarship that seeks to examine change in specific localities through the prism of globalisation. The field is broad, and ranges from studies of single industries to assessments of community-wide sustainability. For example, Macdonald and Burgess (1998) survey industrial relations in the Hunter Valley of NSW; Warren and Gibson (2013) construct a history of change in surfboard-making and its coastal communities; and Davidson (2000) assesses the impact of restructuring and deregulation on the dairy industry in Dungog, NSW. However, assessing the impact of globalisation in a region poses some conceptual and methodological challenges. Which attributes or aspects of a spatially-defined population should be targeted for this type of study? How might the impacts of globalisation be discerned and described?

The first challenge is to explain what we mean by ‘the Shoalhaven region’. The geographical boundaries are illustrated in Figure 6.1, but a region is more than lines on a map. The concept of ‘locality’ helps to specify the reach of this study. Voisey and O’Riordan (2001) recommend Margaret Stacey’s (1969) definition of locality, as it overcomes some of the contestation surrounding the term in the fields of geography and sociology. Drawing on Stacey, they propose that a locality is a network of institutions, but one in which ‘institution’ is defined very broadly—to encompass organisations, ‘cultural patterns of behaviour’ and ‘communities of interest’ (Voisey & O’Riordan 2001: 35). This definition of locality is outward-looking, ensuring that ‘wider social, economic, political and environmental forces are not ignored’, and ‘allow[s] us to look at the factors driving social and economic change, while taking into account cultural factors’ (Voisey & O’Riordan 2001: 35–6). This concept of a spatially-defined network of institutions interacting with external social, economic, political and environmental forces points us in the right direction.

The definition of, and approach, to globalisation adopted in this study (see Chapter One) helps to narrow the focus further. While globalisation involves much more than economics, it remains the case that economic processes are integral to globalisation—they should therefore constitute a central part of this description of the Shoalhaven. A primary focus on the local economy need not, however, limit the scope of the case studies. In his study of global economic forces and their effects in the North East of England, Sadler (1992: 25) demonstrated the interconnectedness of economic, political and social processes:

> The importance of cultural and political processes in regional development should not be underestimated, and the ways in which they take shape from and help to fashion the economy of a region are deeply significant.

Other authors (notably Held et al. 1999) have used a cross-disciplinary approach, incorporating political, sociological and economic analyses to produce comprehensive accounts of place-based impacts of globalisation. Giddens (1990, 1999) and Held et al. (1999) argue that a purely economic definition or analysis of globalisation will always be incomplete. While trade, investment and financial flows are part of the picture, it is unwise to place too much emphasis on statistical evidence alone: ‘any convincing

account of globalization must weigh the significance of relevant qualitative evidence and interpretative issues' (Held et al. 1999: 11).

In keeping with these approaches, the remaining chapters focus primarily on the economy of the Shoalhaven region, but treat 'economy' as a complex and dynamic entity in which economic processes shape, and are shaped by, social, cultural and political forces. This aligns with the approach of Beer, Maude & Pritchard (2003: xii–xiii), who argue that economic development must be at the centre of any assessment of the performance and prospects of a region. While economic performance is not, and should not be, the sole measure of a region's strength, it is critically important:

> [I]n a market-based society such as Australia the wellbeing of a region, and its capacity to attract infrastructure, services and investment, will depend upon the performance of its economy (Beer, Maude & Pritchard 2003: xiii).

It should be stressed that this study does not set out to assess the overall 'wellbeing' or 'sustainability' of the Shoalhaven region, an undertaking that would involve data and observations about the natural environment, the state of local institutions, local leadership and other aspects of the society and economy (for example, see Herbert-Cheshire & Lawrence (2002)). The approach here is much more tightly focused—on just two industries, selected for their ability to reveal change over time in response to external forces (chiefly political and economic). The case studies—dairying and manufacturing—are important in the Shoalhaven region for economic, social and cultural reasons. The dairy industry was established in the Shoalhaven in the early nineteenth century, and, by the mid-twentieth century, had come to define and sustain many small communities. The removal of state support for milk production had immediate and clear impacts in the Shoalhaven region. Manufacturing has been important in the Shoalhaven for different reasons: its employment impact has been critical, and governments at national and state levels have, at various times, been anxious to expand or safeguard the local industrial economy.

A final note on terminology might also be required: this chapter, and the case studies that follow it, will make occasional use of the term 'community' to refer to groups within the Shoalhaven population. This term is used in full knowledge of its contentious nature within the field of geography (see Voisey and O'Riordan 2001)— however, in

some circumstances, its usage (deriving from an everyday, or layperson's, understanding) seems entirely appropriate.

6.3 About the Shoalhaven

The Shoalhaven region is a coastal strip of NSW stretching from slightly beyond Berry in the north as far as Durras in the south (Figure 6.1). In terms of classifications and boundaries, the Shoalhaven is a Local Government Area (LGA), with Nowra as its administrative centre and largest town, and Ulladulla the service centre for the southern part of the region. In 2013, the Shoalhaven had an estimated population of 97,694 (SCC 2015).

Figure 6.1: Shoalhaven Local Government Area

Source: ©Land and Property Information NSW.

The Shoalhaven covers 4,531 square kilometres, around 70 per cent of which is undeveloped, in the form of national parks, state forests or vacant crown land. As a result, while the Shoalhaven lays claim to 55 per cent of the land area of the greater

Illawarra region, it has only 22 per cent of the region's population (ABS 2012a; SCC 2011: 1)[60].

6.3.1 What type of region?

The Shoalhaven is neither urban nor rural. The region does not have a heavy industrial base, nor can it be categorised as an agricultural region, even though the demise of its agricultural economy is an important part of the modern history of the region. The area can stake a claim as a 'lifestyle region', but, beyond this, there there are no simple descriptive tags that can be applied to the Shoalhaven region.

As we saw in Chapter Five, classifying spatial areas using an urban/rural dichotomy is a fraught exercise. According to the remoteness measure developed by the Australian Bureau of Statistics, the Shoalhaven is 'inner regional', meaning that geography imposes 'some restriction' on the availability of goods, services and opportunities for social interaction (ABS 2001a: 19; 2001b: 14, 19). Alternatively, the regional typology developed by National Economics for its *State of the regions* reports is, in the view of Beer, Maude & Pritchard (2003: 50), 'an excellent base' for regional analysis. However, even using this typology, the Shoalhaven is not easily categorised, partly because it sits below the spatial threshold for detailed analysis. The *State of the regions report 2002* (ALGA 2002: 16.1). described the greater Illawarra region (including the Shoalhaven) as a 'production region'—an area 'characterised by a high concentration of manufacturing industries'. However, this is a designation that applies primarily to the northern Illawarra, around Wollongong. None of the other categories used by ALGA is a perfect fit for the Shoalhaven, although one—'lifestyle region'—comes closest[61]. The coastal location of the Shoalhaven is an important part of the region's identity, and many pockets of the region (particularly around Berry and the villages on the edge of Jervis Bay) have become havens for 'sea-changers'[62]. Considering all of these factors, and moving beyond the ALGA typology, a better description of the Shoalhaven might

[60] The greater Illawarra region, south of Sydney, contains five Local Government Areas: Wollongong, Shellharbour, Kiama, Shoalhaven and Wingecarribee (IRIS Research 2013a).
[61] The ALGA typology comprises: 'Knowledge-intensive regions, Dispersed Metro, Independent City, Lifestyle regions, Resource Based and Rural Regions' (ALGA 2014).
[62] The 'sea change' phenomenon is the demographic trend that sees Australians moving from large cities to smaller communities on the coastal fringes. The trend has a complex set of causes, including the cost of living, environmental considerations, family reasons, career opportunities and the desire for a change of lifestyle (Burnley & Murphy 2004).

be ‘post-rural’, a term that reminds us of the region’s roots in the agricultural economy and points to the continuing importance of the open green spaces that attract both tourists and new residents.

The Shoalhaven has 49 towns and villages, but most economic activity occurs in and around two regional centres: Nowra–Bomaderry (population 33,338) in the north and Ulladulla (population 14,149) in the south (ABS 2012a). In fact, these are two very distinct communities, separated by 67 kilometres of winding road. Even Shoalhaven City Council (2004a) acknowledges that ‘Shoalhaven is not just one community, but a series of separate and distinctive settlements, which are linked primarily for administrative purposes’. This chapter focuses on the northern Shoalhaven, centred around Nowra, as this area contains the bulk of the population and has the greatest concentration of economic activity.

A purely statistical account of the economic and social development of the Shoalhaven region would be difficult to deliver. The task of locating relevant, consistent time-series data for small-scale spatial areas poses considerable difficulties for researchers and practitioners. In the mid-1990s, Shoalhaven City Council commissioned the University of Wollongong to investigate the availability of economic and social data for the Shoalhaven region. Sources included the Australian Bureau of Statistics (the nation’s leading producer of statistical information) and other agencies that collect information through their administration of programs, such as the Australian Taxation Office and Medicare. The study concluded that:

> There are no annual economic performance indicators produced at the level of the [Shoalhaven] LGA [by the ABS]. Labour Force data are not produced for the LGA except for census years. Hence, alternative sources of annual data must be sought, usually in the form of by-products of administrative activities (Stetner-Houweling, Steel & Pullen 2000: 225).

In the 1990s, the breadth, frequency and detail of some data produced by the ABS diminished. For example, the previously annual agricultural census was stretched out to every five years, and the manufacturing census also became five-yearly (instead of every three years). Annual sample surveys were introduced to fill the gaps, but these tended to cover much larger areas, meaning that ‘the sample sizes in the LGAs are

usually too small to allow for the production of reliable statistics' (Stetner-Houweling, Steel & Pullen 2000: 224). Although the 'by-product information' referred to by Stetner-Houweling, Steel & Pullen, such as industrial electricity usage and the number of taxpayers, constitutes alternative indicators, most of this information is useful as supplementary rather than primary data. Following this data mapping exercise, Shoalhaven City Council established its own database on the region, enabling it to collate and use the available statistical information on an ongoing basis.

6.3.2 Population demographics

A report published by Shoalhaven City Council (SCC 2003c) provides a demographic profile of the region for the period 1991–2001. The report compares Shoalhaven residents with the broader NSW population across a range of indicators, and shows that the Shoalhaven region had:

- a highly homogeneous population, with fewer residents born overseas and in non-Anglo Saxon countries
- a larger Indigenous population
- higher unemployment, especially for youth
- a strong outflow of population in the 20–24 year age group
- a much larger retirement-aged population
- a lower level of post-secondary education
- lower incomes, mortgage repayments and housing rental costs.

For the subsequent decade (2001–11), each of these trends remained clearly evident (SCC 2015).

Since 1990, the Shoalhaven has been one of the fastest-growing regions in NSW. In a study of population growth in the period 1990–95, the Shoalhaven was ranked 15th on a national table of the fastest-growing areas (Stetner-Houweling, Steel & Pullen 2000: 236). In the period 2006–11, the population increased by 5 per cent (IRIS Research 2013b). However, this growth pattern conceals two significant demographic trends: an outflow of young people, and an influx of retirees. The exodus of people aged 20–24 years out of the Shoalhaven is a phenomenon with a long history, and is common to

other parts of regional Australia (Hodgkinson & Iredale 2003: 20–21). Until quite recently, it was impossible to undertake tertiary studies in the Shoalhaven, and the range of professional opportunities for university graduates remains relatively limited, as in most regional locations. In 2001, the proportion of jobs in the Shoalhaven for managers and professionals was well below the NSW average, while the largest numbers of vacancies in the region were for nurses, tradespeople and construction workers (DEWR 2007: 6, 9). In addition, for overseas-born migrants, and especially those from non-English speaking countries, 'regional NSW is not an attractive destination' (Hodgkinson & Iredale 2003: 20). Combined, these factors create a large demographic hole in the Shoalhaven's population, with numbers in the 20–34 year age group consistently well below the national and NSW averages (Hodgkinson & Iredale 2003: 20; SCC 2015).

Migration into the Shoalhaven from other parts of Australia is occurring, but at the other end of the age spectrum. In part, the large increase in the over-55 population mirrors a nationwide demographic shift, the result of declining birth rates and longer life-spans. However, the trend is far more pronounced in the Shoalhaven than in other parts of the country. For example, a comparison of the Shoalhaven region and the Far North Coast of NSW showed that, while their under-35 populations were similar in relative size, the Shoalhaven had a far higher proportion of residents in the 60–79 age bracket (Hodgkinson & Iredale 2003: 20–21). The strong population growth in the Shoalhaven in the period 1991–96 was due in large part to the 'coastal drift' of retirees (Stetner-Houweling, Steel & Pullen 2000: 244). Although the sea change trend is a recent addition to popular discussion, the South Coast of NSW has been a magnet for retirees for at least the last sixty years (Ryan 1966: 149; Robinson 1978: 2).

In combination, these trends mean that the Shoalhaven has one of the smallest working-age populations (as a proportion of total population) in the whole of NSW. Consistently across the period 2001–11, just 59 per cent of Shoalhaven residents were of working age (15–64 years), well below the national and NSW averages of 66 per cent and 65 per cent, respectively (ABS 2012a; Hodgkinson & Iredale 2003: 19). Within this relatively small pool of working age people, not too many were engaged in paid employment. In 2001, less than half (48 per cent) the working-age population in the Shoalhaven was active in the labour force, far below the national (60 per cent) and NSW (59 per cent) averages (Hodgkinson & Iredale 2003: 21–2). While the working age population has

remained constant in the Shoalhaven (as a percentage of the total population) since at least 2001, the proportion of those aged 65 and older has climbed (ABS 2015). Although Hodgkinson and Iredale (2003: 22) identify some positive causal factors—for example, young people choosing to study rather than work—the low workforce participation rate across all age groups suggests that the Shoalhaven region offers inadequate employment opportunities, or does not have a sufficiently skilled population for the jobs on offer, or both. The region also has a much higher proportion of residents receiving Centrelink payments (especially unemployment and disability benefits) than the national average (DEWR 2007: 4).

6.4 The Shoalhaven economy

This thesis proceeds from a belief that communities are more than the sum of their economic outcomes—but also that local economies are critically important in describing communities. The remainder of this chapter provides an economic overview of the Shoalhaven, to provide the context for the case studies that follow.

6.4.1 Economic activity

Beer, Maude & Pritchard (2003: 4) contend that the key factor in explaining or predicting the economic performance of a region is its industry profile; the ability of businesses within these industries to 'embrace change' is also crucial. As a result of these factors, '[s]ome regions are able to generate or attract innovation and change for the better, while others lack that capacity'. Economic activity in the Shoalhaven spans a wide range, from tourism and other services to traditional and high-tech manufacturing and agricultural production (see Table 6.1). The industry profile of the region, compared with other parts of Australia, is highly diverse. Over the period 1991–2001, the region consistently registered a score of 95 per cent on the Industry Diversity Index developed by the Bureau of Transport and Regional Economics—this was the same level of diversity found in Australia's capital cities (BTRE 2003a: 26; 2003b).

Table 6.1: Selected industry sectors in the Shoalhaven, 1996–2011

Industry[63]	Share of total employment (%)			
	1996	2001	2006	2011
Retail trade	17.1	18.5	18.6	12.8
Manufacturing	10.6	10.1	8.8	7.9
Health care & social assistance	10.0	10.5	12.4	14.1
Construction	9.4	9.7	10.2	9.3
Public administration & safety	9.3	8.4	8.7	10.3
Accommodation & food services	7.4	7.5	7.1	9.4
Agriculture, forestry & fishing	4.0	3.2	2.4	2.0

Sources: BITRE (2009), ABS (2012a), SCC (2015).

The diversity of the Shoalhaven economy contrasts with its heavy reliance on a few key industries a century ago. By the early 1900s, the greater Illawarra region had developed 'two distinct political economies': one based on mining and manufacturing (around Wollongong), and the other based on dairy farming (in the Shoalhaven) (Lee & Hagan 2006: 108). In the following fifty years, growth in regional centres of the South Coast, such as Nowra, was driven by agriculture, forestry and fishing, and by support industries (those 'designed to bolster the rural economy and sweeten country life'), such as education, health and local government (Ryan 1966: 150)[64]. In 1947, almost half of all employed males in the Shoalhaven region worked in farming, timber felling or other rural occupations (Lee & Hagan 2006: 92). Ryan (1966: 150–4) identified just four sources of regional economic activity in the South Coast region for the period from European settlement to the early 1960s:

- the exploitation of natural resources, such as farming, fishing and mining
- public works projects, including rail and road construction and defence installations (HMAS Albatross and HMAS Creswell)

[63] In the 2011 Census, the Australian Bureau of Statistics used a new industrial classification system (the *Australian and New Zealand Standard Industrial Classification 2006*), introducing some new industry titles. This table uses the titles from the new classification system—these are either identical, or very similar, to titles used in earlier Census data (ABS 2012c).

[64] Ryan (1966: 134) defines the South Coast region as stretching from Kiama in the north to the Victorian border in the south. This incorporates the whole of the Shoalhaven region.

- demand in ‘hinterlands’ beyond coastal ports and markets— for example, for milk and sawmill products
- tertiary services, funded ‘mainly from the public coffers’, which generated employment in schools, hospitals and courts.

Over the last twenty years, jobs in the traditional stronghold industries of the Shoalhaven—defence, agriculture, fishing, and wood and paper product manufacturing—have been disappearing (Figure 6.2). Between 1991 and 2001, the defence industry shed almost one-quarter of its jobs in the region, while one-third of jobs were lost in the wood and paper product manufacturing industry (BTRE 2003b).

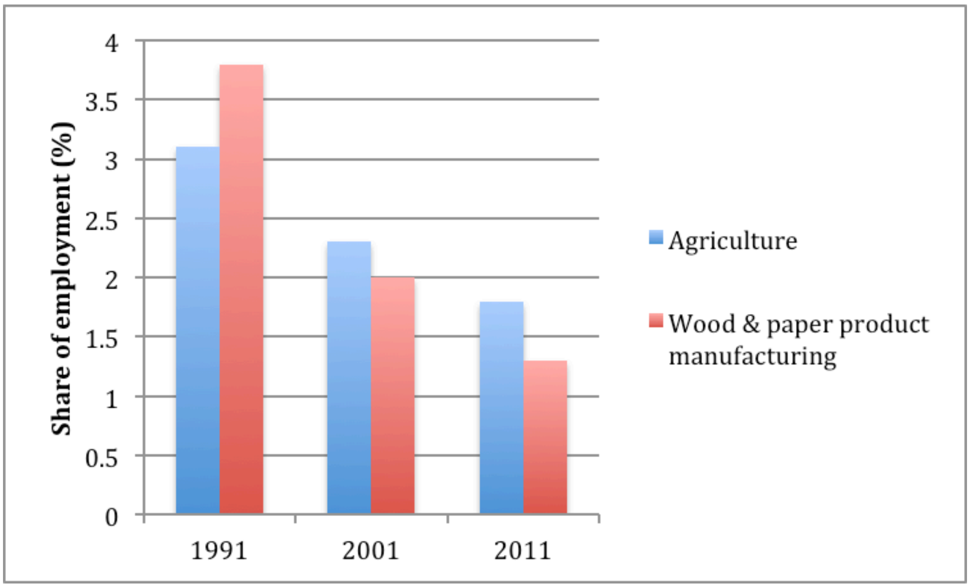

Figure 6.2: Agriculture and paper manufacturing in the Shoalhaven, 1991–2011

Sources: BTRE (2003), BITRE (2009), ABS (2012a).

Today, the Shoalhaven economy is driven by the services sector, reflecting the needs of residents and the estimated 1.3 million tourists who visit each year (SCC 2012?:1). However, not all jobs are created equal. As Sadler (1992: 239) pointed out in his study of the North East of England, although the service industries of retailing and tourism are adept at creating jobs—especially in areas where traditional employment is in decline—these industries are ‘characterized above all else by low-paid, insecure and often part-time employment’. Tourism is commonly viewed as one of the most promising industries in the Shoalhaven region; in fact, the tourism industry is a tricky one to master. Beer, Maude & Pritchard (2003: 119–120) point out that, in some regions of

Australia, tourism spending has a very limited impact on employment generation. According to 1998 figures, the large tourism expenditure on the South Coast of NSW generated a relatively small number of jobs. This could be explained by two factors: tourists spent money on items that were not produced in the region; and they overwhelmingly used private holiday rental accommodation (rather than hotels), which generated 'little or no direct employment' for locals (Beer, Maude & Pritchard 2003: 120).

The development of a tourism industry in a non-metropolitan, coastal environment also contains inherent tensions. The desire by local governments and businesses to create tourism infrastructure can be, at best, controversial, and at worst, destructive. In 2007, hostilities erupted between Shoalhaven City Council, on the one hand, and NSW Minister for Planning Frank Sartor (and many Shoalhaven residents), on the other. At issue was the decision by Shoalhaven City Council to double the building height restrictions—from three storeys to six storeys—in the small coastal village of Huskisson. At the same time, the council voted to exclude some community groups from formal consultation processes (Munro 2007). In one exchange between the two sides, the minister accused the Shoalhaven mayor of failing to listen to his constituents, and advised him to 'get sensible' and 'stop trying to bloody impose extra development everywhere' ('Sartor to Watson—"just get sensible" on growth' 2007).

6.4.2 The state and the local economy

The 'supporting organisational infrastructure' is an important element of regional development (Collins & Stevenson 2004: 4). In the Shoalhaven, governments at all three levels have provided organisational infrastructure targeted at fortifying the local economy. These include the federally funded Shoalhaven Area Consultative Committee; the local office of the NSW Department of State and Regional Development; the local Regional Development Australia committee, a joint federal-state initiative; and the Economic Development Office of the local council (Collins & Stevenson 2004: 4–5; RDA Far South Coast 2012). Initiatives and organisations of this kind—particularly those involving cross-jurisdictional collaboration—are features of contemporary regional development policy in Australia. For example, the 'Advantage Wollongong' campaign harnesses the resources of the NSW government, Wollongong

City Council and the University of Wollongong to ‘facilitate’ business investment in the city through advice, introductions, site selection and limited financial incentives (Advantage Wollongong 2014). The focus on a few ‘key growth sectors’ of the Wollongong economy is also in keeping with widespread practices in the regional development field, which seek to grow clusters of mutually-supporting enterprises. These types of regional development activities represent the most common forms of local-level economic development functions, which revolve around ‘facilitation and the provision of information’. Few regional development organisations have the financial resources to venture beyond this type of activity (Beer et al. 2005: 54).

Less directly, the Australian government has contributed greatly, and in a sustained manner, to the Shoalhaven economy through the operation of two naval bases in the region: HMAS Albatross and the smaller HMAS Creswell[65]. The Albatross base is home to the Royal Australian Navy (RAN) helicopter fleet, as well as the Navy Aviation Group, which coordinates all of the RAN’s aviation activities (Shoalhaven Defence Industry Group 2011a). According to a local research organisation, the defence industry generates around 2,000 jobs in the Shoalhaven, creating A$60 million in wages alone; a broader estimate puts the value of ‘the Australian Defence Forces and defence-related industries’ in the Shoalhaven at more than A$200 million annually (IRIS Research 2013; Shoalhaven Defence Industry Group 2011b). Many of the economic effects generated by HMAS Albatross are delivered through equipment and services contracts with local suppliers.

The NSW government, too, has directed strategic investments to the Shoalhaven region. In 2010, the government opened a new prison south of Nowra. Built at a cost of A$155 million, the South Coast Correctional Centre was expected to generate more than A$10 million in economic activity in the Shoalhaven each year (‘Off to gaol for a good time’ 2010). Economic development policies can also employ more direct measures. In 2002, the entire NSW Department of Local Government was uprooted from Sydney and established in new premises in Nowra (The Treasury (NSW) 2000:13-2). This was hailed by the local member of the NSW Parliament, Wayne Smith, as ‘just the start of

[65] HMAS Creswell is located in Jervis Bay Territory, which (administratively) forms part of the Australian Capital Territory, the site of the national capital. However, this slice of territory is entirely surrounded by the Shoalhaven region, and can therefore be considered a part of the regional infrastructure.

the process' of 'get[ting] the South Coast on the map as a growth centre'. Mr Smith reportedly conceded that the status of the South Coast seat as a marginal electorate might have had something to do with the departmental relocation (Ellis 1999:4).

The local government has also demonstrated a keen desire to shape and improve the economic performance of the Shoalhaven region. The Economic Development Office of Shoalhaven City Council was established in 1978 to encourage and develop the local manufacturing sector. Since then, its brief has expanded to encompass all sectors of the local economy, as well as issues such as workforce training and lifestyle marketing (SCC n.d.a). One long-running council project— the Operation Seachange campaign— sought to address the professional skills shortage in the Shoalhaven by promoting the lifestyle benefits of relocating to the region (Keene 2004; SCC 2008). While the council did not refer to it directly, it seemed clear that the work of Florida (2003) on the role of 'creative professionals' in regional growth inspired Operation Seachange (Collins & Stevenson 2004: 9).

For more than 15 years, Shoalhaven City Council has tried to encourage growth and diversity within the local manufacturing industry, with a particular emphasis on industry clusters, notably in the defence sector[66]. In 2000, the council launched the Illawarra Shoalhaven Defence Network, in partnership with peak industry association Australian Business Limited. The aims were to secure defence contracts for manufacturers located in the Shoalhaven and to lure businesses interested in the defence sector to establish operations in the region (SCC 2000:1). The council had previously spent A$3 million to establish the Albatross Aviation Technology Park, an industrial estate adjacent to HMAS Albatross (SCC n.d.a). Since 2010, the council has used the Shoalhaven Defence Industry Group, which includes representatives of the business community and the NSW Department of Trade and Investment, to 'promote the defence industry capabilities of the Shoalhaven' and to create jobs and investment (Shoalhaven Defence Industry Group 2011a). In 2011, tenants of the Albatross Aviation Technology Park included global industry leaders BAE Systems and Raytheon (Shoalhaven Defence Industry Group 2011a).

[66] As Rainnie (2003: 16) points out, 'There is hardly an economic development unit in Australia that will not have clustering as some, usually prominent part of its development strategy'.

The council has also attempted to court foreign capital directly. Whether crazy or brave, Shoalhaven City Council has devoted significant time—and money—to cultivating political and commercial relationships with China. The last decade has witnessed several official visits by local government representatives in both directions (SCC 2004b, 2006a, 2006b, 2009). In 2001, Shoalhaven City Council and the City of Fuzhou (with a population of six million) formed an official ‘friendship relationship’, which has involved cultural and commercial meetings and activities (SCC 2004b). According to the Mayor of Shoalhaven, Greg Watson, the council had identified ‘significant opportunities for ... the export and importing of both manufactured and primary produce with China’ (SCC n.d.b). The Mayor was brimming with optimism about the commercial possibilities, citing the potential export of Shoalhaven dairy produce to China as an ‘obvious example’ and claiming that the fledgling Shoalhaven wine industry ‘could easily tap directly into the Chinese market’ (SCC n.d.b).

6.4.3 Physical and social infrastructure

The built environment is critical for all sectors of the Shoalhaven economy. While the infrastructure of the Shoalhaven region boasts some strengths, it is also characterised by weaknesses common to regional Australia. Chief among these are transportation infrastructure. The South Coast railway line stops at Bomaderry, the very northern tip of the region—a fact that explains the concentration of industry in the Bomaderry area. The original plans to extend the rail line south through the Shoalhaven have long since evaporated, and the local council is often anxious about the NSW government maintaining a reasonable rail service even to Bomaderry (SCC 2004c).

The Shoalhaven’s road network has long been the subject of criticism from local businesses, residents and the council. Road transport runs north–south through the region, on a narrow and mostly winding stretch of the Princes Highway. Given the absence of rail infrastructure, the road carries the heavy burden of transporting goods and people through the region. While upgrading the Princes Highway remains a long-term and piecemeal project, Shoalhaven City Council was successful in championing the cause of a major sealed road (to replace a narrow, unsealed one) linking the northern Shoalhaven with Braidwood and Canberra. Such was the importance placed on the Main Road 92 project that the council borrowed A$12 million to get the project off the

ground, even though the finance deal would, in its own words, 'impact severely on Council's ability to provide a range of other services and facilities to the community' (SCC 2002?: 4). The first stage of the Main Road 92 project—the road between Nowra and Nerriga—was completed in 2010 (SCC 2011).

On the positive side of the infrastructure ledger, the economic potential and social capital of the Shoalhaven region was enhanced significantly by the establishment of a tertiary education institution. One of the clearest fault lines between urban and regional Australia is educational qualifications. In the Shoalhaven, 10.2 per cent of the adult population have a Bachelor degree or higher, compared with 12.4 per cent for 'regional NSW' and 19 per cent across Australia (ABS 2012a; SCC 2015).

The Shoalhaven campus of the University of Wollongong opened on a temporary site near Berry in 1993 and moved to a permanent campus in West Nowra in 2000. The campus offers courses across eleven degree programs and, in the period 2007–10, enrolments increased by an average of 25 per cent each year (University of Wollongong 2011: 27). The establishment of the university campus was part of 'a clearly articulated regional development strategy', driven in large part by Shoalhaven City Council. The council considered a university campus, and the co-located TAFE college, 'an integral component of the Shoalhaven region's economic development and the broadening of its economic base' (Collins & Stevenson 2004: 5–6). Many studies have concluded that higher education facilities contribute to the 'intellectual capital assets' and productivity of the regions in which they are located (Collins & Stevenson 2004: 7). In 2004, Collins and Stevenson (2004: 11) considered that the university campus was 'still a relatively minor player in its region' and needed to work harder to change the 'mindset' of its potential students. A few years later, the head of the campus, Robbie Collins, noted that,

> This campus is not just about people coming in and going out … this place is of, with and for the community … local residents are involved in almost every event that takes place (Criddle 2007).

Collins and Stevenson (2004: 7) also highlight the significant 'symbolic capital' represented by a university campus in the Shoalhaven. That symbolic capital increased exponentially with the establishment of a Graduate School of Medicine at the Nowra site in 2006. While the practical implications of the medical school are critical for the

region (which suffers from an acute shortage of medical professionals), there can be no doubting the symbolic significance and prestige of hosting a training institution for medical doctors. The establishment of a medical school at the local university campus could also have broader effects, in terms of fostering a greater sense of possibility among the local residents. As Collins and Stevenson (2004: 15) point out, 'there is a kind of self consciousness which typifies a region beyond its economy, geography and demography'. This self-consciousness matters in an economic sense:

> [T]he mental models by which a region views itself affects [sic] the kinds of development which take place and how the region takes itself into the future (Collins & Stevenson 2004: 15).

6.5 Manufacturing in the Shoalhaven

The services sector is by far the biggest employer in the Shoalhaven region, but it is not necessarily the most significant sector of the economy. Manufacturing remains highly important in the region—and for this thesis—for three main reasons: first, manufacturing activity generates a substantial proportion of regional wealth, including in ancillary industries; second, a strong manufacturing sector has great symbolic significance for the community; and third, a small number of manufacturing enterprises—including the Shoalhaven Paper Mill and Shoalhaven Starches—have long histories in the region and have become closely entwined in its development and identity.

In 2004, based on the total value of wages and salaries, manufacturing injected proportionately more money into the Shoalhaven economy than the retail sector: A$134 million for manufacturing employees versus A$94 million for retail employees (SCC 2004a). This mirrors the national experience, where manufacturing work is typically more highly skilled, better paid and full-time, in contrast to the 'feminised' services economy, with its preponderance of casual and part-time positions (WGEA 2014). In 2001, manufacturing provided 10.1 per cent of jobs in the Shoalhaven (Table 6.1). However, over the last 20 years, employment in local manufacturing has grown relatively slowly: a net increase of only 265 jobs between 1991 and 2001, compared with 1,367 new jobs in the retail sector (BTRE 2003b). This suggests that, although

manufacturing jobs are more lucrative in the Shoalhaven (whether through longer hours or higher salaries), the opportunities to gain employment in the sector are more limited.

Because of the higher value associated with manufacturing employment and production—and perhaps because of prestige, too—the sector has attracted particular attention from the state. While some manufacturers are located in the Shoalhaven because of proximity to resources or clients, or because of lower land prices, others were lured there by very active government assistance programs (SIBA 2002?, 2003?). In the 1980s and early 1990s, several manufacturers established operations in the Shoalhaven because of 'significant financial incentives' provided by the NSW and Australian governments (SIBA 2003?: 1). Chapter Five outlined the role of industry attraction programs in regional development, and explained that exogenous development can be very precarious. Nevertheless, there are several high-profile success stories in Shoalhaven manufacturing, often linked to the defence sector or to export markets, or both. To take one example, Air Affairs Australia was established in Nowra in 1995, and has grown into an internationally-competitive producer of aerial tow targets and aviation equipment. Although the company also provides non-military services, such as aerial fire-mapping, its primary market is the defence sector. In 2003, Air Affairs Australia received the NSW Premier's Exporter of the Year Award for small to medium-sized manufacturers, and the ABL (Australian Business Limited) President's Prize for Export (SCC 2002, 2003b; Air Affairs Australia 2015).

Within the Shoalhaven, the performance of the local manufacturing industry is widely viewed as an indicator of the general health and stability of the regional economy. The sector has looked anything but rock-solid over the last decade. In 2005, the local newspaper reported a 'growing crisis hitting the Shoalhaven's industrial sector' (Ellard 2005b). In the space of a few months, Dairy Farmers had announced the closure of its factory at Bomaderry; Gates Rubber had decided to close its large factory in Nowra, with 142 jobs lost; and PaperlinX had announced that it would investigate shifting production of some products from its Shoalhaven Paper Mill to Maryvale in Victoria. These closures and contractions had a range of effects—economic, personal and symbolic—and these will be examined in the case studies later in the thesis.

6.6 Agriculture in the Shoalhaven

National employment in agriculture fell by 5 per cent in the ten years to 2001—this result was mirrored in the Shoalhaven, which lost 5.4 per cent of agricultural jobs over the same period (BTRE 2003a: 29; 2003b). In the following decade (2001–11), agricultural employment in the Shoalhaven fell from 3.1 to just 2.3 per cent (BITRE 2009: ABS 2012a). While these figures might appear grim, there are two factors that provide a more nuanced picture of the state of agriculture. The first is that the current level of agricultural employment does not necessarily reflect *demand* for agricultural workers or changes in output. In 2008, the National Farmers Federation (NFF 2008: 3) sounded the alarm over a national shortage of agricultural workers, pointing to estimates of a 114,000-person shortfall by 2014. The organisation listed a wide range of factors contributing to the shortfall, including the disastrous impact of the 2002–03 drought, the general trend of cities sucking the population out of regional areas, and '[i]ncorrect perceptions' about agricultural work (NFF 2008: 4). This suggests that the Shoalhaven agricultural economy could be in an expansionary mood even when employment figures are sliding. The second factor concerns agricultural productivity, which grew very strongly over the period 1974–75 to 2003–04; this included particularly high labour productivity growth. Even as agricultural employment fell, agricultural output rose, driven by new technologies and management practices (PC 2005: xxxviii-xl).

As we noted in Chapter Five, statistics on agricultural production at the LGA level are hard to find (or maintain) in Australia, a fact that makes it difficult to demonstrate the significance of agriculture to local economies. However, Shoalhaven City Council (2010) insists that '[t]he agricultural sector remains an important economic activity in the region', highlighting 'such rural activities as dairy farming, nursery products, seeds and cut flowers'.

6.7 The case studies: an introduction

The reasons for pursuing this research using case studies were outlined in the Introduction, and have been expanded upon in this chapter. Put simply, the case studies—which draw heavily on interviews—make up for a dearth of statistical data, but they also ensure that the social, cultural and political dimensions of economic activity are assessed and valued. As Warren and Gibson (2013: 28–9) point out, orthodox

economics is not much interested in the economic performance of sub-national spatial units, and, as a result, misses ‘much of the complexity’.

The case studies address two defining industries in the Shoalhaven region, both with long histories: dairy farming and manufacturing. The two are also linked historically: the manufacturing industry was initially dominated by the dairy sector. In the late 1880s, the Shoalhaven had 59 manufacturing establishments—31 of these were butter and cheese factories and employed the majority of the manufacturing workforce (Lee & Hagan 2006: 81). Physically, these two industries have also covered a large part of the land area available for commercial activity in the Shoalhaven region, and they remain important in terms of employment and output. In the dairy industry, the case study (Chapter Seven) centres on dairy farms around Berry, Nowra and Kangaroo Valley. In the manufacturing industry, there are two case studies, in recognition of the diversity of the local industry: the Shoalhaven Paper Mill (Chapter Eight) and Shoalhaven Starches (Chapter Nine). By coincidence, the three factory sites that feature in the case studies—the Shoalhaven Paper Mill, Shoalhaven Starches and the Dairy Farmers milk factory—sit in a row along Bolong Road in Bomaderry. However, there the similarities end: these enterprises have experienced globalisation in very different ways, in large part because of the role of the state.

6.8 Conclusion

The experience of globalisation is highly differentiated from place to place. The specific characteristics of a spatial region are critical to its performance as an economy and as a society. Location, industry profile and physical and social infrastructure all contribute to a region’s economic performance and sustainability. However, the value of these regional characteristics cannot be assessed in isolation—they will emerge (and fluctuate) as ‘positives’ or ‘negatives’ depending on crucial external factors, including the policies and actions of governments.

This profile of the Shoalhaven region has given a conventional (and necessary) recitation of its spatial characteristics, economic history and demography—but this is not enough to get a true sense of the place, nor of its position within the Australian political economy. Assessing the impacts of globalisation in the Shoalhaven region

requires us to focus much more closely, and access more deep-seated knowledge, through case studies.

CHAPTER SEVEN: Case study: the Shoalhaven dairy industry

> One of the issues with real big operations is that people are going get burnt out quicker, and they might do it till they're forty and say, 'Well, I'm burnt out'. Because it's a fairly high-pressure job when you start to get a lot of animals … And just how well my boys, or the next generation, cope with that increasing strain will largely mean whether they'll be here or they won't be here. It is no lifestyle—it is a business (Shoalhaven dairy farmer (DF-3) 2005).

7.1 Overview

For more than 60 years, the state has played a critical role in shaping the development of the Australian dairy industry. Deregulation of the Australian dairy industry—which gathered momentum in the 1980s and reached its zenith in 2000—removed the barriers between international market pressures and individual farmers. Dairy farmers in the Shoalhaven were particularly vulnerable in the post-deregulation environment, due to their specialisation in year-round drinking milk, which suffered large price cuts at the farm gate. Since deregulation, some farmers in the Shoalhaven have done very well, but others have not. While disparities between farms and farmers have always existed, the gap between the 'winners' and 'losers' grew rapidly following deregulation, particularly in New South Wales. By 2010, the number of dairy farms in Australia had fallen to just 7,511; more than half the dairy farmers in NSW left the industry in the decade 2000–10 (see Table 7.1). Farm numbers had fallen before, but the decline that began in 2000 was different: it was faster and it accompanied a pervasive sense that dairying would never again be profitable for small-scale family farms.

In the years following deregulation, some farmers in the Shoalhaven found the new market pressures too great. However, this is not a tale of unrelenting woe. Other farmers in the region took a very proactive stance in the face of globalising forces: they invested in infrastructure to increase their efficiency; and even established a new, avowedly local dairy label, taking the fight to multinational competitors. Perhaps only one thing was certain: that the future of dairy farming in the Shoalhaven would look very different from the past.

7.2 Dairy industry deregulation: how geography matters

As explained in Chapter Four, the dairy industry was, for several decades, one of the most highly regulated and protected sectors in the Australian economy. State assistance to the Australian dairy industry spanned the full gamut of trade-distorting policy measures: domestic support, export subsidies and market access restrictions. Access to the Australian dairy market was restricted by both tariff and non-tariff barriers, designed to thwart international competitors (in butter and cheese). Domestic support for Australian farmers included the regulation of both wholesale and retail prices for packaged drinking milk, and controls to limit the distribution of milk within Australia, preventing trade across state borders. State dairy authorities determined the price of raw milk and the amount of milk supplied to processors was set through a quota system or pool (Spencer 2004b; SRRATRC 1999). Consumption was also encouraged, and a certain amount of income guaranteed, through a school milk program (Lawrence 1987: 183). By 1970, the effective rate of assistance to Australian dairy farmers was more than 100 per cent, and it remained at that level (for fluid milk) for most of the 1970s (IAC 1983).

The removal of state support occurred in stages, and it was highly differentiated in terms of its impact on two very distinct groups of farmers: those producing milk for drinking (notably in NSW and Queensland) and those producing for the dairy manufacturing sector (concentrated in Victoria). The bifurcated nature of the dairy industry—and of the 'community' of farmers—warrants some explanation. The support arrangements for farmers and milk processors had evolved over many years, and financial support was provided in separate schemes by the state governments (for fluid milk) and the federal government (for manufacturing milk)[67]. This two-tiered system of support offered much higher prices for fluid milk than for manufacturing milk, in order to encourage sufficient year-round production of fresh drinking milk. (In the 1940s and 1950s, Sydney had experienced shortages of drinking milk over the winter months (Austin 1989: 349).) Year-round production imposes much higher feed costs on farmers—compared with seasonal production, which takes advantage of natural pasture

[67] The existence of different schemes can be traced back to the treatment of agriculture in the Australian Constitution. Under the Constitution, the states and territories were granted responsibility for agricultural production and price setting, while the national government took charge of quarantine and the provision of production and export bounties (Botterill 2003: 3).

growth—so the state dairy authorities needed to pay a premium price for fluid milk (ABS 2004; Austin 1989: 349; SRRATRC 1999: 19). The lower-priced manufacturing milk was processed into products with a longer shelf-life—cheese, butter, milk powder—which were often destined for export sale (ABS 2004). The farmgate price of manufacturing milk depended on a variety of factors, including supply and demand in national and international markets, and varied from dairy factory to dairy factory (Austin 1989: 349; ACCC 2001: xv).

In its efforts to boost the dairy industry's productivity and export performance, the Hawke Labor government began to transfer capital in the dairy production chain from the fattened fluid milk sector to the leaner dairy manufacturing sector. Initially, this was achieved through direct export subsidies to dairy manufacturers. When this mechanism ran foul of the GATT, the government reworked it to create the Domestic Market Support (DMS) scheme. The DMS scheme carefully avoided a direct link between milk production and exports (and was thus legal under world trade rules), but nonetheless managed to sustain most of the original effect (ACCC 2001: 12–13; Edwards 2003: 82, 96; SRRATRC 1999: 21). Under the DMS scheme, the government effectively taxed two groups (dairy farmers who produced fluid milk, and consumers) for the benefit of another two groups (dairy farmers who produced manufacturing milk, and exporters). In 1997–98, Victorian dairy farmers received A$91 million from the DMS fund, while NSW farmers received just A$11 million (SRRATRC 1999: 23). Admittedly, NSW farmers were still in receipt of substantial budgetary support—they received the lion's share of total support payments for milk production in Australia (A$128 million in 1996–97) (SRRATRC 1999: 20).

Controls on the wholesale and retail prices of drinking milk were removed in Victoria in 1995, with Queensland the last state to follow in 1999. However, these limited forms of deregulation did not affect farmgate milk prices (those paid to dairy farmers) or the associated regulatory bodies and legislation, which still prevented lower-priced milk being sold across state borders (ACCC 2001: 8–12; SRRATRC 1999: 25–6; Spencer 2004b: 18–19). By 1999, Victoria had become the lowest-cost producer of milk in Australia, but could not capitalise on its competitive advantage by supplying dairy processors in the other states.

7.3 The effects of deregulation on dairy farmers

Despite the misgivings of many Australian dairy farmers, farmgate prices for milk were deregulated in unison by all state and territory governments on 1 July 2000, the day on which the DMS scheme was abolished. This meant that farmers producing fluid milk for the packaged milk sector were no longer privileged in terms of pricing, and the effects materialised very quickly. By 2004, the number of dairy farms in Australia had fallen to fewer than 10,000—the lowest number since the 1950s (Dairy Australia 2004). Farm numbers had fallen before: milk prices and farm profitability were also fragile in the 1970s and 1980s, but for different reasons[68]. Output since 2000 has also fallen—from a peak of 11.3 billion litres of milk in 2001–02 to 9.2 billion litres in 2013–14 (PC 2014b: 48).

Table 7.1: Dairy farm numbers in Australia, 1970–2014

	Australia	Change (%)	NSW	Change (%)
1970	46,480		8,733	
1980	21,994	–53	3,601	–59
1990	15,396	–30	2,220	–38
2000	12,896	–16	1,725	–22
2004	*9,611*	*–25*	*1,096*	*–36*
2010	7,511	–42	820	–53

Sources: Dairy Australia (2004, 2010); Greenwood (1990); PC (2014b).

However, the decline in farm numbers since 2000 is not, as peak industry body Dairy Australia put it, 'simply the continuation of an industry trend that has been apparent for over three decades' (Dairy Australia 2004). The removal of direct price support for farmers introduced new market dynamics that some farmers would never be able to withstand. This is reflected in the rate of attrition (see Table 7.1). With 42 per cent of farms closing down in the ten years following deregulation (and 53 per cent in NSW), the post-deregulation decade was almost as harsh as the 1970s[69]. Of course, there may

[68] The entry of Britain into the European Economic Community in 1974 devastated Australian butter and cheese exports, with a heavy impact on producers of manufacturing milk. Industry support measures were also being reformed and Australia was experiencing high inflation, which meant that farmgate returns for milk decreased, in real terms, over the twenty years from 1967–68 to 1987–88 (Greenwood 1990: 4, 17–20).

[69] This result runs counter to some earlier prognoses. Edwards (2003: 88), for example, claimed that 'the potential reduction in the number of dairy farms [after 2000] is much smaller than the reductions that occurred under regulation in the 1970s and 1980s'.

be a production ‘floor’ below which the dairy industry cannot sink, but as dairy farming becomes a larger and more intensive exercise, the number of farm enterprises is bound to shrink further.

Structural adjustment programs rolled out by the Australian government sought to cushion the blow of deregulation. The Dairy Industry Adjustment Package ran for eight years and was funded by a new levy on retail milk sales (PC 2009: 14, 70; Edwards 2003: 88; ACCC 2001: 1). The three elements of the package met a combination of economic and political aims. The Dairy Exit program sought to encourage ‘rationalisation’ of farm production via a payment (up to A$45,000 tax-free) available to farmers leaving the dairy industry within the first two years of deregulation. The Dairy Structural Adjustment Program was available to those remaining in the industry, providing a quarterly compensation payment based primarily on a farm’s production of market milk in the year 1998–99. Finally, the Dairy Regional Assistance Program, which ran from 2000 to 2004, awarded money to communities adversely affected by dairy deregulation, to help them develop new industries. Over the period of its operation (2000–08), the adjustment package paid out A$1.8 billion dollars to 13,000 dairy farm businesses (PC 2009: 70). Once the adjustment payments ceased, the effective rate of assistance to Australian dairy farmers plummeted from 15.4 per cent to 4.4 per cent (PC 2010: 19).

In the 15 years since full deregulation of the dairy industry, assessments of its impact have sometimes borne little resemblance to reality. A report commissioned by the National Competition Council, a government-funded advisory body, concluded that deregulation should not be blamed for the dire financial straits of dairy farmers. The real culprits, according to the report, were the drought of 2002 and ‘major cyclical change’ in the global dairy market (Spencer 2004b: 6). The dominant theme of the NCC report might be summarised as ‘unfortunate timing’: but for the climate and world market conditions, it suggests, deregulation would have been a hit. The suggestion is disingenuous, and reveals the frailty of the public policy-making behind dairy deregulation. If a new policy can succeed only under laboratory conditions—with all negative externalities, such as drought and currency movements, eliminated—then it is surely poor policy.

According to the NCC report, by 2004, the Australian dairy industry was better off by A$300 million per annum (gross, not net) as a result of deregulation (Spencer 2004b: 6)—a figure that ignored higher input costs, averaged out results across the country, and included government support payments as farmer income. The report conceded that the effects of deregulation 'vary markedly and are uneven across major dairying industries', but this barely hinted at the differentiated impact on farmers across Australia. A more accurate and revealing study of the state of dairy farming was produced by Dairy Australia (2004), based on the results of its first national survey of dairy farmers. Although the survey was not explicitly related to deregulation, the responses by farmers indicated very clearly that deregulation and its consequences had been critical to their business performance.

7.4 Dairy farming in the Shoalhaven region

Dairy production is one of the oldest industries in the Shoalhaven region. The dairy industry was established in the 1820s and expanded rapidly in the 1840s, as large numbers of tenant farmers took on leases of land (Sealy 2000: 93–4; Dayal 1980: 1; Hobbs 2005: 24–5). With the collapse of wheat farming in the 1860s, dairy farming became the leading agricultural industry in the region (Lee & Hagan 2006: 78–9). Dairy farming flourished in the Shoalhaven thanks to the region's natural assets: a temperate climate; generally good rainfall; large expanses of cleared land (following cedar-cutting); and a location less than 200 km from the major market of Sydney. As Dayal (1980: 1) put it, the region was 'almost ideal for dairy farming'. By 1890, butter factories were operating in several villages in the northern Shoalhaven: Pyree, Barrengarry, Meroo and Kangaroo Valley. In 1901, a large dairy factory opened in Nowra, and from that point, the town developed as a service centre for dairy farms and families (Gubb 1996: 46–7; NSW Heritage Office 1996: 189). The dairy industry became 'the common thread of the whole region', and retained this status for many years (NSW Heritage Office 1996: 189).

Dairy farming in the Shoalhaven was strongly oriented towards the fluid milk market. In 1999, an estimated 48 per cent of all the milk produced by dairy farmers in and around the Shoalhaven was fluid milk, slightly higher than the NSW average (around 46

per cent). By contrast, the figure for the Victorian industry—which specialised in manufactured dairy products—was just 8 per cent (SRRATRC 1999: 7).

Figure 7.1: Northern Shoalhaven dairy industry: towns and villages
Source: Google Maps.

In the middle of the twentieth century, dairy farms were still a defining feature of the Shoalhaven landscape and an important driver of economic activity and employment. Taking into account on-farm work and employment in local dairy processing plants, the dairy industry directly supported thousands of farmers, workers and their families. Indirectly, many more jobs were sustained in nearby towns and villages. Kangaroo Valley was home to around 75 dairy farms in the 1940s, at a time when the total population of the village was only around 230 inhabitants (Ryan 1966: 159; DF-1 2005). As late as the 1960s, the Shoalhaven economy presented a limited range of opportunities for those who finished school and were unwilling, or unable, to leave the district for further education or employment. In the words of one local farmer, ‘when I went to high school, there was only dairy farming, the paper mill and the Navy’ (DF-3 2005).

In keeping with the rest of the thesis, the focus in this case study is on the northern Shoalhaven region, centred around Nowra. While dairy farming is also conducted in the

southern Shoalhaven (around Ulladulla), production is overwhelmingly concentrated in the north (see Table 7.2).

Table 7.2: Shoalhaven dairy industry: farm production by location, 2010–11

Locality	**Gross value of milk production 2010–11 (A$m)**
Northern Shoalhaven	
Berry & Kangaroo Valley	6.7
Nowra–Bomaderry	13.4
Culburra	8.9
Sassafras & surrounds	2.6
Tomerong & surrounds	0.9
Northern Shoalhaven total	*32.5*
Southern Shoalhaven	
Ulladulla & surrounds	3.8
Southern Shoalhaven total	*3.8*
Shoalhaven total	**36.3**

Source: ABS (2012e).

7.4.1 Collecting the evidence

There is no 'off-the-shelf' statistical analysis of the dairy industry in the Shoalhaven region, a problem common to the study of small-scale agricultural economies (see Stetner-Houweling, Steel & Pullen 2000: 233; Spencer 2004b). Changes to the time spans and data sets for Australia's agricultural census and other agricultural surveys have rendered the data series incomplete and difficult to use over time for small regions (Stetner-Houweling, Steel & Pullen 2000: 224). For example, in 2011, the ABS changed the geographical boundaries for the annual series on agricultural commodity value: up until then, the Shoalhaven sat within the 'Illawarra' region; from 2011, it sat within 'Southern Highlands and Shoalhaven' (ABS 2011, ABS 2012d).

Nevertheless, there is a great deal of knowledge about the local dairy industry—to be found locally. Most of the research for this case study was gathered through interviews with six dairy farmers and two former dairy farmers in the northern Shoalhaven region (see Table 7.3). The interview group was selected principally on the basis of its

diversity, in terms of geographical spread and farm size. The group represented a broad spectrum of farm sizes, ranging from milking herds of around 200—the average for the region—up to 1,400 cows. Each of the farmers interviewed had been working in the dairy industry for the whole of their adult lives, and some had also held elected positions in local dairy co-operatives or associations. Two of the farmers were women.

Table 7.3: Case study interview group: Shoalhaven dairy farmers

Identifier	Status	Area[70]	2005 interview	2009 interview
DF-1	Dairy farmer	Kangaroo Valley	21 February	13 February
DF-2	Dairy farmer	Berry	23 February	12 February
DF-3*	Dairy farmer	Nowra	22 February	13 February
DF-4	Dairy farmer	Nowra	7 April	14 February
DF-5	Dairy farmer	Nowra	21 February	*Not interviewed*
DF-6	Dairy farmer	Berry	*Not interviewed*	21 May
E-1	Ex-dairy farmer	Berry	22 February	*Not interviewed*
E-2	Ex-dairy farmer	Nowra	22 February	*Not interviewed*

*Note: Husband and wife were interviewed together in 2005; in 2009, only the wife was available for (and participated in) the interview.

The interviews were conducted in two rounds: in February–April 2005 and again in February–May 2009, to enable the farmers to provide an update on their businesses and their assessments of the local dairy industry[71]. A sixth farmer was added to the pool in 2009 to provide an additional perspective on the Berry Co-operative Society, which had emerged as a focus of the case study. Beyond the case study group, valuable input was provided by other local farmers, a representative of the NSW Department of Primary Industries, local dairy co-operatives and other experts. Statistical information was also provided by staff of the Dairy Farmers factory in Bomaderry (before its closure in 2006) and National Foods (now Lion Ltd).

7.5 Deregulation and dairy farms in the Shoalhaven

The mere fact of change in the Shoalhaven dairy industry is hardly noteworthy. A range of factors, from technological developments to health standards, have shaped the dairy

[70] The Berry area includes: Berry and Jaspers Brush. The Kangaroo Valley area includes: Kangaroo Valley and Barrengarry. The Nowra area includes: Brundee, Pyree, Numbaa and Wogamia.
[71] One farmer from the 2005 interview group could not be contacted in 2009, so was not re-interviewed.

industry in the Shoalhaven over the last 180 years. Farm numbers have not been constant and farmers have decided to quit dairying for many reasons. For example, farmers interviewed for this study recalled a previous period of decline in farm numbers in the 1970s, after bulk milk tankers replaced milk cans and trucks as the method of collection in NSW. Many farms in the hills around Kangaroo Valley and Berry were inaccessible to milk tankers, and farmers could not afford to invest in better roads or driveways on their properties—so they left the industry. In the period 1961–78, the number of dairy farms in the Shoalhaven fell from 690 to 363, while farm sizes and herd sizes both increased by around 28 per cent (Dayal 1980: 2). However, the recent impact of globalisation—particularly in the forms of industry deregulation and inequitable commercial relationships in the value chain—has been different in nature. The dairying community has absorbed a very large and swift blow, and the business of dairying remains viable only for those prepared to upscale, invest or fight back.

Farmers in the interview group had worked to anticipate the effects of farmgate milk deregulation (see Box 7.1), but not all farmers in the Shoalhaven were able to do this successfully. In the 12 months to June 2002, five of the dairy farms supplying the Dairy Farmers factory in Bomaderry closed down (B. Silver, interview, 18 August 2004). One of the former dairy farmers interviewed for this thesis left the industry as a direct result of deregulation, lower milk prices and an inability to expand operations due to the high cost of land (E-1 2005). Farm closures were especially noticeable in smaller communities and the small dairy co-operatives, such as Berry and Gerringong[72]. The Gerringong co-op had 17 supplier–members in 2000; by 2004, seven members had decided to quit the industry (I. Guthrie, interview, 7 February 2005). The experience at the Berry co-op was very similar, with eight of 18 suppliers leaving the dairy industry between 1999 and 2005 (DF-2 2005). Over the mountain from Berry, Kangaroo Valley had 13 dairy farms in 2000; by February 2005, there were just six dairy farms remaining (DF-1 2005).

[72] Gerringong lies just north of the Shoalhaven boundary, in the Kiama Local Government Area, and is not formally a part of this study. However, dairy farms in the Gerringong area share much in common with farms in the northern Shoalhaven region.

Box 7.1: Reflections on deregulation: Shoalhaven dairy farmers

‘We were setting ourselves up for deregulation two years before it hit, because it was inevitable. It was always inevitable. We looked at all the different models of how you can milk cows, and we just went for the cheapest system we could’ (DF-5 2005).

‘We saw the writing on the wall. We built the [rotary] dairy, borrowed the money, we went with it. Whereas others just sat there and stuck their head in the sand’ (DF-3 2009).

‘The dairy industry is not a very healthy industry at all today, it’s a very, very sad industry. It’s got that way since the year 2000 when deregulation came in. I’ve actually seen farmers break down into tears in meetings because they can’t make ends meet’ (DF-1 2005).

‘Deregulation was the best thing that could have happened, I think. We thought that all along—but we obviously think differently to other people!’ (DF-4 2009).

Achieving greater efficiency has been a catchcry of policymakers and agricultural peak bodies in Australia since the 1970s. In 1980, Dayal gave an assessment of the Illawarra and Shoalhaven dairy industries that could have been written any time in the 35 years that followed:

> In the situation now facing the dairy industry, the only way to maintain net income is to increase productivity. To meet the change dairy farmers are rationalizing the industry and are making structural adjustments. Major changes have occurred during the last 20 years in the size and location of farms (Dayal 1980: 1).

The push to reduce on-farm costs and increase productivity was accelerated by deregulation and compounded by the drought of 2002–03. In the face of these two events, many dairy farmers left the industry, but the exodus allowed some of those remaining to benefit from the process of farm ‘rationalisation’ (Greenwood 1990: 17–20; Dairy Australia 2004: 9). In theory, the future of the Australian dairy industry lies at the top end of the scale: farm enterprises with thousands of cows spread across multiple sites. However, increasing the scale of operations is a serious undertaking, and it remains out of reach for many dairy families in the Shoalhaven and elsewhere. In 2009, the average Shoalhaven dairy farm had a herd of 200–230 cows, in line with the national average of 214 (V. Smart, interview, 9 March 2009; Dairy Australia 2009). The

modest size of most dairy farms in the Shoalhaven reflected their nature as family enterprises. In contrast to other fields of agriculture, almost all Australian dairy farms (98 per cent) were family-owned at the time of deregulation (SRRATRC 1999: 132).

One of the witnesses who appeared before the Senate inquiry into deregulation in 1999 was Colin Bowley, then Chairman of the Berry Rural Co-operative Society. In his testimony to the committee, Mr Bowley outlined the problems with the efficiency mantra:

> It is important to realise that farming is a business. It is structured around turnover of money and cost. We have probably ground our costs down over the past 10 to 15 years as far as we can grind them in comparison with the uncontrollable things we have rising all round us. There is only one option we have to replace the amount of money that we lose under this deregulation thing—that is, to expand our operation … The difficult thing for us as a board to judge—and this is where I am coming from —about the effect on our farmers is: do they want to go bigger; and at what stage do they say, 'I don't want to do this anymore'? ... Some will choose to increase their operations, some may choose to double their operation, and some will say, 'That's it, I'm out' (SRRATRC 1999: 76–7).

The interviews for this study revealed that new farming technologies, increased herd sizes and larger land holdings had helped to prevent significant falls in milk production levels in the Shoalhaven region, despite the fall in farm numbers since 2000. On average, each Australian dairy farm in 2004–05 produced just under one million litres of milk for the year (ABARE 2006: 4). The farms supplying the Dairy Farmers factory in Bomaderry in 2005 were only slightly behind that figure (an average of 942,105 litres per annum), and one-third of these farms produced more than one million litres. At the top end of the scale, the five farms in the Nowra area that supplied National Foods produced a massive 19.5 million litres per annum (see Table 7.4). Almost 10 million litres was supplied by just one farmer, who worked two dairy properties[73].

[73] Figures for regional production were provided by representatives of the Dairy Farmers factory in Bomaderry (B. Silver, interview, 18 August 2004) and National Foods (P. Ainsworth, correspondence, 3 February 2005).

Table 7.4: Dairy farms and milk production in the Shoalhaven and surrounds[74], 2000–04

	FY 2000–01	FY 2001–02	FY 2002–03	FY 2003–04
Number of farms* *Dairy Farmers* *National Foods*	**149** *147* *2*	**130** *127* *3*	**119** *114* *5*	**110** *105* *5*
Change (%) in number of farms	n.a.	–12.8	–8.5	–7.6
Milk supply* (million L) *Dairy Farmers* *National Foods*	**154.1** *151.8* *2.3*	**137.8** *127.8* *10.0*	**132.5** *119.2* *13.3*	**125.6** *106.1* *19.5*
Change (%) in milk supply	n.a.	–10.6	–3.8	–5.2

FY= financial year.

*Actual farm numbers and milk production figures are likely to be slightly higher than the totals given. This is because the 'feeder region' for National Foods did not match precisely Dairy Farmers' feeder region.

The decision to expand a dairy herd beyond the average size is not one taken lightly by farmers. As the dairy farmers interviewed for this study explained, building up a large herd takes time and money, for breeding, stocking, buying or leasing more land, hiring labour, and building more infrastructure, including dairies, feed stores and automated feeding systems. Running a large dairy farm in the Shoalhaven is very different to running a small one. The additional layer of profit is there to be harvested, but only after making a large investment. Despite the promise of greater financial reward, large-scale dairy farming is not for everyone. Where the choice is 'to get big, or get out', some dairy farmers will have little choice but to sell the farm. An example illustrates this point. One of the farming families in this case study (DF-3) began with a herd of 45 cows. Following their move to better farming land in the Nowra area in the early 1980s, their herd numbered 90. Fast forward to 2005, and DF-3 had a milking herd of 1,100 cows, which had increased to more than 1,300 cows by 2009. In concert with this huge increase in herd size, the family expanded its land holdings. In the period 2000–09,

74 Figures were supplied by the enterprises listed. The Dairy Farmers figures are for the 'feeder region' of their former factory in Bomaderry: from Albion Park in the north to Moruya in the south, and west to the Southern Highlands. This is broader than the Shoalhaven Local Government Area, but the data remains representative of the region. The National Foods figures relate solely to the Nowra area (P. Ainsworth, correspondence, 3 February 2005; B. Silver, interview, 18 August 2004).

DF-3 bought a total of 1,315 acres (532 hectares) of farming land, including a property in inland NSW[75]. By any measure, this farm business was thriving:

> Really, honestly, this business is running so well. We're working hard, don't doubt that, we work hard and put in the hours, but it's certainly going well (DF-3 2009).

7.6 How significant is globalisation for Shoalhaven dairy farmers?

In order to place the globalising forces associated with deregulation into perspective, it is important to ask: what shapes the business environment for dairy farmers in the Shoalhaven region? Deregulation was a seminal event for most dairy farmers in the Shoalhaven region, but it did not occur in a vacuum. The effects of industry deregulation interacted with other factors. When asked to nominate the most significant issues for their business, the farmers in this study listed most, or all, of the following: the farmgate price of milk; availability of land and capital; input costs; labour; and intergenerational transfers. While each of these was important, milk price was clearly the critical issue for each of the farmers interviewed. Two other factors—the availability of land and capital—were also highly important, because they dictated the options available to farmers who wanted to stay in the industry.

7.6.1 Milk price

The deregulation of farmgate milk pricing in 2000 hit most Shoalhaven farmers hard. This was a region that had, for several generations, specialised in the production of fluid (drinking) milk, which attracted a high price through the milk quota system. In scrapping the quota system, the Australian government also scrapped the wide price differential between fluid milk and manufacturing milk, resulting in a single 'blended' price at the farm gate (B. Silver, interview, 18 August 2004). The farmers in the case study pointed out that, in order to meet the high standards required for drinking milk, and to produce milk year-round, they had to supplement the traditional grass diet of their herds[76]. However, the post-deregulation milk price no longer compensated them for this ongoing expense (DF-2 2005; DF-5 2005).

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[75] This property held heifers from the Shoalhaven properties and produced feed, but was not used as a dairy.

[76] Supplementary feed in Australia includes silage, hay, grains and concentrates, and is used to supplement pasture and crop feeding (Dairy Australia 2015).

Immediately before deregulation, farmers in the Shoalhaven region were receiving 46–48 cents per litre for fluid milk, right on the NSW average; manufacturing milk was priced at 20 cents/litre[77]. In the 12 months after deregulation, average prices for fluid milk in NSW fell by a staggering 40 per cent (Dairy Australia 2004: 11). By early 2005, the farmers interviewed for this study were receiving 28–32 cents per litre as a 'base price' for milk[78]. This was *one-third* less than they had earned for the same product five years earlier (Table 7.4). The effects were stark:

> Our profit margin is smaller now [milking 265 cows] that it was when we were milking 90 cows (DF-1 2005).

Some farmers were also receiving a bonus payment from processor Dairy Farmers for 'new milk', that is, the amount of milk exceeding the volume produced at the same time in the previous year. For one farmer, this brought the average price up to 38–39 cents per litre (DF-4 2005). Another farmer, who supplied National Foods, was receiving a higher base payment, but was fighting to maintain this price advantage (DF-5 2005). In stark contrast, some farmers who had produced mainly manufacturing milk (such as DF-3 2005) found that their farmgate price fell by only 'a whisker', with no appreciable impact on their business.

Table 7.5: Farmgate milk prices in the Shoalhaven: 2000-09

	June 2000	**February 2005**	**February 2009**
Base price (cents/L)	46–48	28–32	48–50
Change*		–36%	+63%

*Note: This is the change between the mean prices within each given range.

Sources: Dairy Farmers (Bomaderry factory); case study interview group.

By the time of the second round of interviews, the milk price had rebounded, but was proving very volatile. In February 2009, Shoalhaven farmers were receiving a base price of 48–50 cents/litre, with additional incentive-based payments bringing the price up to 53 cents/litre (slightly higher for some). These prices were significantly higher

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[77] Figures supplied by Dairy Farmers factory at Bomaderry (B. Silver, 18 August 2004).

[78] Payments to farmers comprised a standard minimum price per litre, plus an additional payment based on the protein and fat content of the milk. Other incentive payments are also offered by processors from time to time.

than in February 2005, and even higher than the pre-deregulation rate (See Table 7.4). However, the farmers' good fortune was the result of unusual—and temporary—circumstances. The leading processor of Shoalhaven milk, the Dairy Farmers Co-operative, had been bought by rival processing company National Foods in 2008. The terms of sale guaranteed a strong milk price for Dairy Farmers' co-op members for a period of two to three years. Tellingly, most of the farmers interviewed in 2009—including those supplying Dairy Farmers/National Foods—viewed the temporary price guarantee as the 'eye of the storm'. While pleased with the prices they were receiving, each of them expressed concern about changes in global dairy prices and the knock-on effects in Australia:

> We're safe 'til 2010. I think there'll be reconsideration by a lot of farmers after then. I'm sure that a lot will go from the industry if prices start to slide and running costs keep rising (DF-1 2009).

> After that [June 2010], the price will go down the toilet (DF-4 2009).

> So, to answer your question, 'What are we going to do if prices drop down?', we'll probably have to ride out the storm or, you know, sell up, go out of dairy. It would then depend on the individual farmer's financial settlement and age: whether they wanted to retire, whether it was worthwhile continuing for those prices, whoever's going to follow on and carry on the work that had been done in previous years, the good years. We're in a turbulent time, a very turbulent time, and that's all come since deregulation (DF-1 2009).

7.6.2 Input costs

Next to their dairy income, Shoalhaven farmers were most concerned about the rising cost of essential farm inputs. At the time of the first round of interviews in 2005, the average dairy farmer in NSW was receiving slightly higher milk prices than in the preceding year, but his or her additional profit was being plundered by higher input costs, notably for fertiliser and fuel (ABARE 2006: 1, 11). Higher input costs were a particular problem during the drought of 2002–03, and each of the case study dairy farmers suffered financially due to the drought. One farmer with a reasonably large business reported a loss of A$200,000–A$300,000 in cash flow over the two financial years to June 2004 (DF-5 2005). At the height of the drought, the farmer spent A$280,000 on feed in one year, compared with A$70,000–A$90,000 in a regular year.

The Shoalhaven dairy industry was not built for drought. Irrigation systems were never part of the dairy infrastructure in the region, thanks to (generally) reliable rainfall and good pastures. This reliance on natural irrigation has started to diminish, because business pressures and herd sizes have outstripped nature's capacity to supply:

> When you start to push the envelope and your stock numbers double or treble on what they were 40 or 50 years ago, you've got to grow a proportionate amount of grass (DF-3, 2005).

The local council took the initiative to try to 'drought-proof' some of the region's farms, using recycled effluent to grow pasture. The Recycled Effluent Management Scheme, established in 2002 by Shoalhaven City Council, initially involved 14 dairy farms on the Shoalhaven River flats and in Berry, and enabled them to use recycled waste water to irrigate pasture (SCC 2007). According to the local dairy office of the NSW Department of Primary Industries, the scheme was 'a great thing' for the farms, the environment and the wider community (V. Smart, interview, 9 March 2009).

Labour has also grown in importance as a business input, as farms grow in size and production intensifies. The pressure to increase output and achieve economies of scale means that many Shoalhaven dairy farms are expanding beyond the labour capacity of farming families. This makes external labour—whether from employees or contractors—a necessity. All but one of the farms included in this study hired external labour, and one of the farms was employing as many as 16 people in 2008 (DF-4 2009). However, sourcing farm labour in the Shoalhaven is difficult. Farmers in this study emphasised that working on a dairy farm is no longer an unskilled occupation. Much of the equipment used on farms and in dairies is complex to operate and to service, and finding suitably skilled labour is a problem for the dairy industry nationwide. Little wonder that Shoalhaven farmers were very interested in the option of fully-automated dairies, which, in 2009, were operating on a trial basis at two locations in Australia (V. Smart, interview, 9 March 2009).

7.6.3 Farm expansion: a question of land and capital

Dairy farming land in the Shoalhaven is hard to come by, and it is expensive. With the influx of sea-changers and hobby farmers into the Shoalhaven region, beginning in the

1980s, the market for agricultural land changed. In the picturesque surrounds of Berry and Kangaroo Valley, land is now highly valued for its 'rural residential' nature and its proximity to fashionable villages. In the area around Nowra, the premium dairy land lies along or near the Shoalhaven River—it is flood-prone and unlikely ever to be zoned for residential or commercial development, but, even here, prices have been pushed up by hobby farmers buying river-frontage blocks. These were, in the wry words of one local dairy farmer,

> doctors and solicitors and all that from Sydney [who] just love to come down and have their hundred acres and their ten black beefies [beef cattle] out in the paddock that they can go and pat (DF-3 2009).

In the period after full dairy industry deregulation, several dairy farmers in the Shoalhaven took the plunge and expanded their land holdings. In 2003 and 2004, dairy properties of 150–200 hectares along the Shoalhaven River were bought by local farmers for prices ranging from A$1.6 million to A$3.8 million. In most cases, these purchases were funded by debt, placing the farmers in a vulnerable position (J. Austin, interview, 21 February 2005). As one farmer cautioned, 'you can get bigger and bigger, but you can go broke faster and faster' (DF-4 2005). A stroke of luck came in 2008, giving Shoalhaven farmers a large injection of capital and genuine opportunities to expand their operations. The sale of Dairy Farmers to National Foods released a huge flow of money to Dairy Farmers' member-shareholders. One farmer described this as 'like winning Lotto ten times over … We got a fair few million dollars' (DF-3 2009). The financial windfall might have encouraged a few farmers to leave the industry, but it also equipped others to invest heavily in infrastructure and land (V. Smart, interview, 9 March 2009). In the wake of the Dairy Farmers sale, one farmer in the Shoalhaven paid cash for a 193-hectare property, while another installed costly automated feed pads and feed bunkers (DF-3 2009; DF-4 2009).

Some of the bigger farms in the region used an alternative strategy: buying additional land in other parts of NSW to use for rearing heifers and/or growing feed (DF-3 2009; DF-4 2009). Even with additional transport costs, it was far cheaper to run another property a few hours drive from the Shoalhaven region than to buy property locally. However, for some farmers, the availability of land and capital for farm expansion is

simply not an issue. Despite the promise of greater financial reward, large-scale dairy farming is not for everyone:

> I could send you to some neighbours … They haven't even got flyscreens on the windows. [Only] an outside toilet … Everything's just falling down. And the two boys and mum are milking about 85 cows and they can't make it pay … So it's all doom and gloom over there. It depends where you go (DF-3 2009).

7.6.4 Keeping the farm: money versus sentiment

In 2005, some dairy farms in the Shoalhaven region were worth as much as A$10 million (J. Austin, interview, 21 February 2005). The combination of uncertain dairy incomes and high land values presented many farmers with an unwelcome choice, based on a simple fact: 'You've got a block of dirt that's worth a lot of money' (DF-2 2005). One of the farmers interviewed in 2005 was looking ahead to a time when he would leave the industry:

> We're really lucky in that, apart from the emotional baggage of making a decision, we've got some really easy options ... So we're very fortunate. And I think a lot of people on the South Coast are very similar. There's not too many that would have low equity in their farms ... Probably quite a few are like us, in that they've got probably nearly too much debt to run a dairy, but when you value the farm, it's just inconsequential, nearly. And that's what's tipping these people out of the industry. You know, a little farm might have three, four, five hundred thousand dollars worth of debt or something, and he's worth two or three million (DF-5 2005).

Despite the gains to be made from selling up, the decision about whether to stay or go is not simply financial—there are 'non-economic reasons for not exiting the industry', as the ACCC (2001: 35) put it. The farmers in the Shoalhaven interviewed for this study cited emotional ties to the land (especially when it had been in the family for several generations) and to the rural lifestyle. For some, and especially for older farmers, leaving the industry would never be an option:

> I think they'll have to carry me out of here in a box. Because, you know, this is where my grassroots are, and we've got a good place (DF-1, 2009).

As one former dairy farmer explained,

> Most farmers who are in it have been born into it and don't know anything else. If they could step back for a year or two, they could see another life. But they don't (E-1 2005).

Those farmers who do embark on another life 'get shunned a bit to start with … like the rats leaving a sinking ship' (E-1 2005). The practicalities of starting a new career, on or off the farm, can also be daunting (see Box 7.2).

Box 7.2: Leaving the farm

Family E-1 bought their dairy farm outside Berry in 1990, where they milked a herd of 100–120 cows. When it became clear that deregulation of the dairy industry was inevitable, the family considered leasing land on the adjacent property to increase the size of their herd and their production, but leasing costs were too high. On the basis of a milk price of 27 cents/litre and labour costs of 5 cents/litre, they concluded that they could not afford to continue dairying. The family wanted to stay on the land, so they researched other rural business opportunities. They considered wine grapes, but were not confident enough about grape prices to make such a large capital investment. Finally, they sold their cows, began growing turf, and agisted cattle. When the drought hit, they exited the turf business. Family E-1 sold their farm in 2003 as a residential property.

It might be expected that the new, post-deregulation business environment would act against the intergenerational transfer of family farms. In 2004, a Nowra newspaper ran a story about a dairy farmer who quit the industry when his son 'had refused point blank to carry on the family tradition' because 'it was no use working hard on a farm, and getting nothing much back in return' (Webster 2004: 1). However, most of the farmers interviewed for this study were very confident that one or more of their children would take on the farm in the years to come. Only one family had decided to leave the industry—after five generations—rather than hand over to the next generation (DF-5 2005). Typically, the farmers participating in this study had succession plans in place. One farming family (DF-3) had formally brought their two children into the business between 2005 and 2009. At another farm (DF-4), the teenage children were shaping up as the seventh generation of dairy farmers, working the same property since 1826. Despite the difficulties involved, it seemed likely that most of these farms—if they survived—would stay 'in the family'. As one young farmer explained,

> I'm positive, I'm really positive [about the future]. I think it's because I'm young and because I want to make a good go of it. I don't like failing at things (DF-4 2005).

7.7 Milk processing in the Shoalhaven

The pressures facing individual dairy farmers in the Shoalhaven region are intricately linked to the sweeping ownership changes and rationalisation processes within the dairy manufacturing sector. Until 2006, almost all of the dairy farms in the northern Shoalhaven region supplied, and were supported by, a milk processing and dairy manufacturing plant at Bomaderry, just north of Nowra[79]. The factory had been established by a local co-operative of farmers in 1912, and it remained in the hands of a co-operative for its entire working life.

The agricultural co-operative movement was born on the South Coast of NSW, a development that was critically important to the local dairy industry. Up until the 1870s, dairying was not very profitable for Shoalhaven farmers: Sydney-based agents acted as middlemen between the farmers and dairy retailers, creaming off most of the profit as they exploited the lack of bargaining power at the farm gate. A watershed moment for the local—and Australian—dairy industry came in 1881, when farmers in the region formed a co-operative distribution company, with its own premises in Sydney. More significantly, this development encouraged farmers in the Illawarra to establish Australia's first co-operative dairy factories. Beginning in Kiama in 1884, co-operative dairy factories spread quickly along the entire South Coast of NSW. Equipped with new technology and much greater market power, dairy farmers in the Shoalhaven and surrounding regions were able to operate much more efficiently and profitably (Lee & Hagan 2006: 80). By the 1960s, the Bomaderry dairy factory had become one of the largest milk processing facilities in NSW (Bayley 1962). Until deregulation—and for several years beyond—the Bomaderry factory was a lynchpin of the Shoalhaven dairy industry. In 2005, almost all of the dairy farmers in the Nowra–Berry–Kangaroo Valley area were members of a co-operative[80].

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[79] In addition to buying and processing milk, the Dairy Farmers factory provided other benefits for farmers, such as health testing facilities for their herds (V. Smart, interview, 9 March 2009).
[80] At that time, two co-operatives remained in the area: the Dairy Farmers co-operative and the Berry Rural Co-operative Society.

At the time of deregulation in 2000, the Bomaderry milk factory was owned by the Dairy Farmers Co-operative and had 147 suppliers, drawn principally from the Shoalhaven region, but also from the Southern Highlands, the southern Illawarra and the northern Eurobodalla region (B. Silver, interview, 18 August 2004). By this time, the factory had expanded its product range well beyond packaged drinking milk, to include flavoured milk, condensed milk and dairy desserts, some of it destined for export markets in Asia (Ellard 2005a). Despite the natural fit between local farmers and a local processing facility, bigger players were keen to increase their production by poaching milk suppliers. In 2000, rival dairy business National Foods made its first inroads into the Shoalhaven milk market. Between June 2001 and June 2002, National Foods picked up 15 farmers who had supplied the Dairy Farmers factory in Bomaderry, attracting them with higher milk prices (B. Silver, interview, 18 August 2004). By 2005, these 15 farmers supplied around one-quarter of all the milk delivered to the National Foods factory in Penrith, west of Sydney (P. Ainsworth, correspondence, 3 February 2005).

Dairy industry analysts had predicted a wave of rationalisation in the dairy manufacturing industry in NSW and Queensland following deregulation (see Spencer 2004b). And so it came to pass that, in the three years after deregulation, the Dairy Farmers factory in Bomaderry lost 29 per cent of its suppliers and 30 per cent of its milk supply and by 2005, the co-op announced that the factory would close, along with several other production plants. Milk production would be shifted from Bomaderry to the Dairy Farmers factory at Lidcombe in Sydney ('Axe poised to fall on Shoalhaven dairy' 2005: 1). Dairy Farmers CEO Rob Gordon explained the decision:

> To have a strong, growing and viable business, we must maximise our economies of scale, improve our efficiencies and concentrate our processing capabilities closer to market to reduce unnecessary freight and other logistics costs for raw milk and finished goods ('Axe poised to fall on Shoalhaven dairy' 2005: 1).

The string of closures was part of a program to prepare the Dairy Farmers business for public listing on the stock exchange ('Dairy Farmers eye ASX listing' 2004). Dairy Farmers shed 20 per cent of its national workforce, including all 66 jobs at the Bomaderry factory. While CEO Rob Gordon stated that retrenched staff would be redeployed within the Dairy Farmers network, the new jobs created in the restructuring

process were mostly in South Australia—of very little use to workers in the Shoalhaven ('Axe poised to fall on Shoalhaven dairy' 2005: 1, 3; Ellard 2005a: 2). By 2008, Dairy Farmers had decided against a public float, instead pursuing the potentially more lucrative option of a sale to a transnational giant.

The Dairy Farmers factory in Bomaderry closed its doors on 12 April 2006. This did not affect the viability of local dairy farmers, nor did it constitute a catastrophe for the local economy—the Shoalhaven was not dependent on dairy production in the same way as other regions (see Herbert-Cheshire and Lawrence's (2002) study of Monto). Milk produced in the Shoalhaven, and further down the coast, would now be trucked to Sydney for processing. But the departure of Dairy Farmers from the Shoalhaven was a highly significant moment. Closure of the factory brought to an end an important part of the Shoalhaven's history as a dairy manufacturing region and co-operative economy, and downgraded the region's status within the Australian dairy industry.

7.7.1 The fate of the Dairy Farmers co-operative

Dairy manufacturing around the world is dominated by large transnational enterprises. At the time of full industry deregulation in Australia, the Dairy Farmers co-operative was one of three large milk processors operating in the country (Spencer 2004a: 22). Rival processor National Foods (under Japanese ownership) bought the Dairy Farmers business in 2008, and then merged with New Zealand brand Lion Nathan in 2009. Although the Dairy Farmers brand continues on supermarket shelves, it is produced by Lion Dairy and Drinks, owned by the Japanese Kirin conglomerate (Lion Ltd 2011, 2015).

The sale of Dairy Farmers to National Foods comprised the whole of the co-operative's manufacturing business and brands, but the co-operative itself continued to operate independently, under the name 'Dairy Farmers Milk Co-operative'. As might have been expected, the Dairy Farmers Milk Co-operative had negotiated a long-term exclusive milk supply agreement with National Foods (now Lion Ltd), as part of the sale. However, Lion Ltd's demand for milk has been vulnerable to changes further up the dairy supply chain. In 2011, Lion lost its contract to supply private label milk to Woolworths in NSW. As the chair of the Dairy Farmers Milk Co-operative explained,

although private label contracts involve very little profit (if any) for the processors, without them 'the processor cannot recover the costs of operating their supply chain (including milk purchasing obligations with farmers)' (Zandstra 2011:3). As a result of losing the Woolworths contract, Lion cut the amount of milk it bought from its farmer suppliers, with direct impacts on farmers in southern NSW (Boyd 2011). The Dairy Farmers Milk Co-operative suffered a dramatic fall in member numbers following the loss of the Woolworths contract. In 2011, the co-op had represented 780 dairy farms; just three years later, this had more than *halved* to just 337 dairy farms, with most of the departing farmers jumping ship to supply rival milk processors (Dairy Farmers Milk Co-operative 2014; Zandstra 2011).

However, the closure of the Dairy Farmers milk processing factory at Bomaderry did not mark the end of Shoalhaven farmers' direct involvement in the dairy processing and retail chain. In a direct reaction against globalising forces, the co-operative movement threw up a surprise, and with it the hope of new possibilities for local dairy farmers.

7.8 Local resistance: the Berry Rural Co-operative Society

In the dying days of the Dairy Farmers factory in Bomaderry, the only other dairy co-operative in the Shoalhaven region—the Berry Rural Co-operative Society—did something quite audacious. In December 2005, the co-op launched its own dairy label, selling milk produced by co-op members and processed at a small independent factory in Picton, north-west of Wollongong. The milk was sold under the 'South Coast Dairy' label, and was distributed along the coast, from Wollongong in the north to Merimbula in the south[81].

The degree of risk involved in establishing a new dairy brand should not be underestimated. The South Coast Dairy label was launched at a time when the Australian dairy industry was well and truly dominated, and characterised, by large economies of scale and rationalisation of production, mostly under the stewardship of multinational owners. In a rational economy, tiny dairy businesses offering a mass market staple should be swamped by the big players. Rationally, the South Coast Dairy

[81] All factual information about South Coast Dairy was provided by members and staff of the Berry Rural Co-operative Society (G. Abbott, interview, 11 February 2009; P. Timbs, interview, 22 May 2009).

business should never have existed[82]. The fact that South Coast Dairy was launched at all, and that the Berry co-op was immediately planning further expansion, reflects another side of the globalisation story: the upward pressures exerted by local communities. This 'localisation' effect is described by Giddens (1990: 65) as 'the strengthening of pressures for local autonomy and regional cultural identity' in response to the downward pressure of globalisation.

7.8.1 Background

The village of Berry has a long history in the dairy industry. The Berry dairy factory opened in 1895 and was bought in 1911 by a group of local dairy farmers, who formed the Berry Rural Co-operative Society, part of the new co-operative movement pioneered in nearby Kiama (Gubb 1996: 47; Berry Co-op 2011). More than one hundred years later, the Berry co-op still survives. In the early 1970s, the Berry Rural Co-operative Society had 154 farmer-members, supporting 154 dairy farms (DF-2 2005). By February 2009, the number of members had shrunk to just eight—but those eight dairying families had already launched a plan to secure their farming futures by capitalising on local loyalties, the high quality of their product and off-farm investments.

At the time of dairy industry deregulation in 2000, the viability of the Berry co-op did not rest on its dairy business, but on real estate investments in the flourishing township. The co-op owned the only industrial-zoned land in Berry, and the rental income derived from leasing factory and office space was critical to the financial performance of the co-operative (DF-2 2005, 2009). The financial security afforded by real estate investments enabled some of the co-operative's farmers to maintain average-sized herds and milk yields, rather than scaling up in order to overcome poor farmgate milk prices.

7.8.2 South Coast Dairy

The establishment of a new dairy label by the Berry Rural Co-operative Society was, in a sense, a return to the past. A century ago, each of the dairy co-operatives in the Shoalhaven region processed and sold its own produce, whether milk or butter. It was

[82] Lawrence (1987: 113) points out that family farms 'do not have vast economic resources at their disposal nor is it usual for them to have the ability to integrate their activities horizontally and vertically'.

only in the switch from agriculture to agri*business* that on-farm milk production became divorced from processing and value-adding. The Berry co-op had closed its own milk factory at the end of the 1980s, and from that point, co-op members sold their milk to the Dairy Farmers factory in Bomaderry (until its closure) and to other processors. The co-op launched South Coast Dairy in December 2005, and the brand was immediately embraced by local consumers. In rational terms—that is, on price alone—the locally-produced milk simply should not have found a market. In 2009, the price comparison for a two-litre carton of milk at the Berry supermarket looked like this: A$2.47 for the generic IGA supermarket brand and A$2.59 for Dairy Farmers milk, versus A$3.44 for South Coast Dairy milk—a full 39 per cent more than the cheapest option[83]. By 2009, ten per cent of the Berry co-op's milk production was being sold under its own label. The decision of the Berry co-op members to assert their identity, through their own label, was driven by business, rather than nostalgia—with a very strong sense of branding and a keen awareness of industry value chains. One co-op member explained the motivation behind the establishment of South Coast Dairy:

> It is important to the guys in Berry that we keep our identity. It's strong and important. And with these big companies, you don't know where you're going. Like, they've got a vision, but is that vision for their hip-pocket? (DF-6 2009).

In 2009, the South Coast Dairy business was not yet turning a profit. But the lack of profit did not mean failure, for two reasons. First, the goal of the Berry co-op was to 'make a bit of a name for ourselves, earn a little bit more money there for the farmers' (G. Abbott, interview, 11 February 2009). Second, the co-op was planning further expansion and hoping to construct its own dairy processing factory in Berry (DF-6 2009). The establishment of a new dairy factory in regional Australia, after so many closures and so much 'consolidation' within the industry, would be a stunning case of swimming against the tide. And stunning it was—in November 2014, the Berry Co-operative Society turned the first sod on construction of its own milk processing factory, on the site of the original Berry Creamery, which the co-operative had bought in 1911. After raising A$2.5 million for construction, the co-op members were looking forward to beginning local milk processing and packaging in April 2015, employing 11 people and supplying 150 retail outlets in NSW. This turn of events was so remarkable that the

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[83] Prices sourced from the Berry IGA supermarket, 27 September 2009.

Federal Minister for Agriculture, Nationals MP Barnaby Joyce, officiated at the launch ceremony and talked up the potential of the Berry factory to inspire other co-operatives and other industries to 'get the profit back through the farm gate' (Locke 2014).

In the context of dairy industry deregulation and the power imbalances within the dairy processing chain, the establishment of the South Coast Dairy label was a reaction to globalisation. In seeking to carve out its own future in dairying, the Berry co-op responded to what Gray and Lawrence (2001: 188) had described as 'the challenge for regional Australia at the beginning of the twenty-first century':

> to build socially, economically and environmentally strong communities which have the necessary linkages with global capital, but which have a prospect beyond this season's price for traditional products like coal, beef or wheat.

For Gray and Lawrence (2001: 187), it was imperative that regional communities work towards an almost 'revolutionary' change to their 'current circumstances of marginalisation'. The South Coast Dairy label will not alter the existing structure, nor the power imbalances, of the Australian dairy industry—but it does create choice, and this is a powerful achievement. Taking into account the motivations and business goals described by the Berry co-op's members, it is clear that South Coast Dairy is, in its intent, an agent of change and resistance. The 'reflexivity' and, especially, the awareness of global forces and opportunities that Gray and Lawrence (2001: 37, 207) wanted to see fostered in regional Australia are evident—in bucketloads—in the Berry Co-operative Society. The South Coast Dairy brand is also a prime example of the strategies suggested by regional development analysts for communities trying to address the negative effects of agricultural restructuring. First, by adding value 'through strategies that seek to embed regional identity within particular commodities'; and second, through the local processing of primary products, adding value and profit that will accrue in the community (Beer, Maude & Pritchard 2003: 105–6).

Intriguingly, the transnational agrifood companies are not only aware of the groundswell of consumer support for local dairy production in Australia, some of them have decided to capitalise on it. In July 2014, Lion Ltd rebranded its Dairy Farmers milk in one geographical area—Far North Queensland—under the label 'Malanda Original Milk'. This harked back to the Malanda Milk brand that had been owned and

operated by the local farmers' co-operative in the Malanda region for decades, before being bought out by Dairy Farmers in 1993. With the sale of Dairy Farmers to National Foods and Kirin Holdings, the Malanda Milk label had disappeared, replaced by generic Dairy Farmers branding—a corporate decision that was met with dismay by the Malanda community, with locals 'refusing to buy the milk' (Coghlan 2014; Lion Ltd 2014; Dairy Farmers 2015). Six years later, the community responded quickly to the reversion to the Malanda branding. Sales of Dairy Farmers milk (under the Malanda Original Milk label) jumped by two per cent in the first three months of the marketing exercise, hailed by the Lion Ltd media department as 'an outstanding result' (Lion Ltd 2014).

7.9 Conclusion

For several decades, dairy farmers in the Shoalhaven region were accustomed to dealing with changes in policy and business environments. As each wave of change rolled through, some farmers were knocked out of the industry, but many more adjusted and carried on. However, the actions of successive Australian governments in deregulating milk production exposed Shoalhaven dairy farmers to the extremes of the global agricultural economy—a place where dairy businesses protected by the state (in the EU and US) set the milk price, and purchasing and marketing decisions are dominated by an ever-decreasing number of transnational food manufacturers and supermarket chains. As Davidson (2002: 87) explained, deregulation saw agricultural and environmental conditions replaced by other factors—such as national economic policy and changes in the political economy—in determining the pattern of agricultural activity in Australia.

Despite excellent natural conditions for dairy farming in the Shoalhaven, many farmers in the decade after deregulation wrestled with the problem of how to survive, for one primary reason—the price they received for milk was too low in relation to their production costs. In addition to a pattern of decline in the *number* of dairy farms in the Shoalhaven, there were significant changes to the *type* of farming in the region, as some farmers chased economies of scale by expanding their land holdings and herds. The local model of dairy farming was under serious threat from the imperatives of productivist agriculture. The future of the Shoalhaven dairy industry is likely to be both

smaller and bigger: a smaller number of farmers running larger herds, investing heavily in land and technology.

Similarly, the local milk factory could not survive the neoliberal template applied to the dairy processing sector. The milk factory in Bomaderry had operated, under co-operative ownership, for almost one hundred years, diversifying its products and moving into export markets. But there was no place for the Bomaderry factory in the new streamlined Dairy Farmers business, as it was slashed and polished in preparation for sale. The closure of the factory in 2006 was a seminal event in the Shoalhaven dairy industry: it severed an important link with the region's past and it presaged the sale of the Dairy Farmers business to rival National Foods. With the sale of Dairy Farmers to National Foods, most Shoalhaven dairy farmers enjoyed a one-off financial gain, but lost forever their status—and collective power—as owners of their own processing and manufacturing facility. However, where there is globalisation, there is also resistance. Through its establishment of the South Coast Dairy label and its own processing factory, the Berry Rural Co-operative Society demonstrated that the Australian dairy industry still held possibilities for those who were dissatisfied with power and profit structures. The Berry co-op was in a viable financial position due to reliable non-dairy income, and—rationally—might have chosen to allow its dairy business to wither away. Instead, the co-op decided to assert its identity, its right to a place in the dairy value chain and its capacity to influence its operating environment. The South Coast Dairy project emanates small-town confidence and hope, in an industry short on both.

CHAPTER EIGHT: Case study: Paper manufacturing in the Shoalhaven

> [L]et's come up with a decent plan. A decent plan is that our export strategy is successful, and, when you look at the logic of it and what's out there, I don't see any reason it can't be … We know businesses already make quite good money in those areas, because they're our competitors and we see them out there, and we know we've got our capabilities in line now. So there's no reason we can't win those things—there's no excuse there (B. Borchardt, interview, 7 August 2009).

8.1 Overview

The Shoalhaven manufacturing industry has been highly important in the economic development of the region, providing well-paid employment in a community that had previously relied primarily on agriculture for its livelihood. This case study examines one of the iconic manufacturing enterprises in the Shoalhaven region: the Shoalhaven Paper Mill. The mill was established in 1956 on the banks of the Shoalhaven River in Bomaderry, bordered by farmland on three sides. For many years, the mill was by far the largest employer in the Shoalhaven, and it became closely woven into the economic and social fabric of the region. However, the development of the mill has been shaped (and stunted) by the increasing globalisation of the paper manufacturing industry, notably by the dismantling of trade barriers in developed economies and the rise of cut-price competition in the developing world. This chapter illustrates the difficulties encountered by a small manufacturing operation in an industry that now values high volume. It demonstrates how hard it is for niche producers to survive in a highly globalised economy.

8.2 Establishment of the mill: capital and the state

The Shoalhaven Paper Mill was established by two paper manufacturing companies based in the UK, Wiggins Teape and William Nash. Wiggins Teape had been exporting paper to Australia since the nineteenth century, but saw good reason to develop its own manufacturing base in Australia. In the Australian market, Wiggins Teape specialised in the sale of fine paper, which was not produced domestically (Tooley 1997: 6; Wake 1953) [84]. However, in 1948, the company began to fear for its market share: the Australian Pulp and Paper Mills (APPM) factory in Tasmania had bought a machine

[84] In 1953, 'fine paper' included ledger papers, dyelines and fine writing paper (NAA: MP61/1. 2/306/2984). Today, this product category is referred to variously as 'communication', 'printing' and 'writing' papers.

capable of manufacturing fine paper products. Compounding this threat, Wiggins Teape believed the Australian government might increase tariff rates to protect an 'infant industry' in fine paper manufacturing (Tooley 1997: 6). The decision by Wiggins Teape and William Nash to establish an Australian mill was thus prompted by fear of competition and protectionism.

Industrial paper-making requires a few essential inputs: large amounts of fresh water; wood pulp; and transportation infrastructure, such as railways and ports. On the basis of these requirements, Wiggins Teape and William Nash considered several possible sites for their Australian paper mill, and also held negotiations with the Australian and NSW governments (Tooley 1997: 6–7, 10). While it is impossible to determine the extent to which these negotiations influenced the decision-making process, it is clear that governments saw a pivotal role for themselves in attracting industrial investment. As Chapter Five explained, industry attraction programs were common in the early days of regional development policy in Australia, and were often part of broader decentralisation policies pursued by national and state governments. In the 1950s—and for many years afterwards—governments in Australia worked actively to shape the economic development of their jurisdictions. The wide open spaces of the Shoalhaven were a target for industrial development. Today, Jervis Bay is the site of a popular marine park and national park, significant for its Indigenous heritage. However, in the late 1960s, the NSW Department of Decentralisation and Development considered an investment proposal for a large steelworks at Jervis Bay. At the same time, the Australian government chose Jervis Bay as the site for a proposed nuclear power station (Lady Denman Museum 2010).

The paper mill proposal developed by Wiggins Teape and William Nash was projected to have a substantial economic impact and received a very favourable reception from governments. One of the directors of Wiggins Teape, Lt Col. R.G. Ritson, was a personal friend of the Australian Minister for Works and Housing, Richard (later Lord) Casey. In 1950, the minister instructed his department to meet with a visiting representative of Wiggins Teape (NAA: MP61/1, 2/306/2984). Negotiations between the Australian government and the British company continued over the next few years. By 1953, Wiggins Teape was lobbying the Customs Department to waive import duties on machinery and wood pulp, and the Ministry of National Development had decided

that, despite the potential for competition with the APPM paper mill in Tasmania, the Wiggins Teape mill at Bomaderry should be approved. Although it would involve the importation of pulp from the UK, the mill would ‘reduce the import of finished papers’ and ‘overall … save exchange’ (NAA: MP61/1, 2/306/2984).

Following its negotiations with the Australian and state governments, the UK consortium selected the Bomaderry site for its new mill. In its discussions with the consortium, the NSW government ‘was co-operative with regard to railway sidings and freight costs’ and provided a financial grant under its decentralisation program (Tooley 1997: 7; Shoalhaven Paper Mill: 1994?). Construction costs for the Shoalhaven Paper Mill, over the period 1953–56, came to £1.5 million (‘A triumph in paper making’ 1955: 10; ‘Shoalhaven Paper Mills feature: British crafts in Australia' 1957: 8). To place this figure in perspective, the construction in 1954 of Australia’s first nuclear reactor, at Lucas Heights, was also estimated to cost £1.5 million (ANSTO 2008). The opening of the mill was marked in 1957 with a celebratory dinner in Sydney, which was addressed by Prime Minister Robert Menzies—a fact that underlines the economic importance of the paper mill investment and the close interest of government in its success (Tooley 1997: 17).

Paper manufacturing was a new start-up industry in the Shoalhaven, and it had a dramatic impact on the region. In the 1970s, a long-time employee of the mill reflected that, ‘before the mill was opened … the only industry in the town was the Navy’ (‘At the mill, they’re happy in paper work’ 1973: 9). As we saw in previous chapters, employment opportunities in the Shoalhaven were limited, even into the postwar period, when agriculture (chiefly dairy farming) was the mainstay of the regional economy and the raison d’être for service centres like Nowra. All of that changed with the arrival of the Shoalhaven Paper Mill. By 1961, the mill had around 600 employees, in a town with a population of only 8,431 (Tooley 1997: 28; Ryan 1966: 159). In her history of the mill, Elizabeth Tooley (1997) describes the strong sense of community created by the mill’s managers, who ran a bus service to transport workers to the site, and held an annual ball, Christmas luncheon and children’s Christmas party. When the mill’s first manager, George Gall, retired in 1970, 200 people attended a farewell function in Nowra (Tooley 1997: 24, 27, 42).

Due to the size of the investment and its new workforce, the Shoalhaven Paper Mill quickly became an influential player in the regional economy and local politics. One example illustrates the point. In the early 1960s, the mill's owners wanted to increase production by expanding the plant, which would require a huge increase—by a factor of five—in the amount of water the mill extracted from the Shoalhaven River. However, such an increase could only be achieved if Shoalhaven Shire Council built, at its own expense, a new pumping station on the river. The mill's owners had also concluded that a new dam was required on a tributary of the Shoalhaven River, to ensure water supply in times of drought. In a measure of the clout wielded by the mill, Shoalhaven Shire Council agreed to both requests and duly constructed a pumping station and a dam (Tooley 1997: 28–9).

The opening of the Shoalhaven Paper Mill also had an immediate impact on the Australian paper industry. Until the mid-1950s, the domestic paper market had been characterised by a very low level of competition between Australian manufacturers. Each local manufacturer produced for—and seemed content with—its own well-defined section of the market. With the entry of Wiggins Teape and William Nash into the Australian paper industry, domestic competition between manufacturers 'started to become a significant factor' (Algar 2000: 252). The Shoalhaven Paper Mill started its life as a lauded, high-profile business, but its subsequent history has been marked by struggle. The rise of globalisation has made the glory days of the 1950s a very distant memory—not only for the Shoalhaven mill, but throughout the Australian paper manufacturing industry.

8.3 Globalisation and the Australian paper industry

As Chapter Three demonstrated, manufacturing is not what it used to be. In the words of Paul Allen, a marketing executive at Australian Paper, 'Being a manufacturer in Australia is not sexy thing to be' ('Paper products go carbon neutral' 2010). Operating in a small, unprotected domestic market, the Australian paper manufacturing industry depends for its survival on outselling imported paper products and on capturing export markets. Both of these tasks are becoming more difficult, with Australia's traditional competitive strengths under challenge from developing countries.

8.3.1 A snapshot of the Australian paper industry

In 2009, pulp and paper manufacturing in Australia employed nearly 19,000 people in 440 enterprises, with value-added production estimated at A$2 billion (PPSIG 2010: 11). The Australian paper manufacturing industry is made up of four distinct sectors: communication papers; newsprint; packaging; and tissue. The pulp manufacturing sector is also closely integrated into the paper industry: of the 20 paper mills operating in Australia in 2009, six had pulp mills on site and there was one stand-alone pulp mill in operation. Of the several companies operating those 20 paper mills, only two (ABC Tissue and Visy) were Australian-owned (PPSIG 2009: 3–5, 38–9). This case study focuses in particular on communication papers, which have been the specialty of the Shoalhaven Paper Mill since its establishment[85]. In 2009, the four mills operating under the foreign-owned Australian Paper banner were the only producers of communication papers in Australia.

The Australian paper industry proclaims itself (and is recognised by governments) as a 'significant employer' in non-metropolitan Australia (PPMFA 2000: 1; Carr 2009b). For example, in 2010, Australian Paper Ltd employed more than 1,400 people in Australia, 1,200 of them in regional areas. The company claimed that its operations 'have a multiplier effect of 1:5+, giving flow-on employment to 9,500 regional Australians', and that 'over 68 Australian companies (10+ employees in size) rely on Australian Paper as the principal customer of their respective goods and services' (Australian Paper 2010). Jobs in the pulp and paper industry also pay very well. In 2008–09, the average wage in the industry was more than $70,000, 'among the highest rates of pay for Australian manufacturing industries' (PPSIG 2009: 33). Furthermore, no other sector of the Australian manufacturing industry has such a high proportion of its workforce (96 per cent) employed on a full-time basis.

In common with most Australian industries, the Australian paper manufacturing industry had enjoyed substantial tariff protection. For example, in 1984, tariff rates for paper products were as high as 55 per cent for paper bags and 43 per cent for stationery (PCPPIC 1984: 7). This all changed in 1994, when, as part of Australia's commitments

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[85] Communication papers are office papers (for printing, copying, faxing) and specialty papers (including art papers, envelopes and security-grade papers, such as for banking and passports) (PaperlinX 2005: 32).

under the Uruguay Round of multilateral trade negotiations, the Labor government agreed to cut tariff rates; for communication papers, this meant reducing rates from 20 per cent to 12 per cent. However, in practice, the level of protection fell much further: the government did not impose the 12 per cent rate, instead introducing an applied tariff rate of just 5 per cent (GATT 1994; WTO Secretariat 2009). Even this low 5 per cent tariff was not applied uniformly, thanks to a range of preferential rates and concessions offered to particular trading partners (PC 2000a: 12–13). In 2000, the average tariff applied to imports of all paper products entering Australia was just 3.99 per cent. A different calculation of government support (the average effective rate of assistance) put the level of protection and assistance provided by the state to the Australian wood and paper products industry at 5.5 per cent—around the average for all Australian manufacturing industries (excluding the highly-protected sectors of passenger motor vehicles, textiles, clothing and footwear) (PC 2000a: 15, 73).

The tariff cut had predictable impacts on the Australian industry. The 'adjustment' process that followed came at the cost of 40 per cent of jobs in the Australian pulp and paper industry, all 'without any industry-specific support from the Government' (PPMFA 2000: 2). Since the 1990s, the Australian paper industry has continued to highlight the imbalance between tariff rates in Australia and in other markets, which places the Australian industry at a competitive disadvantage. The industry has also sought to defend the small tariff rate that remains, framing it as 'a buffer against exchange rate fluctuations' and arguing that it should be retained as long as Australian paper manufacturers face high tariffs and non-tariff barriers in target export markets (PPMFA 2000: 3, 4).

8.3.2 The international paper market

The paper manufacturing industry is highly globalised and dominated by a small number of multinational corporations, all of them with headquarters in developed economies—primarily the US, Europe and Japan (PPSIG 2009: 12–13; A3P 2006: 2). However, the trajectory of paper manufacturing is veering away from the developed world and towards emerging producers in developing economies, notably China. Expertise and high-value equipment are critically important factors in paper production and, for a while, this favoured established producers such as Australia. Over the last ten

years, however, developing countries have been quickly closing the gap. In 2009, leaders of the Australian paper industry described China as a 'major threat' (PPSIG 2009: 30). In an age when just about any consumer good can be manufactured in China at a fraction of the Australian production cost, the profitability of Australian paper manufacturing is becoming marginal:

> Local and foreign firms in China construct huge machines and plants thereby achieving low costs of production per unit and a competitive advantage … The product coming out of these many new plants is improving in quality and is lowering prices in world markets, including Australia. Domestic producers are forced to adjust prices in order to match the increasing international competition (PPSIG 2009: 30).

Between 2004 and 2008, China increased its production of printing and writing paper by an astonishing 400 per cent (see Figure 8.2). According to the Australian industry, in 2008 the Chinese industry was 'planning to expand capacity by more than the entire size of the Australian pulp and paper industry *annually*' (A3P 2008: 5; emphasis added). China's rapid entry into the communication papers market came largely at the expense of Indonesian manufacturers, whose output over the same period more than halved (ABARE 2006, 2009). The impact of Chinese competition on Australian paper sales has been similarly stark—exports of Australian printing and writing papers have fallen away dramatically. By far the biggest fall in exports has been to China, where Australian sales fell from 72 kilotonnes in 2001–02 to just 0.5 kilotonne in 2005–06, the latter worth only A$200,000 (ABARE 2005: 1, 5; ABARE 2006: 12). The Chinese paper manufacturing industry has become well established and very competitive in spite of the fact that China lacks the raw materials essential for papermaking, and must import most of its pulp and wastepaper (PPSIG 2009: 14). Clearly, comparative advantage need not be absolute, nor naturally endowed.

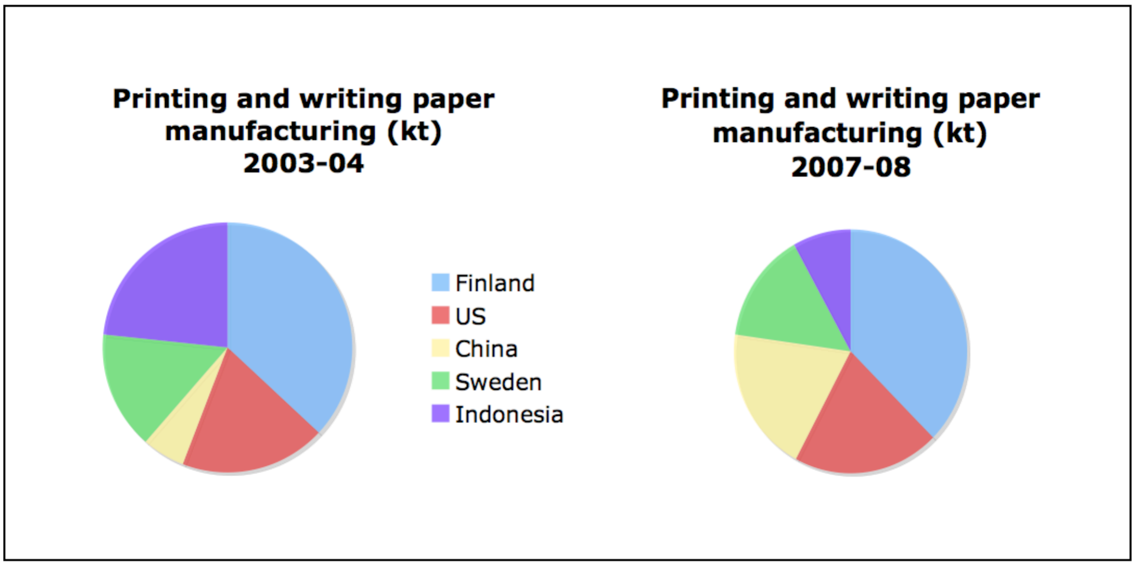

Figure 8.1: Global printing and writing paper manufacturing: 2003–04 and 2007–08 (kilotonnes)

Sources: ABARE (2006, 2009).

The threat posed by the Chinese paper manufacturing industry places the issue of tariff protection into perspective. The small amount of protection afforded by Australia's 5 per cent tariff on imported communication papers might seem tokenistic—except to Australian manufacturers, struggling to survive an irreversible change in the cost structure of the global paper industry. Little wonder that the Australian paper industry viewed the negotiations towards an Australia–China free trade agreement with great trepidation (PPSIG 2009: 30).

For many years, the Australian paper industry has complained of an uneven playing field in international trade. Disparities in microeconomic reform between countries have helped to create a comparative advantage in less 'liberalised' economies. The retention of protectionist policies in some countries has damaged the trade prospects of other paper manufacturers; this advantage is heightened when environmental and labour standards—and thus input costs—are lower than in Australia (PPMFA 1995; PPMFA 1997; A3P 2009). At various times, Australian paper manufacturers have launched anti-dumping actions against developing country producers, claiming (with varying degrees of success) to have suffered material damage from the sale of imported paper products, due to their artificially low prices (Priestly 2001; A3P 2010). The Australian industry also expressed alarm about the potential for a greenhouse gas emissions trading scheme in Australia, given 'the fact that key competitors will not be subject to any carbon costs'

(PPSIG 2009: 24). A paper industry strategy group assembled by the Rudd Labor government in 2009 identifed several ‘challenges and opportunities’ facing the Australian industry, which fell into four categories:

- Technology: consumer preferences for electronic documents
- Climate change: new policy settings and costs
- Environment: community concerns about the environmental impacts of the industry
- International factors:
    - state support enjoyed by foreign producers
    - the impact of China and other emerging producers
    - false environmental claims made by some foreign producers
    - the competitive impact of falling investment and R&D in Australia
    - the prospect of further strengthening of the Australian dollar (PPSIG 2009: 2).

This list summarises many of the concerns identified in successive political campaigns, submissions and publications by the Australian paper industry (see PPMFA 1995, 1997; HoR 1998: 3923; A3P 2006: 7). The Rudd government’s strategy group stated that, at the enterprise level, these ‘challenges’ had led to a steady decline in capital investment in Australia. Most of the investment in the global paper manufacturing industry has been occurring elsewhere,

> in countries with low labour costs, low environmental standards and no likelihood of imposing a carbon cost in the forseeable future—such as China, Indonesia and Brazil (A3P 2008: 5).

Meanwhile, most of the machines in Australia’s paper manufacturing plants are more than 20 years old. The machines work, certainly, but they cannot compete with the high-volume, ‘world-class’ equipment installed in Asian factories over the last decade (PPSIG 2009: 32–3). In response to this set of problems—common to paper manufacturers in all developed economies—some governments began to intervene to support their industries. In the US, tax credits were extended to the pulp and paper

industry, and the Canadian government announced a C$1 billion (A$1.1 billion) industry aid package (PPSIG 2009: 13)[86].

8.4 Globalisation and the Shoalhaven Paper Mill

Since its establishment almost sixty years ago, the Shoalhaven Paper Mill has been engaged in a constant struggle for survival. The mill never reached the commercial heights envisaged by its original owners, nor, presumably, by governments of the day. The challenges faced by the mill have taken different forms over the years, but they are very closely linked to globalisation.

Two characteristics of the Shoalhaven Paper Mill, in particular, have been critical to its performance in a globalising industry. The first is the scale of its operations. While not small at the time of its establishment, the mill has always been a niche producer of communication and other specialty papers. Over time, the Shoalhaven mill became dwarfed by larger plants, which could lower their per unit cost of production by manufacturing larger volumes. The second critical characteristic is ownership. Since it began operations in 1956, the mill has changed hands six times, averaging a new owner every nine years (see Table 8.1). Each time, the mill has been acquired by a multinational corporation boasting paper manufacturing plants and commercial operations in several countries; with each change of ownership, the mill has become an ever smaller part of a larger global business plan. As this chapter will explain, the Shoalhaven Paper Mill has struggled to withstand not only international market pressures, but also the pressures of operating as part of a multinational conglomerate.

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[86] The US assistance program—in the form of tax credits for renewable energy—was criticised by Canada and the EU, which threatened legal action in the WTO (PPSIG 2009: 26).

Table 8.1: Ownership of the Shoalhaven Paper Mill, 1956–2015

Year	Owner(s)	Notes
1956–61	Wiggins Teape & William Nash	UK-based consortium
1961–70	Wiggins Teape & British American Tobacco Company	A UK–US joint venture, trading as the Millbank Paper Company
1970–83	Associated Pulp and Paper Mills (APPM)	APPM acquired Wiggins Teape Australia Pty Ltd
1983–93	North Broken Hill Holdings Ltd (NBH)	NBH acquired APPM
1993–2000	Amcor	Amcor acquired APPM
2000–09	PaperlinX Limited	PaperlinX was created through a demerger of Amcor's fine paper business. Mills operated under the group name Australian Paper.
2009–	Nippon Paper Group	Japan-based multinational enterprise acquired two mills from Australian Paper.

Sources: Tooley (1997); Shoalhaven Paper Mill (2010); PaperlinX (2010); Amcor (2010); Arjowiggins (2010); Nippon Paper (2009).

8.4.1 A lesson in specialisation: cigarette paper

The impacts of international competition, government policies and internal management on the operations of the Shoalhaven Paper Mill are illustrated particularly well by the example of cigarette paper manufacturing, an ill-fated venture for the mill. Cigarette paper was an area of production in which the Shoalhaven mill boasted no natural advantages, nor any pre-existing skills. In later years, the then manager of the mill, George Gall, would describe cigarette paper manufacturing at the Shoalhaven mill in the 1960s and 1970s as a 'failure' (Tooley 1997: 29). Nevertheless, the mill had no choice in the matter: its new joint-owner was the international giant British American Tobacco (BAT). In the early 1960s, Millbank Paper (a joint venture between Wiggins Teape and BAT) acquired every paper mill that manufactured cigarette tissue in three countries: the United Kingdom, India and Brazil. Millbank Paper subsequently decided to close one of the UK mills, replacing it with a new cigarette tissue manufacturing operation at the Shoalhaven Paper Mill, beginning in 1963 (Tooley 1997: 28–9).

Cigarette paper was produced at the Shoalhaven Paper Mill for 13 years, but it was never a commercial success. For starters, the mill did not have the technical expertise to

make the paper, and the business struggled with a range of external factors: the high cost of importing the raw material (flax); the variable quality of the flax; and lower labour costs in competing factories in India and Brazil (Tooley 1997: 32–3). It was the latter issue—foreign competition—that generated fierce lobbying from Associated Pulp and Paper Mills (APPM), which acquired the Shoalhaven Paper Mill in 1970. In the early 1970s, Australian paper manufacturers fought hard to fend off foreign competition, in large part through appeals for government intervention. The McMahon Coalition government responded in 1972 with an emergency tariff of 60 per cent on imports of cigarette paper. However, the relief this provided was temporary: the tariff was reduced by the Whitlam government to 45 per cent the following year, and to 20 per cent in 1974 (Tooley 1997: 47).

In 1975–76, APPM sought further help from the Whitlam and Fraser governments, lobbying for the introduction of tariff quotas, but to no avail (Tooley 1997: 48–51). With the writing on the wall, APPM decided to axe its cigarette paper manufacturing business in Australia. The manager of the mill blamed the government, telling staff that, 'the Company has received no help from the TAA [Temporary Assistance Authority]' (Tooley 1997: 51). In a product line that was new—and difficult—for the Shoalhaven Paper Mill, protection from foreign competition proved to be the difference between viability and failure.

8.4.2 Currency movements and competition

The competitive advantage enjoyed by foreign paper mills is not generated solely by their lower input costs. Changes in the value of the Australian dollar are also critically important to Australian paper products, as in every other industry. In the early 1980s, the Australian dollar was strong against other major currencies, which made the fine paper produced by APPM mills 10–15 per cent more expensive in the Australian retail market than imported brands. The market responded accordingly: in 1982, sales of imported products grew to account for 50 per cent of fine paper sales in Australia (Tooley 1997: 60–1). The paper produced at the Shoalhaven Paper Mill has proven to be highly price-sensitive in the Australian market, working to its advantage or detriment at various times. When the Australian dollar fell heavily over the first half of 1989 (from US$0.87 to US$0.76), the number of orders placed at the Shoalhaven Paper Mill

climbed, pulling the mill out of a long financial slump (Tooley 1987: 77–8). Conversely, when the Australian dollar began strengthening against the US dollar over the course of 2003–04, the mill instituted a complete review of its business operations and business plan (M. Henning, interview, 12 February 2004).

However, even in the face of uncontrollable factors like exchange rates, other Australian paper manufacturers were significantly more profitable than the Shoalhaven Paper Mill. Foreign competition was not the only problem: rival domestic paper mills routinely undercut the Shoalhaven mill on price, thanks largely to lower input costs (Tooley 1997: 61). So how does an enterprise respond to competition based on input costs? Rationally, of course—through neoliberal management principles.

8.5 Rationalisation at the mill

Greater concentration of ownership, a global span of production and larger economies of scale have emerged as features of the Australian paper industry over the last 40 years. When APPM bought the Australian assets of Wiggins Teape in 1970, it sought to increase the scale of its production and lower its input costs. The then managing director of Wiggins Teape Australia described the takeover as ‘a natural rationalisation in a field where the scale and sophistication of future development is increasing so rapidly’ (Tooley 1997: 40, 44).

By the late 1970s, the first pine plantations in Australia were reaching maturity, providing raw material for new pulp mills. Some Australian mills were also investing in large new machines to increase their scale of production (Algar 2000: 254). The small Shoalhaven mill could employ neither of these cost-cutting strategies, but the management precepts of neoliberal economics were implemented at the Shoalhaven Paper Mill nonetheless. In 1983, APPM was acquired by the mining company North Broken Hill Holdings (NBH). This was the first foray by NBH into paper manufacturing, and it was driven purely by profit. As Tooley (1997: 65) describes it, NBH saw the APPM business as a ‘cash cow’ that would help to finance its expansion in the mining sector. In 1984, NBH Managing Director Mark Bethwaite told the *Australian Financial Review*:

> [T]he primary objective in acquiring APPM was to buy a more stable earnings base which would help in servicing debt. APPM has given us the means to increase our borrowings and we are actively looking for opportunities to expand (in Tooley 1997: 65).

Shortly after buying APPM, NBH engaged consulting firm McKinsey to conduct a strategic review of its paper mill operations. The result was a new rationalisation plan, under which two paper mills—Shoalhaven and Ballarat—would be closed (Tooley 1997: 63). While the Ballarat Paper Mill did close (in 1986), the Shoalhaven Paper Mill fought to stay open and, against the odds, succeeded. Management at the Shoalhaven mill argued that NBH needed to retain a strong manufacturing presence in mainland Australia, to ensure fast nationwide delivery of its products. Importantly, the Shoalhaven mill also managed to increase its profitability at this time, through a large increase in orders, higher labour productivity and greater use of (cheap) waste paper as a manufacturing input (Tooley 1997: 63–4).

The Shoalhaven Paper Mill survived the McKinsey-inspired rationalisation plan, but it had entered a new era, in which its financial performance was subjected to higher levels of internal scrutiny. At the same time, external pressures were increasing. In the late 1980s and early 1990s, the mill's management identified ongoing tariff reductions and increased paper production from rival Australian mills as critical threats, and responded in predictable fashion: a new strategic plan would achieve further enterprise-level rationalisation, through cutting input costs and jobs and further specialising the mill's product lines (Tooley 1997: 77, 84).

In 1993, NBH sold its paper manufacturing business to its large domestic rival, Amcor. Amcor had built itself into a multinational company with more than 19,000 employees in 15 countries, and stated that the takeover of NBH would strengthen the Australian paper industry by increasing its global competitiveness (Tooley 1997: 96–7). Amcor moved quickly to slash costs at the Shoalhaven mill, axing 137 jobs. Consultants Price Waterhouse were brought in to identify further savings: the maintenance function at the mill was outsourced and new enterprise agreements were negotiated, making provision for longer (12-hour) shifts (Tooley 1997: 99–100). By the end of 1994, Amcor Managing Director Stan Wallis was moved to declare the APPM mills 'an excellent acquisition' (in Tooley 1997: 105).

8.5.1 Ownership of the mill by Amcor

The period in which the Shoalhaven Paper Mill was owned by Amcor (2000–09) is particularly instructive for this thesis, bringing into sharp relief the impacts of globalisation and neoliberalism at the enterprise level. By 2000, Amcor had decided to narrow its business focus to packaging, with the stated aim of becoming a 'top five global packaging company' (Amcor 2000: 1–2). Amcor therefore 'demerged' its paper manufacturing and paper merchanting businesses, creating a new company, PaperlinX Limited, which listed on the Australian Stock Exchange on 17 April 2000. The PaperlinX company was endowed with Amcor's four Australian paper mills: two in Tasmania; one in Victoria; and the Shoalhaven Paper Mill in NSW. These were the only manufacturers of communication papers in Australia, and of the four, Shoalhaven was by far the smallest. Leading up to the demerger, Amcor invested heavily in new or upgraded production facilities in both Victoria (Maryvale) and Tasmania (Wesley Vale), and proclaimed that its new paper manufacturing business 'is now well positioned to compete with imports in these [market] segments, with significantly improved capacity and quality' (PaperlinX 2000: 6, 10).

Initially, this optimism seemed justified. The chairman of PaperlinX, David Meiklejohn, hailed the 'outstanding results' achieved by the paper mills in 2001–02:

> Record production, operating gains, product development initiatives and sound brand management all combined to produce an excellent result, especially from the Communication Papers segment (PaperlinX 2002: 4).

However, as it turned out, PaperlinX was not well-positioned to compete. The initial glow of success was artificial, created by the unusually low price of imported wood pulp in 2001–02 and the weakness of the Australian dollar against competitor currencies. The following year, the Australian dollar rebounded and pulp prices returned to more typical levels (PaperlinX 2002: 5; PaperlinX 2003: 11, 16). From this point on, the profitability of the PaperlinX paper manufacturing operations began a gradual, irreversible decline.

The problem for PaperlinX was not one of demand, but of competition (see Figure 8.2). Sales of communication papers were increasing in Australia, but the increased demand

was being met by foreign manufacturers, particularly China (ABARE 2006, 2009; Yainshet 2003). At the same time, exports of Australian-made printing and writing papers fell away sharply: in the five years to June 2006, the volume of Australian exports halved (ABARE 2004, 2006, 2008).

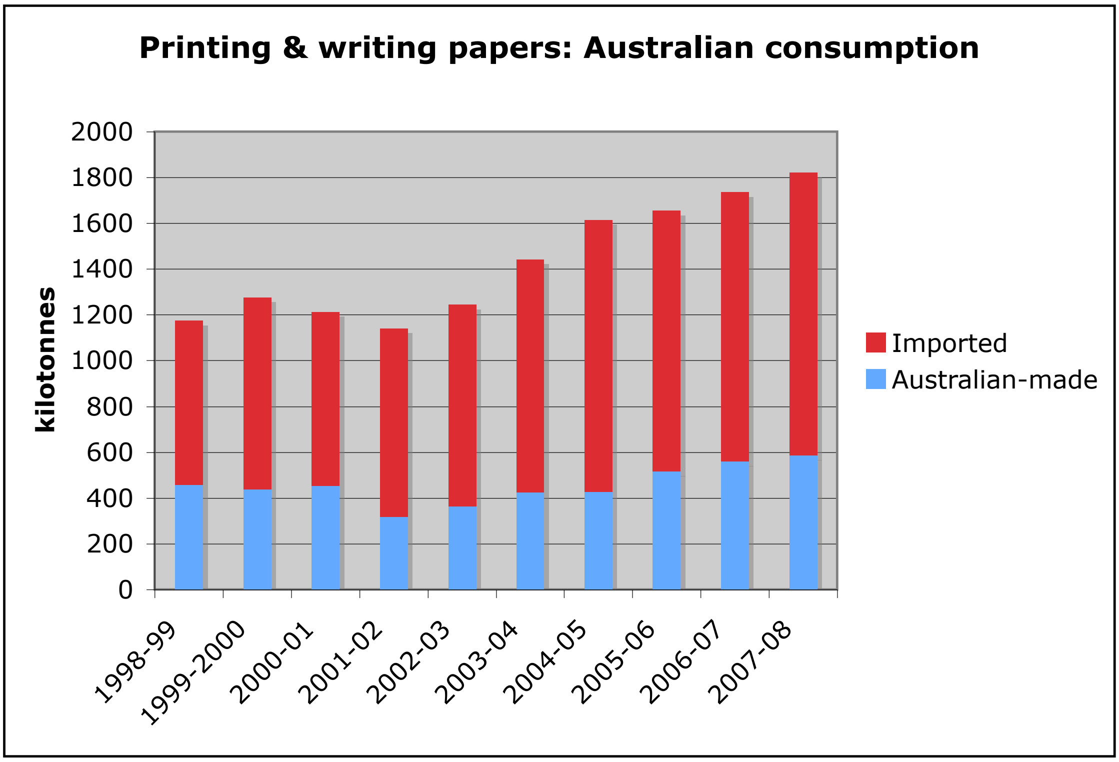

Figure 8.2: Printing and writing papers: consumption in Australia,1998–2008

Sources: ABARE (2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009).

By 2006, the combination of a global oversupply of paper and a strong Australian dollar had become entrenched. Competition from imported paper was now 'significant' and 'a key influence on the [financial] results for Australian Paper' (PaperlinX 2006a: 25). There was little that PaperlinX—or any other Australian manufacturer—could do to reverse these trends. The company's chairman, David Meiklejohn, conceded:

> Many of the macroeconomic factors that affect the demand for and prices of paper products are clearly outside the control of individual companies, including PaperlinX (PaperlinX 2006a: 7).

Mr Meiklejohn reassured shareholders that PaperlinX was, nevertheless, 'able to control how we respond to these negative factors'. The response would take the form of 'action to restructure and reshape our businesses to produce longer-term sustainable returns'

(PaperlinX 2006a: 7). In other words, cutting operating costs. The company's three-pronged strategy was to:

- 'strengthen our existing businesses'
- 'exit businesses where we do not have competitive advantage'
- 'acquire businesses that will improve our market positions and profitability' (PaperlinX 2006a: 7).

On the 'strengthening' side of the PaperlinX business plan, an estimated A$203 million was spent at the Maryvale pulp mill, an upgrade designed to slash the cost of locally-made pulp to 40 per cent below that of imported pulp. At the 'exit' end of the business plan, some operations at the Shoalhaven Paper Mill were shut down. In 2006, PaperlinX closed the largest machine at the Shoalhaven mill, which had produced envelope papers and recycled office paper, and shifted this production to the Maryvale mill (PaperlinX 2006a: 10; Ellard 2005b; Cambourne 2006). According to PaperlinX, the new production operation at Maryvale 'improved overall operating efficiency by replacing unprofitable products made for the export market … with products made for the domestic market' (PaperlinX 2006: 26). In throwing a life-line to the Maryvale Paper Mill, PaperlinX was concentrating its most profitable activities in Tasmania; in contrast, its treatment of the Shoalhaven mill looked very much like an act of corporate euthanasia.

The Shoalhaven Paper Mill did not die immediately. The mill (and its community) suffered a heavy loss, but dug more deeply into its market niche, attempting to make a virtue of its expertise in high-value, small-volume products.

8.6 Community-level impacts of rationalisation

In the mid-1990s, the Shoalhaven Paper Mill estimated that it injected around A$25 million per annum directly into the local economy, generating 25 per cent of employment and economic activity in the Nowra–Bomaderry area. At that time, there were around 370 jobs at the mill, making it the largest private-sector employer in the Shoalhaven region (Shoalhaven Paper Mill 1994?). The mill might have been a small acquisition for each of its latter-day owners, but it had already become an iconic part of

the economic landscape in the northern Shoalhaven region. It was commonplace for two generations of one family to be working at the mill, and very low turnover rates were considered to be a measure of employee loyalty (Tooley 1997: 28, 92–3; 'At the mill, they're happy in paper work' 1973: 9). In 2009, the mill manager, Bruce Borchardt, reported that staff turnover from the factory floor was 'zero, absolutely zero':

> The last time we would have lost someone here would have been over 12 months ago, and that would have been the first person that we lost—other than through retrenchment—for years and years and years (B.Borchardt, interview, 9 August 2009)[87].

Although employees might not have chosen to leave the Shoalhaven Paper Mill, many were forced to go. Regular waves of retrenchment, beginning in the 1990s, had significant local impacts—these were not the type of jobs that could be easily replaced in a region dominated by the low pay and low security of the services sector. Two rounds of job cuts in 2001 and 2003 took employee numbers at the mill down to around 160 (Tooley 1997: 84, 99; SPM-1 2009)[88]. When PaperlinX closed the Number 1 machine in 2006, another 98 production jobs and 21 contracted maintenance positions at the Shoalhaven mill were wiped out. All but four of these were voluntary redundancies—but they followed an explicit threat from PaperlinX that it would close the mill if employee numbers were not reduced (Cambourne 2006; SPM-1 2009). At the time, the union sub-branch secretary at the mill, David Schutz, predicted that the remaining two papermaking machines would be shut down 'in a couple of years ... if not sooner' (Cambourne 2006). He told the local newspaper:

> Nowra has survived the paper mill being down, and after the initial blow of these jobs going the town will survive again. But when the rest of [the jobs] end up going it is going to make a big hole in the Nowra economy. All the businesses in town will feel it (Cambourne 2006).

The union also accused PaperlinX of running down the Shoalhaven mill by concentrating capital investment in other parts of its Australian Paper business (Ellard 2005b). David Schutz commented that,

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[87] This does not include professional and management-level staff, who are 'more mobile and probably more career conscious' (B. Borchardt, interview, 7 August 2009).

[88] Some figures were provided in an interview, conducted on 22 May 2009, with a former long-serving mill employee. The interview was conducted on the basis of anonymity, and the interviewee will be referred to in this study as SPM-1.

> there have been so many changes in the [paper] industry but no capital expenditure has been put into this place. All they have done is held it at bay, and now it is at a stage where it can't compete ... All the machines have been here since I started in 1966, and they were second hand back then. The only machine that has been put in here brand new was a winder and that is now 22 years old (Cambourne 2006).

Three years later, mill manager Bruce Borchardt (interview, 7 August 2009) conceded that the Shoalhaven Paper Mill was 'an old manufacturing site' with old equipment, and that the chronic underinvestment in the mill was at odds with the 'asset-intensive' nature of the paper manufacturing industry. Borchardt pointed out that, with its outmoded equipment and shrinking product line, the Shoalhaven mill could not compete with the large-scale operations of high-volume mills.

According to its own peak body, the pulp and paper industry is 'the most capital intensive manufacturing industry in Australia' (PPMFA 2000: 1). The industry is acutely aware of the critical role of capital investment in the continued viability of paper operations in Australia:

> Existing facilities must also maintain international competitiveness requiring investment in technology upgrades and increasing capacity. A lack of investment would reduce the competitiveness of domestic facilities. Because of the sunk costs, they would continue to operate but would eventually be closed as quality or costs fail to meet world standards (A3P 2006: 2).

For regional manufacturing, and regional communities, the stakes are high. So concerned was the NSW government following the cuts to the Shoalhaven mill in 2006 that it gave PaperlinX A$1 million to upgrade the mill's security paper plant ('Govt funds help paper mill revamp' 2007). This episode spoke volumes about the precarious position of the Shoalhaven Paper Mill in the PaperlinX empire. Other mills were also propped up by other state governments, concerned about the viability of PaperlinX's regional investments. The Tasmanian government provided A$3 million to the PaperlinX mills in Tasmania in 2001, and the Victorian government contributed more than A$25 million to an upgrade of the Maryvale mill in 2009 (Clark 2009; Brumby 2009).

8.7 The fine line between survival and decline

By 2007, the PaperlinX mills were no longer generating profit (see Figure 8.3) and they were placed on the market, in a move described by the company as 'migrat[ing] its business model' (PaperlinX 2009a: 1). The migration was a flight from 'capital-intensive high fixed costs manufacturing activities to a dominant focus on [paper] merchanting' (PaperlinX 2009a: 7). For PaperlinX, the future would be built on buying and distributing products made by other companies, mostly in other countries.

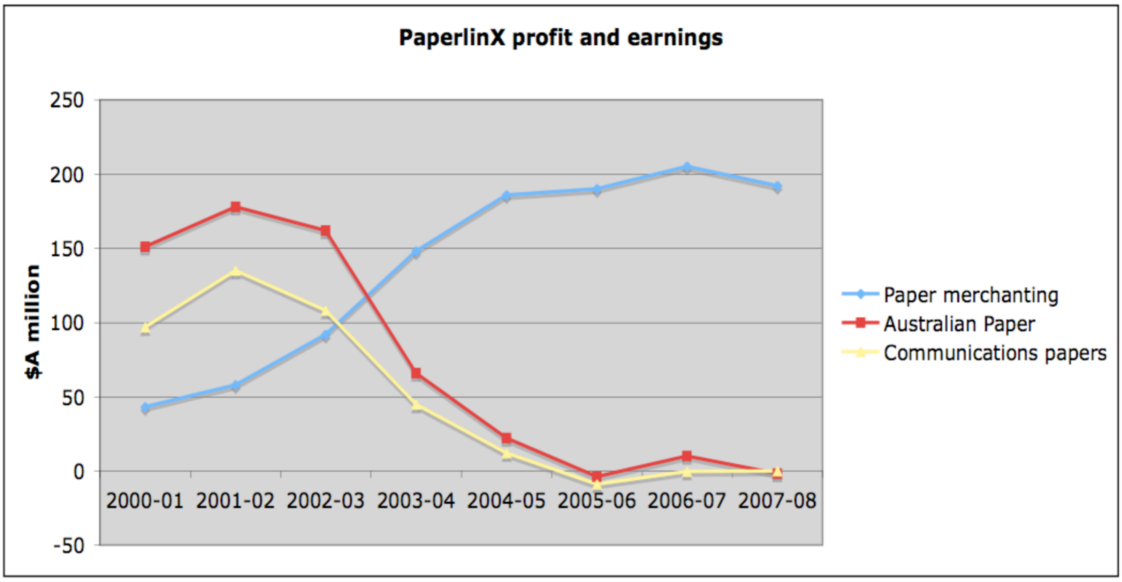

Figure 8.3 PaperlinX profit and earnings, 2000-08[89]

Sources: PaperlinX (2001; 2002; 2003; 2004; 2005; 2006a; 2007; 2008; 2009a)

The decision to sell its manufacturing operations cannot have been a difficult one for PaperlinX. Since it was demerged from Amcor and listed on the Australian Stock Exchange in 2000, PaperlinX had acquired several paper merchanting businesses in North America and Europe (PaperlinX 2002: 5; 2004: 7). These operations, and their profits, grew at a very rapid rate, in stark contrast to the fortunes of the paper manufacturing operations. PaperlinX continued to insist that its Australian manufacturing operations had important competitive strengths: 'local supplier advantage, … the ability to offer greater levels of service, and strong local brands' (PaperlinX 2006a: 26). Yet, by 2004, paper manufacturing had shrunk to become a very small part of the PaperlinX business (Figure 8.3). In 2009, relieved of the burden of its

[89] To June 2005, PaperlinX reported on profit (before interest and income tax). From July 2005, reporting switched to earnings (before interest and income tax). From July 2006, the reporting category changed from 'Australian Paper' to 'paper manufacturing'.

manufacturing operations, PaperlinX described itself as ‘one of the world’s largest global [paper] merchants’, with operations in 26 countries in Europe, North America and Australasia (PaperlinX 2009a: 17).

The global reach of the PaperlinX empire might, in theory, have helped the Shoalhaven mill to expand its export sales; in reality, it did not. The Shoalhaven Paper Mill attempted to sell its products in Europe through Paperlinx’s own European paper merchanting division, which could have been a clever way to maximise the assets and strengths of a multinational company. However, as the mill manager explained, the venture was ‘highly unsuccessful’:

> As companies globalise, there should be lots of synergies there, but they [multinational corporations] are not always very good at it. And PaperlinX wasn’t very good at it (B. Borchardt, interview, 7 August 2009).

PaperlinX sold its Australian Paper group (excluding its Tasmanian mills) to the Japanese multinational Nippon Paper Group on 1 June 2009. Six months later, PaperlinX announced its decision to close the Wesley Vale mill and part of the Burnie mill, at a cost of 252 jobs; the company eventually decided to close the Burnie mill altogether in 2010 (PaperlinX 2015). The upgrade of the pulp mill at Wesley Vale had been completed just 12 months earlier (PaperlinX 2009a: 21; PaperlinX 2009b). By this time, the Shoalhaven Paper Mill was operating with just one (old) machine, producing 16,000 tonnes of paper per annum, compared with 570,000 tonnes at the Maryvale Mill (Nippon Paper 2009: 39). All of which begs the question: how did the Shoalhaven mill survive the takeover by Nippon Paper? The answer lies in the highly specialised nature of production at the mill. After decades of trying to straddle higher-volume products (such as cigarette papers and copier paper) and smaller-run specialty products, the Shoalhaven Paper Mill became a strictly niche producer. As the mill’s manager explained: ‘There’s no way we can survive at that ‘commodity’ end of things, so you need to go in the other direction, to the ‘speciality’ end’ (B. Borchardt, interview, 7 August 2009).

The acquisition of the Shoalhaven and Maryvale Paper Mills might seem a modest matter for a corporation the size of Nippon Paper—the eighth-largest pulp and paper business in the world. In fact, it was part of a concerted effort by Nippon Paper to

rescue its struggling business by jettisoning Japan-based operations in favour of investments in the Asia Pacific region (Nippon Paper 2005, 2009). In 2009, Nippon Paper planned to close at least 15 of its paper-making machines in Japan, in an effort to cut its domestic production by 13 per cent (Nippon Paper 2009: 37). This would still leave Nippon Paper with an annual production capacity of 32.6 million tonnes of paper and paperboard—almost ten times the volume produced in the whole of Australia in 2007–08 (Nippon Paper 2009: 37; ABARE 2009: 7). In contrast to its stagnating domestic market, Nippon Paper saw in Australia 'a particularly promising source of steady growth from the commercial printing and publishing industries of its advanced economy' (Nippon Paper 2009: 38).

According to a former mill employee, the Shoalhaven Paper Mill's sole manufacturing machine is the best of its kind in the southern hemisphere, offering great flexibility for small, specialised orders (SPM-1 2009). It can produce a range of purpose-specific products, including: printing papers (for use in the publishing industry); watermarked and embossed papers; passport and ballot papers (security papers); and specialty papers for the art and design industries. In total, the Shoalhaven mill can produce 1,400 different grades of paper; in comparison, the Maryvale mill, which produces high-volume commodity products, offers only around 600 grades (Shoalhaven Paper Mill 2010; Australian Paper 2010).

The quality and diversity of the products made at the Shoalhaven mill appear to have been crucial in its successful sale to Nippon Paper. Within its niche market, the Shoalhaven Paper Mill's competitors are Old World manufacturers in Europe and the UK. According to mill manager Bruce Borchardt, success in specialty paper manufacturing depends on 'lots of intellectual property and lots of knowledge and lots of experience', and developing countries are 'not necessarily very good at it'. However, according to the manager, the products made at the Shoalhaven mill were, until very recently, also inferior to those of their European rivals: 'we [were] some ten years or so, perhaps, behind them'. Over the course of two years, the mill invested in new technology and skills to bring its products up to scratch, which proved to be critical to its survival:

> I’ve got to say, I think if the purchase [by Nippon Paper] was happening three years ago, Shoalhaven Mill wouldn’t have been part of it. It would have been gone (B. Borchardt, interview, 7 August 2009).

Even with its tight focus on low-volume, high-value products, the Shoalhaven Paper Mill still suffered from excess capacity. The mill’s sole remaining machine was ‘far too big for the Australian market’ and the mill therefore ‘must export’. However, in 2009, almost all of the products manufactured at the Shoalhaven mill were sold to Australian-based customers. In 2009, the mill was devoting significant resources to building export markets in Asia and the Middle East, especially for its security-grade papers. However, developing and maintaining personal relationships with potential clients in these markets emerged as a major challenge. To this end, in mid-2009, the mill contracted a UK-based sales representative to liaise with potential overseas customers (B. Borchardt, interview, 7 August 2009).

However, in an important sense, the market for paper products is still not ‘global’, in the sense of open and unencumbered. The Shoalhaven Paper Mill’s efforts to export to Thailand are a case in point. Australia and Thailand concluded a bilateral free trade agreement (FTA) in 2004, which entered into force on 1 January 2005. The then Australian Minister for Trade, Mark Vaile, spruiked the benefits:

> Many Australian companies currently locked out of the Thai market by high tariffs and quotas will for the first time be able to export to this substantial and growing market (Vaile 2004).

A year after the FTA came into force, the minister hailed its role in boosting Australian exports to Thailand by 35 per cent, highlighting particular Australian manufacturers—in the dairy, minerals and pharmaceuticals sectors—as big winners (Vaile 2006). The experience of the Shoalhaven Paper Mill, however, was very different. Although the FTA cut Thailand’s tariff on Australian specialty papers from 10 per cent to zero, the marketplace reality was more complicated (DFAT n.d.). Four years after the FTA came into force, Bruce Borchardt (interview, 7 August 2009) explained that ‘we have a current opportunity in Thailand for security paper, very large volume, quite low price, [but] we won’t get it’. This was because the prospective client was a government agency, and Thailand’s government procurement policy accorded a significant price

advantage to local suppliers. The prospective client had told the Shoalhaven Paper Mill that it was dissatisfied with the quality of the Thai product and 'would like to be able to change to somewhere else', but conceded that price was the overriding consideration. As the mill manager explained:

> Even though there's a free trade agreement—and, you know, it's this old story about we're supposed to be on an equal footing …it doesn't happen that way (B. Borchardt, interview, 7 August 2009).

Significantly, the Australia–Thailand FTA did not touch on government procurement. Instead, the agreement established a working group, which was to report back to the Australian and Thai governments 'with recommendations on the scope for commencing bilateral relations to bring government procurement under this Agreement' (DFAT 2004). In the meantime, Thailand's exports to Australia soared, far outstripping the mechandise trade gains made by Australia under the FTA (DFAT 2009).

Reflecting on changes in the operating environment, the manager of the Shoalhaven Paper Mill had no doubt that globalisation had had a highly negative impact on the Australian paper manufacturing industry:

> Twenty years ago now, when tariffs started to come off … the paper industry changed forever in Australia … It went from being quite a wealthy industry to being one that everybody—other than Visy Industries—wanted to get out of. If you look at what Amcor did, the first thing they did, they sold it off and created PaperlinX. So PaperlinX figured out they didn't want to mint paper either, so they became a merchant. If you had 100 million dollars today, you wouldn't go and spend it in the paper industry, you just would not consider doing that … The impact of globalisation on us [the Shoalhaven Paper Mill] has been that it's pushed us in a direction that we wouldn't have gone in otherwise (B. Borchardt, interview, 9 August 2009).

8.8 The end of the Shoalhaven Paper Mill

The Shoalhaven Paper Mill sat within a large and vulnerable industry, described by business and union leaders as 'in crisis' and 'at a tipping point' (PPSIG 2010: xvii, 7):

> The challenges presented by increasing international and domestic competition and by the industry's aging capital stock may result in mill closures and further industry rationalisation. This will present challenges for companies and for governments at all levels in reducing the economic and human cost of any adjustment (2009: 36–7).

There were some signs that the Australian government might be ready to invest in the future of the Australian paper industry. In 2009, Labor's Minister for Industry, Kim Carr, announced a review of the Australian pulp and paper industry, with the purpose of 'develop[ing] a plan to encourage innovation and attract investment' (Carr 2009b). Senior managers from the Australian paper industry and unions came together to form the Pulp and Paper Industry Strategy Group, which was tasked with conducting the review. Given the flavour of the review's terms of reference, and the composition of the strategy group, it was almost inevitable that the review's findings would coalesce around the need for state intervention (PPSIG 2009)[90]. The final report of the Pulp and Paper Industry Strategy Group made 18 recommendations, with one common thread: strong intervention by the Australian government—through funding, regulatory measures and other support mechanisms—was required to secure the future of the industry (PPSIG 2010: xviii–xxi).

In responding to the report, the Australian government was encouraging and supportive, but frugal: the new Minister for Industry, Greg Combet, announced the creation of a permanent advisory body—the Pulp and Paper Industry Innovation Council—and financial co-contributions, totalling nearly A$39 million, towards machinery investment in Tasmania and the construction of a new pulp facility in Victoria (Combet 2012). While the government's response went a small way towards meeting the industry strategy group's demands, it did not embrace the more corporatist measures advocated by the group, such as the recommendation that the Australian government,

> provide incentives, approvals and investment facilitation support consistent with the financial support provided by other governments to attract pulp and paper industry developments (PPSIG 2010: xix).

However, even the limited support measures announced by the minister did not survive a change of government and the advent of harsh budget cuts. In November 2013, Prime Minister Tony Abbott announced that the Pulp and Paper Industry Innovation Council would be 'amalgamated' with the larger Manufacturing Leaders Group, to save money and 'simplify activities' (Abbott 2013). In May 2014, the Abbott government quietly abolished the Manufacturing Leaders Group (ACTU 2014).

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[90] The terms of reference directed the strategy group to 'Identif[y] actions that industry and Government should take' to build a future for the industry in Australia (PPSIG 2009: ii).

Even with its acquisition by Nippon Paper in 2009, the Shoalhaven Paper Mill was haunted by the question of whether it had a future. There were some positive signs. Security paper production seemed particularly important to the future of the mill—these are papers used for high-security Australian passports, ballot papers for the Australian Electoral Commission and cheques (Shoalhaven Paper Mill 2010). It was thought that clients—and especially Australian government agencies—would not readily shift to the rising giant in the global paper manufacturing industry, China. Although China is already the largest foreign supplier of paper products to the Australian market, Australian manufacturers still dominate the domestic security paper market. Unusually, then, the 'national character' of the Shoalhaven Paper Mill could have helped to safeguard its market position, mitigating against procurement decisions based purely on price.

The change of ownership from PaperlinX to Nippon Paper was a lifeline for the mill, but it also raised anxieties. While employee numbers had probably already reached their minimum level, there was no guarantee that the high wages and good conditions would continue under the mill's new owners. In 2009, there were rumours in union circles that Nippon Paper was planning to split the existing joint workplace agreement, which covered both the Shoalhaven and Maryvale mills, and instead negotiate separate agreements to cover each site. As a former union official pointed out, this would be highly deleterious to the Shoalhaven staff, because 'eighty people have no power' (SPM-1 2009). It would also mark an end to the extraordinarily harmonious industrial setting at the mill. Bruce Borchardt described the 'alignment' between management and workers at the site as 'unusual', and centred on a shared goal: 'to see this place succeed and survive' (B. Borchardt, interview, 7 August 2009). A former union official readily acknowledged that industrial relations were very good, in stark contrast to the difficult atmosphere at the Maryvale Paper Mill. The pay-off for workers in the Shoalhaven was 'absolutely brilliant' wages and conditions (SPM-1 2009).

By the end of 2014, the manager of the Shoalhaven Paper Mill was responding to a flurry of media speculation about the future of the mill, sparked by concerns that Nippon Paper would announce its closure. Bruce Borchardt admitted, 'The numbers really don't stack up for this site anymore', and said that an imminent announcement about the mill's future was 'possible' (Drewitt-Smith 2014). That announcement came

on 24 February 2015, when Nippon Paper told workers at the site that the mill would close before the end of 2015. A spokesman for the mill explained that ‘[t]he markets have just become too small for the operation to continue’ (Drewitt-Smith 2015). For the Mayor of Shoalhaven (and former federal MP) Joanna Gash, the pending closure of the Shoalhaven Paper Mill promised grim effects:

> It’s going to be very hard to retrain some of those people and they will need to find other employment. They’ve all got mortgages like everybody else has … We had Dairy Farmers which closed some years ago, we’re had some very big losses here as far as employment opportunities are concerned (in Drewitt-Smith 2015).

8.9 Conclusion

The Shoalhaven Paper Mill was established with significant assistance from the state, in the forms of direct financial assistance, infrastructure investment and tariff protection. The erosion of state assistance for the Australian paper manufacturing industry occurred gradually, and gathered momentum from the 1970s. At the same time, foreign competition strengthened. While low-cost competition has had a crushing impact on the Australian industry, the Shoalhaven Paper Mill also had to battle its parent companies for survival. The mill started life as a showcase factory, but, as it was subsumed into ever-larger corporations, its relative importance—in terms of output and factory size—diminished.

In the twenty years since it was first earmarked for—and then saved from—closure, the Shoalhaven Paper Mill was pared back to within an inch of its life, through cuts to input costs and ‘marginal’ production. However, one of the problems with productivity-based profit-seeking is its fleeting nature. While large savings can be reaped through scrapping the largest overheads and addressing obvious flaws, it becomes increasingly difficult to harvest savings over time. Even after a fierce period of enterprise rationalisation, PaperlinX proved to be far more confident in its overseas-based merchanting operations than its Australian paper mills. Although PaperlinX was an Australian company, built around a strong local manufacturing business, its foreign merchanting operations easily rose from ‘marginal’ status to ‘main event’ thanks to big changes in asset-to-earnings ratios.

The Shoalhaven Paper Mill became increasingly anachronistic within the globalising paper industry. In this regard, the case study of the paper mill bears comparison with the Shoalhaven dairy industry. In both cases, ‘get big or get out’ is the catch-cry emanating from the industries’ owners—a mantra supported, explicitly and implicitly, by governments. The scrapping of import tariffs and other forms of protection was designed to expose the dairy and paper industries to global pressures, to ensure they became ‘globally competitive’, and thus rational users of economic resources. While there is still a place in the commercial world for smaller-scale enterprises, there are few opportunities for enterprises like the Shoalhaven Paper Mill to stay small, but also viable.

CHAPTER NINE: Case study: Shoalhaven Starches and ethanol manufacturing

> In short, capitalism, the economic system supposedly predicated on competition, actually depends on the monopolization of wealth, and government policies are designed to ensure that monopolization. In a reflective moment, one might question how true to the principles of individualism and laissez faire our system is when the government so energetically intervenes to ensure that money remains in the hands of the few (Baradat 2012: 95).

9.1 Overview

The final case study is Shoalhaven Starches Pty Ltd and, specifically, its ethanol manufacturing business, which grew rapidly over the decade from 2001. By 2012, Shoalhaven Starches was manufacturing an estimated two-thirds of all the fuel ethanol produced in Australia. While the Shoalhaven Starches factory produces a range of products, its ethanol manufacturing operation has come to dominate the business. In a submission to a government enquiry, the owner of Shoalhaven Starches—the Manildra Group—described its ethanol business as ‘a small yet vital cog in the overall production of the Group’, and claimed that the viability of eight other product lines in its Australian operations depended directly on the commercial success of its ethanol manufacturing operation (Manildra Group 2010a: 3).

Ethanol has become the leading biofuel on the Australian alternative fuels market. The rise of ethanol is not necessarily a reflection of its intrinisic properties or its profitability. The choice of ethanol as a fuel source is, in fact, controversial, but political considerations have helped the ethanol business to prosper. For these reasons—the central importance of ethanol in the business operations of Shoalhaven Starches and the pivotal role of government intervention in sustaining ethanol manufacturing—this chapter focuses on ethanol, rather than the food products also made at the Shoalhaven Starches factory in Bomaderry.

Shoalhaven Starches is part of a privately-owned company, the Manildra Group, which means there are no annual reports or financial statements on which to draw in constructing a picture of the enterprise’s performance. However, public controversy about fuel ethanol and the political connections of the Manildra Group have generated a wealth of relevant material, ranging from media reporting to parliamentary debate and

scientific and economic studies[91]. This material paints a striking picture of the impact of public policy and politics on the business operations of Shoalhaven Starches. As this chapter will demonstrate, the robust success of Shoalhaven Starches and its status as a thriving regional employer owes a great deal to governments in Australia, which have extended extraordinary levels of protection and budgetary support to the Australian ethanol industry.

9.2 The Manildra Group

The Manildra Group was established in 1952 by the Honan family, which has owned the company ever since. In 2010, the board included family patriarch Dick Honan as chairman, his son John as managing director and daughter Caroline as a director (Yeatman 1997; Manildra Group 2010b). The Manildra Group is a large, successful and influential enterprise, but it is not a household name. As one Australian journalist noted, anyone outside the worlds of big business and politics 'would struggle to recognise Dick Honan', and 'that's the way [he] … likes it' (Murphy 2007).

Over the course of sixty years, the Manildra Group has grown into a multinational agribusiness enterprise with flour mills and food processing plants in several locations across Australia, as well as in the United States and Thailand (Manildra Group 2010b). Within Australia, the Manildra Group has flour mills in three locations: Manildra, Gunnedah and Narrandera, all in rural NSW. By 2010, the Manildra Group was the largest purchaser and processor of wheat in Australia, and its foreign sales made it the largest exporter of containers from Sydney's Port Botany (Manildra Group 2010a: 3; 2010b). Half of all the gluten sold in the US in 2010 was produced by Manildra in Australia (Manildra Group 2010a: 3). The company has also claimed to be 'the largest regional investor and manufacturer' (outside the mining sector) in NSW (Manildra Group 2010a: 4, 6). Between 1985 and 2010, the Manildra Group invested more than A$750 million in its Australian manufacturing facilities (all in NSW), and, in 2010, employed 700 people in its Australian operations.

[91] The author conducted an interview with the site manager at Shoalhaven Starches in Bomaderry in 2009. In contrast to other interviews for this thesis, the interview at Shoalhaven Starches yielded very little information, and no comments at all regarding public policy matters. Follow-up email contact in 2012 was similarly unsuccessful in eliciting information.

The products manufactured by the Manildra Group extend well beyond wheat flour, to include starches, glucose syrups, gluten, ethanol, fats and oils and sugar (Manildra Group 2010a: 3; 2010b). The company is also the leading Australian producer of fuel ethanol. The Manildra Group's expansion into ethanol manufacturing began in 1988, when the company acquired an ethanol plant in the United States, which became the first production facility in the new Manildra Energy Corporation (Manildra Group 2010b).

The rationality—and profitability—of the Manildra Group's foray into ethanol manufacturing seems clear: the process utilises waste products from wheat manufacturing, turning a by-product into a saleable item. However, starting a new product line (and an entire new industry) means starting small, and, as this thesis has outlined, small scales of production are generally the antithesis of economic rationalism. For the Manildra Group to find profit and success in the fuel ethanol business, it needed a special factor to counterbalance the financial risk and the uncertainties associated with marketing fuel ethanol to the Australian public. That 'special something' was the support of governments, most notably the Australian government under Prime Minister John Howard. In the period 2000–07, the Manildra Group enjoyed a level of industry support that other Australian manufacturers could only dream of—and perhaps puzzle over. The success of the Manildra Group in influencing the agenda of the Howard government was astonishing—and it was later emulated in NSW, when the state Labor government of Morris Iemma introduced mandatory targets for the sale of ethanol-blended fuels.

In contrast to the liberalised, market-driven business environment navigated by both the Shoalhaven dairy industry and the Shoalhaven Paper Mill, the ethanol business at the Shoalhaven Starches factory has thrived on huge levels of support from governments in Canberra and Sydney. Like few other examples could, this case study demonstrates the enduring power, and desire, of governments to intervene in the operation of markets, to pick economic winners and to resist central elements of globalisation.

9.2.1 Shoalhaven Starches: operations and impact

Shoalhaven Starches occupies a 12.5-hectare site on Bolong Rd in Bomaderry, less than one kilometre from the Shoalhaven Paper Mill. The factory was established in 1970 by the Manildra Group, and, by 2010, it had grown to become one of the largest wheat and starch plants in the world (Manildra Group 2010a, 2010b; Laursen 2009). The wheat processed at the plant is broken down into starch, gluten and glucose, for sale in domestic and foreign markets (Manildra Group 2010b; Laursen 2009). In 1991, Manildra opened its first Australian ethanol production factory at the Shoalhaven Starches site, enabling the company to further process millions of litres of waste carbohydrate and starch, the by-products of its wheat processing operations ('Ethanol enthusiasm underwhelming' 2001; Laursen 2009). Before the ethanol plant was built, the effluent had been pumped onto an adjacent farm, but this was unsustainable due to the risk of permanent soil damage[92].

The Shoalhaven Starches business is highly important in the Shoalhaven economy. By 2003, the Manildra Group had invested more than A$350 million in the Bomaderry site, and over the next few years, the company announced further investments totalling at least A$60 million (SCC 2003a; Ellis 2007; Cowman Stoddart 2007). This investment was dwarfed in 2009, when the Manildra Group announced a massive expansion of the ethanol operation at Bomaderry, with plans to spend a further A$270 million (Manildra Group 2010a: 6). In 2014, the company declared its capital investment in Bomaderry at A$600 million in the period 1994–2014 (Crawford 2014). Employment at Shoalhaven Starches rose from 200 positions (and 200 'permanent' contractors) in 2003 to 300 positions in 2014 (SCC 2003a; Manildra Group 2009: 6). Manildra claimed that each of these jobs indirectly supported another 11 jobs in the Shoalhaven region (Manildra Group 2009: 6). The infrastructure supporting Shoalhaven Starches' operations also has knock-on benefits for the wider region. In 2003, the then Mayor of Shoalhaven claimed that Shoalhaven Starches was the sole reason for the viability of the South Coast rail

[92] Large volumes of waste water from the starch and ethanol plants are still channelled into an adjacent 1,000-hectare 'environmental farm', established by Manildra in 1985 as part of its environmental program. The farm can store 925 million litres of waste water in holding ponds. The waste is used as fertiliser on the farm, which produces and sells feed crops and beef cattle (Manildra Group 2003, 2004; Cowman Stoddart 2007: 1; Laursen 2009).

line, on which Manildra wagons accounted for 90 per cent of the freight load (SCC 2003a)[93].

However, there has been a downside for the local community: residents in Bomaderry have long complained about the foul odours emanating from the Shoalhaven Starches site, a product of waste waster (Cambourne 2002; EPA NSW 2003; Twyford Consulting 2008: 8). Environmental pollution has been an ongoing problem for the company and its community. Between 1978 and 2001, Shoalhaven Starches amassed 16 convictions under environmental protection legislation in NSW (EPA NSW 2003). The Shoalhaven Starches ethanol operation has flourished against a backdrop of often heated controversy, beginning with debates about the suitability of ethanol as a fuel and the social and environmental impacts of its production and use. Some background on these controversies is required in order to assess the policy decisions of governments.

9.3 The pros and cons of ethanol

Ethanol is a pure alcohol produced from the fermentation of starches or sugars, primarily derived from grains or sugar cane (PC 2004: 3.16; RET 2011b: 5). In 2003, three-quarters of world ethanol production was used for fuel, with the remainder used in beverages and industrial products, such as printing inks, pharmaceuticals and perfumes (Steenblik 2007: 15; Manildra Group 2010b). Ethanol can also be used as an additive in automotive fuels, either as an 'extender' or as an oxygenate and octane enhancer (CSIRO, ABARE & BTRE 2003: 19). Fuel-grade ethanol belongs to a family of plant- or animal-derived fuels known as 'biofuels', which also includes biodiesel[94]. In Australia, three times more ethanol is produced than biodiesel (PC 2011a: 124).

Proponents of ethanol-blended fuel claim that it can be used in most vehicles without any engine modification and 'with little or no impact on engine performance' (Manildra Group 2009: 7; CSR 2010a). However, critics have claimed that fuels containing more than 10 per cent ethanol may corrode a vehicle's fuel system ('Ethanol industry mixed up in controvery' 2002). The NSW government has advised motorists

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[93] In 2007, trains ran between Port Botany (Sydney) and Shoalhaven Starches, via a private spur line from Bomaderry railway station, six days per week (Cowman Stoddart 2007: 87–8).

[94] An alternative to regular diesel fuel, biodiesel is manufactured by chemically altering vegetable oils or animal fats (Customs 2010a).

that most imported vehicles, and all vehicles made in Australia since 1986, are compatible with the standard E10 fuel (Biofuels NSW 2010).

From an environmental perspective, the greatest attribute of ethanol is its high oxygen content, which produces a 'cleaner burn' in petrol-blended fuel. This reduces particulate emissions from vehicles and cuts carbon monoxide emissions ('Ethanol enthusiasm underwhelming' 2001; CSR 2010b; Renewable Fuels Australia 2010; Biofuels NSW 2010)[95]. The use of ethanol in fuel also reduces greenhouse gas emissions, although the scale of reductions depends on the ethanol feedstock, and many scientists and economists hold grave doubts about the cost-effectiveness of reducing greenhouse gas emissions in this way (CSIRO, ABARE & BTRE 2003: 15; Webb 2008: 10, 11). The Productivity Commission (2011b: 18), in its highly detailed analysis of the science and economics of fuel ethanol, concluded that the subsidies provided to ethanol manufactureres were a 'costly way of achieving greenhouse gas abatement', relative to other policy options. The commission also took a dim view of the public statements made by the Biofuels Association of Australia, claiming that fuel ethanol reduced greenhouse gas emissions by 90.9 per cent, compared with petrol; the commission found that the greenhouse gas reduction was only 51 per cent (PC 2011c: 21–2).

9.3.1 Food versus fuel

On a global scale, the most controversial aspect of fuel ethanol is the use of food materials in ethanol manufacturing. Contrary to the public relations campaigning of the industry, ethanol manufacturing is not simply a form of recycling. Although waste products from food processing industries are used in the manufacture of some ethanol, so, too are whole foods, whole grains and by-products usually used for cattle feed. In times of high profit and high demand for ethanol, food crops are increasingly channelled into ethanol production.

In Australia, ethanol is produced primarily from wheat products (68%), with sorghum (18%) and molasses (14%) accounting for the remainder of production (PC 2011c: 21). Cheap feedstock—in the form of waste starch—was critical to the development of the

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[95] On a 'fuel life cycle' basis, however, particulate emissions are actually higher for ethanol than for petrol, due to the high consumption of coal-fired power in producing ethanol (CSIRO, ABARE & BTRE 2003: 22, 25).

ethanol industry in Australia. However, waste starch is ‘a limited resource’ and growth in the ethanol industry over the last decade has been fuelled by whole grains, such as sorghum and wheat (CSIRO, ABARE & BTRE 2003: 20; Robertson & Wright 2012). The channelling of food crops into fuel production has sparked a worldwide debate about the environmental and human impacts of the biofuels industry (‘Ethanol industry mixed up in controversy’ 2002; UN-Energy 2007; Roberts 2008a; Giampietro & Mayumi 2009: 2). The United Nations has criticised biofuels manufacturers, and ethanol manufacturers in particular, for diverting crops from food to fuel, causing a dramatic rise in the global price of staple grains (UN-Energy 2007: 33–5; UN 2007). This concern has been echoed in Australia by the Productivity Commission, which found that growing international demand—and state support—for ethanol was contributing to ‘extraordinary’ growth in grain feed prices in Australia (PC 2007: 44). Waste starch was traditionally used as cattle feed before it became more lucrative as a feedstock in subsidised ethanol production (PC 2011c: 26).

The Manildra Group has been adamant in rejecting the argument that ethanol production diminishes food production in Australia. Its statements, however, have been disingenuous, confusing and contradictory. On the one hand, Manildra has portrayed its ethanol manufacturing as part of a closed system, using only waste wheat products ‘to add value to what would otherwise have been a waste stream’ (Manildra Group 2009: 2). On the other hand, Manildra has sought to make a virtue of the ‘crop diversion’ effect of ethanol production, encouraging Australian motorists to buy its Enhance brand ethanol-blended fuel in order to ‘provide new alternative markets for farmers’ and thereby ‘give real support to farmers and rural communities’ (Enhance Ethanol 2010). The facts are hidden somewhere behind the rhetoric: the Manildra Group has never released figures on the composition of its ethanol feedstock. However, evidence presented by the Productivity Commission in 2011 suggested that Manildra had, indeed, been fuelling its burgeoning ethanol business with food crops (PC 2011c: 24–9; Robertson & Wright 2012). The commission referred to a Victorian parliamentary hearing in 2007, in which the Manildra Group’s managing director stated that the ethanol produced in Bomaderry used ‘something like [a] fifty-fifty’ ratio of waste products to raw wheat (in PC 2011c: 25). The NSW Supreme Court has also stated that, between 2006 and 2009, the volume of Manildra’s flour exports plummeted by more

than 50 per cent, ‘due in substance to the rapidly increasing use of wheat flour for the production of ethanol’ (*Manildra Laboratories v. Campbell* 2009)[96].

In view of these problems, great hopes have been invested in emerging ‘second generation’ biofuel production technologies (Ferguson, M 2009). These technologies use non-food feedstocks, such as lignocellulose, algae, non-food mustard seeds, oils and seeds from trees, to produce ethanol and biodiesel (Biofuels Association of Australia 2009: 1)[97]. One industry body has estimated that Australia produces enough lignocellulosic waste in the sugar and timber industries to produce 2,000 million litres of ethanol each year—more than four times annual ethanol production in 2012 (Biofuels Association of Australia 2009: 3; IPART 2012: 18).

9.4 The business of ethanol

Ethanol is produced in growing volumes around the world (see Table 9.1). In 2005, the United States overtook Brazil as the world’s leading producer of fuel ethanol; by 2010, the US was producing 50 billion litres of ethanol annually, more than half the world’s total production (Brown 2011). Yet in only one country— Brazil—is ethanol production viable without government support (PC 2011a: 113). In the rest of the world, biofuels generally ‘cost significantly more’ to produce than petrol, and biofuel production depends ‘profoundly’ on state support (PC 2011a: 113; Steenblik 2007: 3). Between them, the governments of OECD member economies had diverted US$11 billion to their biofuels industries by 2006; that figure was expected to rise rapidly in subsequent years (Steenblik 2007: vii). Domestic biofuels markets are also heavily protected from foreign competition. In most countries that manufacture ethanol, governments apply an import tariff of at least 25 per cent (Steenblik 2007: 21). Ethanol manufacturing is the antithesis of the neoliberal dream: it is tightly woven into nationally-based state support structures and has flourished behind a wall of market-distorting tariff protection.

[96] The case before the NSW Supreme Court related to an alleged breach of the *Corporations Act 2001* by a former Manildra Group manager.

[97] Lignocellulosic materials are fibrous plant-based matter, including waste from sugar and timber production.

Table 9.1: Fuel ethanol production: Australia, Brazil, United States: 2000–10

	Fuel ethanol production (ML/p.a.)					
	2000	**2002**	**2004**	**2006**	**2008**	**2010**
Australia*	n.a.	135	104#	148	n.a.	270
Brazil	10,497	11,489	13,544	16,701	24,200	27,520
US	6,170	8,150	12,904	18,381	34,969	50,081

ML = million litres.
n.a. = figures not available.
* Estimates: no firm figures exist for ethanol production in Australia.
# Figure for 2004–05 financial year.

Sources: PC (2004, 2011a), Webb (2008), Steenblik (2007), Brown (2011), RET (2011b), RFA (US) (2012, 2013), Senate (2005), IPART (2012).

The Australian ethanol manufacturing industry began in Bomaderry in 1991. By 2012, total ethanol production in Australia was estimated at 450 million litres per annum (IPART 2012: 18). Australian producers guard their production data fiercely, but estimates by credible analysts (including government agencies) do exist, and will be used in this chapter. Manildra is by far the largest single producer, at around 65 per cent of the total annual volume (PC 2011c: 25). In 2011, there were three fuel ethanol manufacturers in Australia: the Manildra Group; CSR distilleries; and Dalby Bio-Refinery Ltd. However, Manildra has never been in danger of losing its position as the market leader, trading on the dominance that comes from being the first to establish.

Sucrogen is the oldest producer of non-fuel ethanol in Australia, although it entered the fuel ethanol market after the Manildra Group (CSR 2006)[98]. In 2010, the company owned seven raw sugar mills in Queensland, along with sugar refineries in Queensland, Victoria and New Zealand. The CSR mill in Sarina, near Mackay, has a distillery that processes molasses into 96 per cent pure ethanol. The impact of government subsidies and policies in support of the ethanol industry had a dramatic impact on Sucrogen's business. The ethanol plant in Sarina trebled its production in 2006, through a A$15 million capital investment, funded in part by the Australian and Queensland governments (CSR 2006). The company's CEO, speaking in 2008, noted the 'exponential growth' in demand for fuel ethanol in Australia: an increase of 500 per cent over the previous three years. This prompted CSR to convert its entire ethanol

[98] Sucrogen was formerly known as CSR Sugar. The business was rebadged in 2010, shortly before it was acquired by Wilmar International Limited, 'the largest Asian agribusiness' (Sucrogen 2010).

manufacturing business to fuel ethanol, replacing its non-fuel ethanol with imports. The A$17 million conversion of its Sarina distillery was completed in 2009, and increased production capacity of fuel-grade ethanol from 38 million to 60 million litres per annum (CSR 2008; CSR 2009: 6).

A third ethanol refinery opened at Dalby, in Queensland, in December 2008, using sorghum as a feedstock. Only 18 months later, the business was in voluntary administration, largely due to high start-up costs (Dalby Bio-Refinery 2010; Douglas 2010). In 2011, the Dalby refinery was bought by United Petroleum, an independent fuel wholesaler and retailer that sells ethanol-blended automotive fuels (United Petroleum 2011).

Table 9.2 Fuel ethanol manufacturers in Australia, 2012

Production facility	Feedstock	Production capacity* (ML/p.a.)
Manildra Group Bomaderry (NSW)	Waste wheat starch, grain (wheat)	300
Sucrogen Sarina (Qld), Yarraville (Vic)	Molasses	70
Dalby Bio-Refinery Ltd Dalby (Qld)	Grain (sorghum)	80

* Estimates: no firm figures exist for ethanol production or capacity in Australia.

Sources: IPART (2012), Manildra Group (2010a), CSR (2010b), Dalby Bio-Refinery (2010), RET (2010a, 2010c).

Beyond these three players, the viability of ethanol production in Australia appears doubtful, even with substantial government assistance. A fourth manufacturer, the Heck Group, had produced non-fuel ethanol and a small amount of fuel ethanol at its Rocky Point Distillery, beginning in 1991. In 2008, the Heck Group announced plans to launch into the biofuels industry, by increasing production of fuel ethanol to 35 million litres annually. However, these plans were scrapped the same year, apparently due to the global financial crisis. As of January 2011, there were no plans within the Heck Group to revive its fuel ethanol business (Heck Group 2011; Thomson 2008). Many other fledgling ethanol distilleries have failed to get off the ground. In 2002, the NSW

government boasted that 'around ten' ethanol plants were in the planning phase in NSW (NSWLA 2007: 1444–5). Ten years later, none of these had come to fruition.

Today, the ethanol manufactured in Australia is destined primarily for the fuel tanks of Australian cars. Fuel ethanol in Australia is blended with regular automotive fuel, to constitute no more than 10 per cent of the blend. This means that fuel companies are the primary purchasers of ethanol in Australia. All of this makes good business sense *if* there is strong consumer demand for ethanol-blended fuels, and *if* the major petroleum companies want to create ethanol-blended fuels and sell them at service stations. Neither of those conditions existed when the Manildra Group started producing ethanol in Australia. In 2001, the Manildra Group complained to the Australian government that the major Australian oil companies refused to: buy Manildra's ethanol; sell ethanol-blended fuel; and sell petroleum to Manildra (to produce its own ethanol-blended product) at 'competitive' prices (Honan 2001: 4). Given that Manildra was seeking to steal market share from the big petroleum producers, its lack of success could have come as no surprise.

Getting fuel ethanol to market, and creating a market for the product, quickly emerged as formidable challenges to the Manildra Group's ethanol business. By the mid-1990s, the ethanol produced in Bomaderry was being blended with regular automotive fuel and sold through the small Bogas chain of service stations in NSW (NSWLC 1997: 10645). But this was a very minor inroad into the massive automotive fuel market. Finally, in 2001, the company started a joint venture with Park Petroleum, establishing its own service stations—under the Manildra Park Petroleum banner—in the Illawarra region and southern Sydney (Honan 2001: 4).

At the outset, the Manildra Group's fuel ethanol business—with its weak demand and poor distribution—seemed to ignore fundamental rules of commerce. Perhaps the Manildra Group saw a bigger picture: that there would always be room in a free market for government intervention. The interventions that supported the Manildra Group were enough to boost its fuel ethanol venture from hum-drum to a stunning success.

9.5 The political economy of ethanol

The profitability of biofuels manufacturing is determined by several factors, including the market price of oil, the exchange rate, taxes and subsidies, and the cost of feedstock (CSIRO, ABARE & BTRE 2003: 20). Of these factors, only taxes and subsidies can be easily manipulated by governments—something that happens on a grand scale in industrialised countries (Steenblik 2007). The large-scale manufacturing of fuel ethanol in Australia has been viable only because of strong, ongoing financial and regulatory assistance from government—a point driven home, time and again, by official government inquiries (see CSIRO, ABARE & BTRE 2003; Biofuels Taskforce 2005). Put simply, were it not for government support, the ethanol industry in Australia would be a very minor player in the fuel industry, and in public policy.

Across the industrialised world, national governments share a common problem: when it comes to supporting their biofuels industries, 'the risk of public policy being co-opted in support of private ends is and will remain great' (Steenblik 2007: 1). In Australia, the overwhelming dominance of the ethanol industry by the Manildra Group changed the nature, and the appearance, of policymaking in this area. Under the banner of industry policy, that state has worked very effectively to build a private empire for the Manildra Group.

The politics surrounding the ethanol industry have been heavily influenced by party politics, traditional constituencies and private lobbying. In Australia, the production of ethanol relies on feedstock from the grain and sugar industries, forging a direct link with the farming sector—the traditional constituency of the National Party, the junior partner in conservative Coalition governments. This natural political affinity alone does not explain the policy decisions taken by the Howard government, but it did provide the right conditions in which to nurture support for the fledgling ethanol industry.

Channelling large sums of money into ethanol production should be difficult for Australian governments to defend in the era of neoliberalism. The proponents of biofuels commonly present a broad array of alleged policy benefits in support of their case: from boosting agricultural production and rural jobs to energy security and environmental gains (Steenblik 2007: 1). However, a landmark study on ethanol

production conducted by the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Bureau of Transport and Regional Economics (BTRE) and the Australian Bureau of Agricultural and Resource Economics (ABARE) (2003: 25) stated clearly that, 'The regional employment impacts of biofuels production have commonly been overstated and are difficult to predict'. Furthermore, the report calculated that new jobs in (hypothetical) new ethanol plants in regional Australia would come at the formidable cost of between A$210,000 and A$303,000 in government subsidies per job (CSIRO, ABARE & BTRE 2003: 26). As some commentators later noted, 'it would be cheaper to pay each worker average weekly earnings to do nothing than to subsidise them to produce ethanol' (Webb 2008: 7).

Nevertheless, strong claims about the job creation effects of ethanol manufacturing featured heavily in the public statements of conservative politicians who came out campaigning for ethanol. In the Commonwealth Parliament, the independent MP Bob Katter is a long-time and avid supporter of government assistance for the ethanol industry. Mr Katter represents the seat of Kennedy, a massive rural electorate in Queensland (AEC 2012). In 2002 and 2006, Mr Katter introduced private member's bills into parliament seeking to amend the *Fuel Quality Standards Act 2000*, to require all automotive fuel to contain at least 10 per cent ethanol[99]. In his speech introducing the 2002 bill, Mr Katter insisted that only legislation could override the big oil companies' objections to ethanol-blended fuels (HoR 2002: 8123). In response, the Minister for Agriculture, Warren Truss, explained that the Australian ethanol industry would be able to meet only a fraction of the ethanol required under the Katter plan:

> Just to achieve 2 per cent of our fuel needs, the ethanol industry would use all of the 'C' molasses produced in Australia. We simply do not have the capacity to reach 2 per cent yet, let alone 10 per cent (Truss 2002).

Ten years later, in 2012, Mr Katter's new political party advocated for ethanol, claiming that government-backed investment in infrastructure could create a booming ethanol industry in Queensland, using sugar cane for feedstock and achieving a trifecta of outcomes: 'saving' the ailing Queensland sugar industry; creating 20,000 jobs; and reducing grain prices for the stockfeed market (Katter's Australian Party 2012). While

[99] These were the Fuel Standards (Renewable Content of Motor Vehicle Fuel) Amendment Bill 2002 and the Fuel Standards (Renewable Content of Motor Vehicle Fuel) Amendment Bill 2006.

Mr Katter has never received the necessary legislative or budgetary support to pursue his ethanol ambitions, his focus has been shared by mainstream political parties. In the 2010 federal election campaign, the Coalition promised to introduce a national ethanol mandate by 2015 (The Nationals 2010). Several National Party parliamentarians, notably Senator Barnaby Joyce, have also been vocal proponents of strengthening government assistance to the ethanol industry, including via a fuel mandate (Joyce 2007; Murphy 2007).

Initially, the Howard government also couched its support for the fuel ethanol industry in terms of boosting the economic prospects of Australian sugar cane farmers (Truss 2002; 'Ethanol industry mixed up in controversy' 2002). The Australian sugar industry is an important creator of wealth and employment in rural Queensland, but has grappled with low world prices and tariff barriers in the US and Europe (Hildebrand 2002). However, the report on ethanol production commissioned by the Howard government found that sugar cane was not the best option. The report concluded that ethanol production using waste wheat starch 'appear[s] to be … economically viable' without government support, whereas ethanol produced from sugar cane waste 'require[s] substantial and ongoing government assistance' (CSIRO, ABARE & BTRE 2003: 17). The Hildebrand report into the Australian sugar industry also hammered home the point that ethanol manufacturing would never be the salvation of Australia's sugar cane farmers. While there might be some cases where 'the production of ethanol based on cane can be justified economically', there were major barriers for much of the industry, including the distance of cane farms from ethanol markets and the reliability of year-round cane supplies (Hildebrand 2002: 37–8).

However, for reasons that might never be entirely clear, the tenuous economic case for ethanol manufacturing was robust enough for the government of John Howard. Despite the best expert advice, the Howard government decided to launch an industry policy for ethanol that would create some jobs, achieve very little environmental improvement, and channel large sums of public money to the Manildra Group. It seems reasonable to conclude that the conservative side of politics in Australia was 'captured' by the ethanol industry. The Manildra Group conducted a sustained lobbying campaign for government subsidies for ethanol production. Senior Manildra Group executives argued along several policy lines: energy security; greenhouse gas emission reductions; human

health improvements; and regional employment (Honan 2001: 2, 5). The Manildra Group also claimed it could achieve a sufficiently large scale of production only with assistance from government, in order to overcome the 'market entry' hurdles and 'predatory pricing barriers' erected by the oil industry (Honan 2001: 4).

The Manildra Group also let money do its talking. In the period July 2000–June 2011, the Manildra Group donated almost A$1.2 million to the national branches of the Liberal and National Parties (see Table 9.3). Almost half of that amount—A$563,000—was donated in the two-year period leading up to, and immediately after, the introduction (in 2002) of an ethanol production subsidy that would net the Manildra Group hundreds of millions of dollars.

Table 9.3: Political donations by the Manildra Group, 2001–11

Year	**Amount (A$)**				
	Liberal/ National parties (national)	***Liberal/ National parties (state & territory)***	***ALP (national)***	***ALP (state & territory)***	***Other parties***
2000–01	57,500	34,000	11,000	0	0
2001–02	251,000	0	55,000	0	0
2002–03	312,000	0	0	50,000	0
2003–04	49,000	0	15,000	0	7,620
2004–05	5,000	8,000	0	37,000	1,500
2005–06	43,083	37,965	0	43,400	0
2006–07	99,850	146,500	88,550	259,750	0
2007–08	35,361	74,854	183,953	144,067	0
2008–09	16,000	36,451	25,089	97,178	0
2009–10	52,999	36,476	58,036	147,558	0
2010–11	256,544	93,263	238,771	54,908	
Total	**1,178,337**	**469,509**	**675,399**	**833,861**	**9,120**

Source: AEC (2014).

The combination of poor economics, fierce lobbying and generous political donations is not unprecedented in the global political economy of ethanol. The development of the ethanol industry in the United States has been described as 'quite a sordid affair', driven

by one businessman who lobbied hard, ‘gave vast sums of money to both Republicans and Democrats’ and ‘bought access to presidents’ (Magdoff 2008: 41–2). Beginning in the late 1970s, the US ethanol industry has enjoyed generous federal and state support: the total quantum of subsidies for US ethanol production in 2008 was estimated in the range US$9–11 billion (Magdoff 2008: 40). As Parkin and Hardcastle (2010: 364) described the business of political donations:

> All sides to these transactions would deny that any untoward influence is being ‘bought’, yet such donations must be regarded by the donors as making good business sense.

In Australia, the public proponents of economic neoliberalism were frequently scathing of the Howard government’s support for ethanol manufacturing. In 2005, the economics editor of the *Australian Financial Review* dismissed the Australian biofuel industry as ‘just another plan, pushed by the Nationals, to rip off the cities for the benefit of the bush’ (Mitchell 2005: 54). A business journalist at the *Australian* was less polite, explaining that regional development was a ‘euphemism for keeping the Nationals happy’, and that ethanol production subsidies were a ‘handout to uneconomic, but politically influential, rural industries’ (Wood 2005: 14). The journalist concluded, with a sneer, that ethanol policy was ‘just another handout to National Party grubs’ (Wood 2005: 14).

9.6 Public policy for ethanol

For more than 15 years, Australian governments have implemented and administered a series of policies to provide financial support—direct and indirect—to the fuel ethanol industry. This support has included each of the three measures typically found in developed economies with ethanol manufacturing industries: budgetary support for the industry; fuel mandates to create a market; and trade restrictions to stop imports (OECD 2008: 109).

Australian government assistance to the ethanol industry stretches as far back as 1980, when imports of ethanol became duty-free to encourage Australian research into the use of ethanol as a fuel (PC 2004: 3.16). Government-sponsored efforts to build a local manufacturing capacity began in the 1990s. The quantum and type of assistance have

varied over the last 20 years, but the trend shows a rapid increase in budgetary support for Australian ethanol manufacturers, most of it delivered during the second and third terms of the Howard government (1998–2001 and 2001–07).

Table 9.4: Direct federal budgetary assistance for Australian fuel ethanol manufacturers and retailers, 1994–2012

Program title	Program span	Amount ($A)	Notes
Ethanol Fuel Bounty Scheme	1994–96	<3 million	
Ethanol Production Grants	2002–	466 million	Cumulative total (September 2002–June 2011).
Biofuels Infrastructure Grants[a]	2004–08	34.5 million	Spread between six recipients and projects.
Ethanol Distribution Program	2006–09	11.8 million	Up to $20,000 available to each participating service station.

[a] Originally called the Biofuels Capital Grants.

Sources: Ausindustry (2010), DIISR (2008a), DITR (2007a), Parliamentary Library of Australia (1996), Productivity Commission (1998, 2002b, 2004, 2007, 2008a, 2009, 2010), RET (2009).

The first major support program for the Australian ethanol industry was the Ethanol Fuel Bounty Scheme, introduced by the Labor government of Paul Keating in 1994. The bounty was a policy initiative of the Australian Democrats party: the Labor government agreed to its implementation in order to secure the Democrats' support for the passage of the 1993 Budget through the Senate (Senate 1997: 2366–7). This was early in the development of the Australian ethanol industry, just two years after the Manildra Group began production in Bomaderry. The aim of the bounty scheme was to encourage the development of 'a competitive, robust and ecologically sustainable fuel ethanol industry', through the provision of an incentive payment—18 cents per litre—to ethanol producers (Parliamentary Library of Australia 1996). In the short term, the scheme had little impact: not one new producer was induced to enter the fuel ethanol market, and payments to the existing two producers—Manildra and CSR—were well below the target funding level (Parliamentary Library 1996; PC 1998: 31). The Ethanol Fuel Bounty Scheme was scrapped on 1 July 1996 by the incoming Howard government,

which expressed doubts about ethanol production technologies and publicly questioned the potential of ethanol to reduce greenhouse gas emissions (Parliamentary Library 1996). Government assistance for the Australian ethanol industry was dead.

In case its position was not already clear, the Howard government also immediately scrapped plans for a new ethanol pilot plant utilising wood waste (lignocellulose), which had been earmarked for the Manildra factory in Bomaderry. The pilot plant was to have been a joint venture between the Australian and NSW governments and the Manildra Group, with the governments contributing A$2 million each and Manildra providing an 'in-kind' contribution worth A$1 million (NSWLC 1997: 10645-6; Australian Forest Growers 2007: 7). In later years, the peak industry body Australian Forest Growers (2007: 7) defended the wood waste conversion technology and claimed that implementation of the technology in Australia had been held back by a lack of support from government and by elements of the ethanol manufacturing industry.

However, some time after its first term in office, the Howard government underwent a conversion of its own, shedding its suspicion of ethanol. For the financial year 1999–2000, the government awarded the Manildra Group a A$1 million grant, part of its Renewable Energy Commercialisation Program. The grant was intended to improve the efficiency of the ethanol production process in Bomaderry, and to thereby 'increase the cost competitiveness' of Manildra's operations (Australian Greenhouse Office 2003: 43). Although such grants were not unusual in the ethanol industry, or in other industry sectors in Australia, it was notable that the Prime Minister himself visited Shoalhaven Starches in Bomaderry to present the grant ('Ethanol set to fuel Shoalhaven jobs' 2001).

The next significant step on the Howard government's road to ethanol enlightenment came in 2000, when the government amended legislation to permit the use of E10 fuel (fuel with a 10 per cent ethanol content) in automotive vehicles. Although this was a big win for the Manildra Group, the *legality* of E10 fuel was an entirely separate matter to the commercial *viability* of the fuel. Consumer demand remained low, and the capacity of the ethanol industry to produce larger volumes remained correspondingly low.
The timing was everything. On the one hand, consumer demand needed to be created for the product. On the other hand, the ethanol industry needed to increase its output and thus reduce its per unit costs, even in the absence of higher consumer demand. The

solution to this conundrum, as fleshed out over subsequent years by the Howard government, harnessed policymaking and budgetary power to build consumer demand and ethanol supply simultaneously. Generous, comprehensive support plans of this kind are common among OECD economies and, in the scathing assessment of Steenblik (2007: 7), 'bear all the hallmarks of a popular bandwagon aided and abetted by sectional vested interests'.

No one could doubt that the government now had a vision for the ethanol industry. During the 2001 election campaign, the Coalition parties announced an official national target for biofuel production in Australia: 350 million litres per annum by 2010 (CSIRO, ABARE & BTRE 2003: 18). Two years later, in 2003, a comprehensive report on the implications of the biofuel production target spelled out the problem in very simple terms: 'The costs of implementing [the] policy … are estimated to exceed the benefits' (CSIRO, ABARE & BTRE 2003: 17). The research agencies that prepared the report had considered the possible environmental, health and employment effects of boosting ethanol production, but could not find benefits that would offset the estimated A$71–74 million in lost GDP. They concluded that, without government assistance, the biofuels industry would continue to grow, at a 'modest' pace, reaching an annual production level of around 115 megalitres by 2010. In order to meet its desired target, the government would need to artificially stimulate production of an additional 235 megalitres of biofuels per annum within seven years (CSIRO, ABARE & BTRE 2003: 15–17).

Seemingly in the absence of any expert guidance, the government embarked on a grand policy adventure to build an ethanol industry from the ground up—an adventure that became considerably less enjoyable for the Howard government as it continued.

9.6.1 Fuel taxes and a production subsidy

Significant as they are, the direct support schemes for the ethanol industry have been dwarfed by indirect assistance provided through the fuel taxation system. The main pillar of state assistance to the Australian ethanol industry has been an exemption from the fuel excise tax. The purpose of a fuel excise is 'primarily to raise revenue' in a

broad-based manner (Webb 2003: 2). In the ten years to 2002, fuel excise in Australia constituted 7–9 per cent of total Commonwealth revenue each year, making it the third largest source of tax revenue (after personal income tax and company tax) (Trebeck, Landels & Hughes 2002: 86).

In Australia, fuel excise is paid by fuel manufacturers, but the tax is then passed on to consumers via retail prices (Webb 2000: 1). Australia's complicated fuel taxation system also includes exemptions for defined groups of users, including farmers, rural businesses and transport operators, all centred on the use of diesel fuel (Trebeck, Landels & Hughes 2002: 28). While excise is paid by these diesel users, it is offset in full by rebates paid by the government. The Diesel Fuel Rebate Scheme was introduced by the Fraser government in 1982, to replace a much-abused system of fuel excise exemption certificates. However, the purpose of the rebate scheme was never clear, and amendments to the scheme over time only served to 'confuse' its purpose even more (Webb 2000: 11).

The policy that eventually provided massive assistance to the ethanol industry was the Diesel and Alternative Fuels Grants Scheme, which was introduced in 1999 as part of the Howard government's taxation policy, 'A New Tax System'[100]. The Diesel and Alternative Fuels Grants Scheme was conceived as a way of providing excise relief for diesel transport operators. However, the government's minority position in the Senate meant that, in order for the legislation to pass through parliament, the Prime Minister had to agree to a significant amendment proposed by the Australian Democrats party. The amendment included 'alternative fuels' in the excise exemption scheme, although this was restricted to business travel and heavy vehicles such as buses (Webb 2003: 2–3). In 2003, the Diesel and Alternative Fuels Grants Scheme morphed into the Energy Grants (Credits) Scheme, which provided grant payments to businesses using alternative fuels for road transport. The scheme paid a variable credit for a range of alternative fuels, with the lowest amount for liquefied natural gas and the highest for ethanol. Payments under the scheme were scaled back from 2006 until the scheme closed on 30 June 2010 (Webb 2003; Australian Taxation Office 2010).

[100] The Diesel and Alternative Fuels Grants Scheme was introduced to complement the Diesel Fuel Rebate Scheme (Costello 2002: 97; Anderson & Tuckey 2002: 41).

This type of excise-based support for the fuel ethanol industry was first introduced in the United States in 1979, and was estimated to have cost state governments in the US up to US$7 billion by 1996 (Steenblik 2007: 23). The amount of tax foregone by the Australian government through similar exemption provisions has also been sizeable. Tax exemptions for alternative fuels were worth an estimated A$8.7 billion over the period 1994–2005 (Trebeck, Landels & Hughes 2002: 17). The price advantage created by the excise exemption for ethanol-blended fuels was, according to the Manildra Group, fundamental to its viability. In 2001, Manildra claimed that, if the excise exemption for ethanol were scrapped 'during the critical next ten-year growth cycle', it would cause the collapse of the biofuels industry in Australia and lead to 'the complete demise' of independent fuel retailers (Honan 2001: 6).

The Manildra Group was not alone in its dislike of fuel taxation. Most Australian motorists were not entitled to any relief from fuel taxes and were not happy about it. In 2001, Prime Minister Howard announced an inquiry into the structure of fuel taxation in Australia, against a backdrop of widespread public anger about rising petrol prices (Howard 2001; The Treasury 2001)[101]. It is a truism of politics that a government launches an inquiry only when it can predict the outcomes and recommendations. In this regard, the Fuel Taxation Inquiry of 2001–02 was very unusual: it produced recommendations that were rejected, almost in their entirety, by the government. In its official report, the Fuel Taxation Inquiry committee expressed amazement at the administrative complexity and arbitrary nature of the fuel excise system (Trebeck, Landels & Hughes 2002: 125). The committee recommended that all types of fuel be treated 'neutrally', without the discrimination inherent in the wide range of taxation rates and exemptions (Trebeck, Landels & Hughes 2002: 22). Specifically, the committee insisted that ethanol, biodiesel and LPG should be brought into the fuel taxation system. While acknowledging that this could have negative implications for the viability of the Australian ethanol industry, the committee noted that the ethanol industry's viability had always been 'based on an artificial tax advantage' (Trebeck, Landels & Hughes 2002: 18, 22).

[101] The inquiry committee comprised David Trebeck (Chairman of ACIL Consulting), John Landels (former Chairman and Chief Executive of Caltex Australia) and Kevin Hughes (CEO of the Service Station Association).

On 14 May 2002, the government publicly rejected the inquiry's recommendations on including alternative fuels in the fuel excise system, claiming that this would be 'contrary to the Government's election commitment' to support the ethanol and biodiesel industries (Costello, quoted in PC 2004: 3.17; Webb 2003: 4). In September 2002, the Government appeared to relent, announcing changes to the treatment of ethanol under the fuel excise regime. Fuel excise would be applied to ethanol for the first time—but, crucially, the excise tax would be off-set in its entirety by a new ethanol production subsidy (PC 2004: 3.17). Under the new support regime, the total amount of financial assistance for the Australian ethanol industry would remain the same, but it would be delivered as a production subsidy, rather than as a fuel tax exemption.

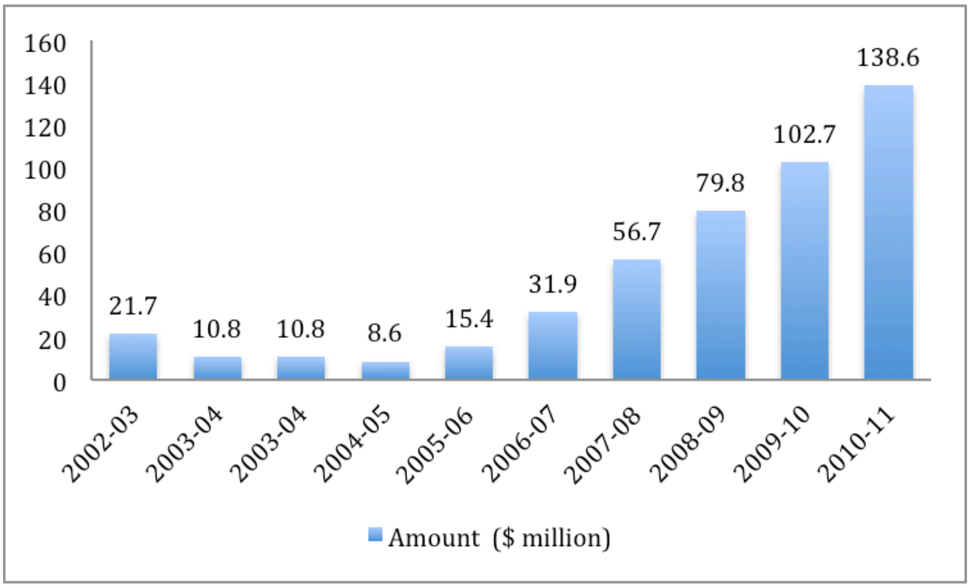

Figure 9.1: Ethanol Production Subsidy: payments to industry, 2002–11

Sources: PC (2009, 2010, 2011b); RET (2012).

This might seem a cosmetic change, but it had a real impact on one group in the global market: foreign producers of fuel ethanol. In applying a 38.143 cent/litre tax to all fuel ethanol sold in Australia—domestic and imported—but offering Australian ethanol manufacturers a production *subsidy* of 38.143 cents per litre, the government was effectively hitting foreign ethanol manufacturers with a *tariff* of 38.143 cents per litre (PC 2004: 3.17; PC 2007: 3.23). In announcing the decision, Prime Minister Howard made no mention of foreign producers or of ethanol imports (Howard 2002). Within a week of the Prime Minister's announcement, the new excise-equivalent tariff of 38.143 cents per litre was being levied on ethanol imports. This was on top of the prevailing

tariff applying to ethanol, creating an *ad valorem* tariff of 51 per cent, a significant increase in importation costs. Australia's new import duty was among the highest in the OECD (Customs 2002; Steenblik 2007: 21).

Curiously, a different assistance framework was applied to biodiesel. The Energy Grants Cleaner Fuels Scheme, announced by the Treasurer in 2003, also brought biodiesel fuels into the fuel excise system, and also offset the excise tax, in its entirely, with a grant. However, the grant—unlike the ethanol production subsidy—was applicable to both locally-produced and imported biodiesel fuels (Costello 2003; PC 2004: 3.18). There would be no tariff-like protection for the Australian biodiesel industry.

At the time of the government's announcement on the fuel excise regime, in September 2002, the policy change aroused no public controversy. One week later, things looked very different.

9.6.2 Beating back Brazilian imports

In choosing to make its policy shift, the Howard government embraced old-fashioned protectionism and chose to make an extraordinary intervention into the global ethanol trade. The episode also raised the spectre of personal favours by the Prime Minister for a generous party donor—a rare and serious allegation in Australian politics. The question of how much power individual citizens exercise in the development and execution of public policy is a fraught one (see Lukes 2005). At a practical level, it is impossible to make definitive statements about the level of influence exerted by the Manildra Group in the development of ethanol industry policy in Australia. It is, however, possible to present the facts, which raise a host of questions and suggest some answers.

On 1 August 2002, Manildra Group chairman Dick Honan held a meeting with the Prime Minister, during which Mr Honan asked for three things: retention of the fuel excise exemption for ethanol; the introduction of a production grant for Australian ethanol manufacturers; and the introduction of a 10 per cent mandate for fuel ethanol sales. The request is a matter of public record, contained in the official minutes of the meeting that were released by the Prime Minister's department the following year (HoR

2003a: 17969). Also a matter of public record are the decisions subsequently taken by the government: the extension of the excise exemption and the introduction of the production grant. However, it is what happened off the record—allegedly—during the meeting between Mr Honan and the Prime Minister that caused a public furore. Mr Honan allegedly asked the government to protect the Australian ethanol industry from imports of Brazilian ethanol (Seccombe 2003a, 2003b). The catalyst for the request was a difficult commercial negotiation between the Manildra Group and two small Australian petroleum wholesalers, Trafigura Fuels and Neumann Petroleum. The Manildra Group had been negotiating with the wholesalers, but the latter had decided to import Brazilian ethanol rather than buy Manildra's product, and had arranged a shipment to arrive by sea (Seccombe 2003a, 2003b).

The shadow of Brazilian ethanol had been looming over the Australian industry for some time. In 2002, Brazil was the world's leading producer of ethanol (see Table 9.1). If the Australian government had been interested primarily in creating consumer and wholesaler demand for ethanol (based on its price advantage over petrol), it would not have been troubled by one shipment from Brazil. This is, after all, the way open markets are supposed to work. From a rationalist perspective, the ethanol might as well come from Brazil as from Bomaderry. For an orthodox economist, government policies that simultaneously (a) increase demand for ethanol and (b) prevent imports of ethanol are 'incoherent' (Steenblik 2007: 6).

However, the Howard government remained wedded to its support for the Manildra Group's ethanol operations, and acted to prop up the Australian ethanol industry until it could build sufficient capacity to meet local demand. In early August 2002, the Department of the Prime Minister and Cabinet asked the Australian Embassy in Brazil to obtain information on the ethanol shipment destined for Australia, including details of the buyers, the destination and the scheduled departure date (SFADTC 2002a: 228–33; 2002b: 19). One month later, the Howard government announced the new production subsidy for Australian ethanol manufacturers, which paid only local producers of ethanol, thereby placing foreign producers at a huge price disadvantage (HoR 2003b: 18414). The shipment of Brazilian ethanol ordered by Tragifura Fuels and Neumann Petroleum never reached Australia. Brazilian ethanol suddenly became too expensive once the production subsidy was announced, and the order was cancelled

(Seccombe 2003a, 2003b). At the time, the CEO of Neumann Petroleum described the Australian government's actions as 'crude politics at the very best', and suggested that 'one really has to question the motives of this Government' ('Ethanol industry mixed up in controversy' 2002). The managing director of Trafigura Fuels commented later,

> I've got to say it was one of the most unbelievable events I've ever lived through in my business life ... It all stinks. That's how I feel about it (in Seccombe 2003b).

In parliament, the Prime Minister denied having met with the Manildra Group chairman at all in the lead-up to the new policy. Only in 2003, once documents had been released following a Freedom of Information request, did Mr Howard admit to having met with Mr Honan—but, even then, the Prime Minister insisted that the two had not discussed the impending shipment of Brazilian ethanol (Seccombe 2003a, 2003b; HoR 2003a).

The Brazilian ethanol affair had a profound impact on public perceptions of the Howard government and the Manildra Group. In the absence of other known factors, the personal relationship between Dick Honan and John Howard, and the Manildra Group's donations to the Coalition parties, gave rise to widespread suspicions that state support for the ethanol industry had been bought by political donations. Whether or not any impropriety was involved, the fact of Mr Honan's direct and effective access to the Prime Minister revealed an elitism that Australian political leaders are always keen to disavow. The Manildra Group had clearly acquired status as an 'oversized citizen', of the kind described by Lindblom (2001: 237) in his study of the anti-democratic nature of capitalist economies. And the Prime Minister's decision to intervene so heavily in the free market certainly bears out Harvey's observation that neoliberalism favours the interests of economic elites over the interests of pure neoliberal theory:

> The evidence suggests, moreover, that when neoliberal principles clash with the need to restore or sustain elite power, then the principles are either abandoned or become so twisted as to be unrecognizable (Harvey 2005: 19).

There is nothing new about close ties between political and business leaders, or allegations of favourable amendments to industry policy. In 1960, the Menzies government lifted import restrictions on assembled car bodies and chassis, allowing a flood of imported cars and components into the Australian market. In order to protect

his Repco business—the largest automotive components manufacturer in Australia—Charles McGrath proposed that the government adopt local content plans, to force automotive manufacturers to increase their use of local components. The government duly introduced local content plans in 1964. It might have helped that McGrath—who went on to become federal treasurer of the Liberal Party of Australia—was a good friend of Industry Minister Jack McEwen and 'donated healthily to the major political parties, especially the Liberal and Country (later National) parties' (Capling & Galligan 1992: 199; Murray 2012).

Nevertheless, the contrast with the Manildra Group's main rival in the ethanol industry, Sucrogen, is instructive. The public record shows that the Howard government sought the views of Sucrogen (then called CSR) on its embryonic plans for an ethanol production subsidy. The company's 2002 annual report refers to ongoing 'discussion with the Federal Government about final details of its policy' (CSR 2002: 26). But there was no meeting with the Prime Minister. Lest there be any doubt about the differentiated impacts of the production subsidy within the Australian industry, the government's own figures showed that, in the first 12 months of its operation (to September 2003), the scheme delivered A$24 million to the Manildra Group—and just $A890,000 to Sucrogen (PC 2004: 3.18).

9.6.3 Ramping up support

Regardless of the media attention and poor public perceptions, the Howard government stood firm in its support of the Manildra Group's ambitions. The ethanol production subsidy was supposed to run for just 12 months, but that brief timeframe was quickly expanded. In May 2003, the government extended the scheme (and the fuel excise exemption) to June 2008, with a phase-out period running from July 2008 to July 2012 (Costello 2003). This was part of an 'overhaul' of the fuel excise regime, which would tax alternative fuels such as ethanol at only 50 per of the standard excise rate (Howard 2003; RET 2010c: 58–9). Just 12 months later, in 2004, the government announced yet another extension of the ethanol production subsidy and the excise tax exemption—this

time, for a further three years, with the phase-out period finally due to end in July 2015 (PC 2007: 3.23)[102].

According to the Australian biofuels industry, the favourable taxation treatment of ethanol announced by the Howard government in 2003—resting on a permanent tax break of 50 per cent—was the single biggest factor in encouraging new investment in ethanol manufacturing in the period 2007–09. This was a period in which, 'based on industry and banking confidence', ethanol production capacity increased by 300 million litres, at a capital cost of around A$300 million (Renewable Fuels Australia 2009: 12). However, even this expansion was underwritten by budget allocations. In July 2003, the government had introduced yet another support mechanism for biofuels, the Biofuels Capital Grants Program. Under the program, a total of A$37 million was available to help ethanol manufacturers expand their operations. By the time the application period closed in 2008, grants had been awarded to seven projects: four new biodiesel plants; and three new or expanded ethanol plants in Queensland (AusIndustry 2010b; RET 2010a).

There was, by now, a striking contradiction between the Liberal Party's general (neoliberal) economic philosophy and its rich, multi-layered support for the ethanol industry, led by the Manildra Group. The contradiction seemed to require yet more 'independent' studies to prove the worth of ethanol and the necessity of supporting it with public funds. In 2005, Prime Minister Howard established a Biofuels Taskforce, based within his own department, to conduct a lightning-fast assessment of 'the costs and benefits of biofuel production' (Biofuels Taskforce 2005: 233). The taskforce, comprising two senior public servants and two business executives (from the stockfeed and automotive industries), had just nine weeks to examine Australian and international evidence and report back. In its report, the taskforce concluded that the Australian ethanol manufacturing industry would remain viable only while production subsidies and import restrictions were maintained:

> As a result, after 1 July 2015 [the end-date for the production subsidy], Australia could be left with a small group of producers who are economically viable, and a larger group of producers who have entered and exited the industry during this period (Biofuels

[102] This policy was later adopted by the Labor government of Julia Gillard, which delayed the start of the phase-out period, from June 2011 to December 2011 (Sherry & Ferguson 2010).

Taskforce 2005: 103).

The report also found that, even with all the advantages they had gained, the large producers of ethanol—the Manildra Group and CSR—would still require ongoing government assistance in order to survive (Biofuels Taskforce 2005: 103). There were indications that the government found the report less than encouraging. A scientist at the CSIRO claimed he was gagged by the Prime Minister's department at the time of the report's release, for fear he might make negative public comments ('The greenhouse mafia' 2006). But if the Prime Minister was worried about the report of the Biofuels Taskforce, he did not show it. In direct response to the report, Mr Howard reaffirmed his commitment to the 350 million-litre target figure for ethanol production and unveiled a Biofuels Action Plan, which contained a suite of measures to increase the size and profitability of the Australian ethanol industry. These included annual ethanol production goals, marketing strategies, vehicle testing and measures to encourage the Commonwealth vehicle fleet to use ethanol-blended fuel (Howard 2005; PC 2007: 3.24).

The final link in the chain of ethanol industry support, from production to manufacture and retail sales, was introduced by the government in 2006. The Ethanol Distribution Program would pay service stations—up to A$20,000 each—to sell ethanol-blended fuel. The grant funding covered upgrades to infrastructure at service stations and provided a reward payment to service stations that met sales targets for ethanol-blended fuel. The program ran from October 2006 to June 2009 (PC 2007: 3.24; Ausindustry 2010a). Sales of ethanol-blended fuel rose from 0.3 per cent of automotive fuel sales in 2005–06 to 12.3 per cent in 2009–10—a huge increase by both percentage and volume (DITR 2006a; RET 2010b). By 2010, for every litre of 'premium unleaded' fuel sold in Australia, 1.2 litres of ethanol-blended fuel were being sold (RET 2010b).

At this point, the question might arise, 'Was there nothing the Howard government would not do for Australia's (three) ethanol manufacturers?' There was just one thing. The government resisted calls to legislate for the compulsory addition of ethanol to automotive petrol or for compulsory sales targets (elements of an 'ethanol fuel mandate'), a policy proposal pushed by the Manildra Group and lobby groups such as the Australian Cane Growers Council. According to the Australian biofuels industry,

governments in at least 38 countries around the world had mandated the use of biofuels in petroleum, or had used national targets to boost biofuels production (Renewable Fuels Australia 2009: 9). In 2011, ethanol fuel mandates were in force in the US, UK, Germany and China (PC 2011a: 111). Economists have rejected fuel mandates on the grounds that ethanol is more expensive than regular petrol and a mandate 'is, in effect, a subsidy to ethanol producers paid by fuel users', making it a far less transparent form of support than government-sponsored production subsidies (Webb 2008: 2, 3; PC 2011a: 110). Even for the Howard government, an ethanol fuel mandate would have been taking things too far, for ideological and practical reasons, including the inadequate level of domestic ethanol supply[103]. If 10 per cent ethanol content had been made mandatory in automotive fuel in 2008, it would have required 2 billion litres of ethanol annually; in 2006–07, Australia produced only around 130 million litres (Webb 2008: 1–2).

Just as the Howard government was nearing its end, the NSW government—of a different political hue—stepped forward to accept the challenge of an ethanol fuel mandate.

9.6.4 State governments weigh in: ethanol mandates

With the Coalition government in opposition in the federal parliament from 2007, the baton was passed almost directly to the NSW Labor government[104]. Industry support from the NSW government came in several forms: the NSW public service's vehicle fleet was directed to use ethanol-blended fuel from July 2006; and in 2010, all large-scale biofuel plants were declared 'critical infrastructure', enabling proponents of new plants to access a fast-track process for planning approval (Iemma 2007; Salusinszky 2010). However, by far the most overwhelming measure of support was an ethanol fuel mandate.

Several state governments—including Victoria and Queensland—had investigated the option of introducing a fuel mandate for ethanol. The Queensland government

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[103] The Howard government declared that an ethanol mandate would deny consumers choice and would, in any case, be impossible to achieve given the low level of domestic ethanol production (Webb 2008: 2).
[104] Other state governments have also provided support for the ethanol industry, but in other, lesser forms, such as research and development assistance and use of ethanol-blended fuel in government vehicle fleets (RET 2011a).

announced an ethanol fuel mandate, but suspended the policy in 2010 (before it had even been implemented), pending the outcomes of the federal government's inquiry into fuel taxation (Fraser 2010). By 2012, NSW was the only jurisdiction in Australia to have implemented an ethanol fuel mandate, through the *Biofuel (Ethanol Content) Act 2009*[105].

The NSW fuel mandate was touted by the Labor government of Morris Iemma as a solution to a grab-bag of public policy problems: weak employment growth in rural and regional NSW; heavy reliance on imported fossil fuels; greenhouse gas emissions from vehicles; and high fuel prices for motorists. The government painted a picture of an ethanol industry raring to go, with around 10 ethanol plants 'in the planning stages' across NSW (NSWLA 2007: 1444–5). It sounded almost too good to be true—and the weaknesses in the policy would be laid bare soon enough. The ethanol mandate came into operation in 2007 and required fuel wholesalers and 'major' retailers to ensure that pure ethanol comprised at least 2 per cent of all petrol sales in NSW (Iemma 2007; IPART 2012: 9)[106]. In practice, this meant that 20 per cent of all petrol sold had to be E10 fuel. The ethanol target was phased in and was scheduled to rise from 2 per cent to 10 per cent in 2010; this timetable was subsequently pushed back to just 4 per cent by 2010 and 6 per cent by 2012 (IPART 2012: 9; Roberts 2008a, 2008b, 2009a). However, sales of ethanol-blended fuels never reached the mandated targets: in 2011, just 3.6 per cent of all petrol sold in NSW was ethanol (IPART 2012). Manildra's Dick Honan blamed successive NSW governments for poor ethanol sales results (Nicholls 2012a). According to most others (governments and the oil companies selling the fuel) the problem stemmed from insufficient ethanol supply (PC 2011a: 123; Nicholls 2012a).

Under the Biofuel Act, the fuel mandate was supposed to be accompanied by a complete ban on the sale of regular unleaded fuel, to take effect in 2011. This element of the legislation was highly unpopular with motorists, and it was deferred by the Labor government, before being revived by the incoming Coalition government of Barry O'Farrell in 2011. The resurrection of the unleaded fuel ban was, however, very brief:

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[105] The legislation was first passed in 2007 as the *Biofuel (Ethanol Content) Act 2007*, containing a 2 per cent ethanol mandate, but was replaced in 2009, to increase the mandate to 6 per cent (NSWLC 2009).

[106] The legislation defined 'major retailers' as individuals who operate or control more than 20 service stations. Smaller operators were exempt; major retailers and wholesalers were also granted temporary exemptions, usually based on problems with securing ethanol supplies or generating demand for E10 fuel (IPART 2012: 10-12).

in January 2012, leaked Cabinet documents revealed that up to 750,000 motorists would be forced to switch to more expensive ‘premium’ fuels, because their vehicles could not run on ethanol-blended fuel (Nicholls 2012a). In the face of public furore, the NSW government abandoned the unleaded fuel prohibition. By this time, the government’s own economic bureaucrats were in revolt. Official NSW Treasury documents, obtained by the media under freedom of information law, expressed exasperation and scorn at the policy outcomes of the ethanol mandate:

> Who are the winners? Apart from a small pocket of jobs at Nowra the only unequivocal winner is Manildra Biofuels. We have legislated a monopoly and given them a captive market. Beyond Manildra it is difficult to identify a net benefit to any other segment of society (in Nicholls 2012b).

The NSW ethanol mandate had a direct impact on the Manildra Group’s ethanol operations: in 2009, Manildra announced a A$270 million expansion of its Bomaderry processing plant, to enable increased production of ethanol—from 160 million litres in 2009 to a projected 230–300 million litres in 2011 (Manildra Group 2010a: 6; Laursen 2009).

The final nail in the coffin of the ethanol fuel mandate came later in 2012, when the NSW Independent Pricing and Regulatory Tribunal delivered a report to the O’Farrell government. The tribunal assessed the prospects for the ethanol mandate over the next several years, and found them dismal. In its report, the tribunal concluded that, unless the government intervened in the market to change the supply and demand dynamics, NSW would never reach the 6 per cent sales target (IPART 2012: 2). Australia produced (just) enough ethanol to meet the target, but consumers were still not convinced of the merits of ethanol, and small fuel retailers were, in any case, exempt from the legislation (IPART 2012: 3–4).

The same controversies that plagued the Howard government in its dealings with Manildra tainted successive NSW governments. Industry lobbying for the fuel mandate was accompanied by political donations—and lots of them. Donations made by the Manildra Group to the NSW Branch of the ALP grew exponentially in the months leading up to the introduction of the ethanol fuel mandate, leaping from A$40,000 in 2005–06 to an impressive A$248,500 the following year (see Table 9.4). Manildra

chairman Dick Honan rejected any connection between political donations and policymaking in NSW: ‘It is absolutely ridiculous to suggest you can buy the policies of a political party’ (in Roberts 2009a). More recently, the media shone a spotlight on the level of contact between the new O’Farrell government and the Manildra Group. In their first ten months in office, senior ministers of the government—including the Premier and the Deputy Premier—racked up several private meetings with Dick Honan (Nicholls 2012a).

Table 9.5: Donations from Manildra Group to ALP (NSW Branch), 2004–11

Year	**Amount (A$)**	**Party in government (NSW)**
2004–05	15,000	ALP
2005–06	40,400	ALP
2006–07	248,500	ALP
2007–08	120,249	ALP
2008–09	57,910	ALP
2009–10	112,558	ALP
2010–11	54,908	ALP, until March 2011
Total	**649,525**	

Source: AEC (2014).

9.7 When does an infant industry grow up?

The ethanol production subsidy, introduced by the Howard government in 2002, was supposed to be a temporary measure to shore up the local industry for 12 months. The subsidy is currently due to be abolished in 2015. From the time of its introduction in 2002 to June 2011, the fuel ethanol production subsidy cost the Australian federal budget A$466 million (PC 2009, 2010, 2011; RET 2012). The Manildra Group has been by far the biggest beneficiary of the policy. By the time the Howard government left office in 2007, the Manildra Group had received more than A$65 million under the ethanol production subsidy program—a massive 83 per cent of all money paid under the program at that point (HoR 2007: 203)[107]. According to the business magazine *BRW*, Dick Honan’s personal fortune rose rapidly, too, leaping from A$275 million in 2009 to

[107] The next largest amount was A$12.6 million (16 per cent) paid to CSR Distilleries. A further two businesses (Schumer Pty Ltd and Tarac Technologies) had received less than A$1 million between them (HoR 2007: 203).

A$415 million in 2010 (*BRW* 2010).

The issue of weaning the Manildra Group off its rich diet of government subsidies was a difficult one for the Howard government. The company made it clear that state assistance could not be short-term in nature, unless the government was prepared to deal with the public outcomes of enterprise failure. The Manildra Group warned continually (and continues to do so) of the regional employment impacts of any reductions in government support for the ethanol industry. According to Manildra director Caroline Honan in 2001, ‘any reduction in the production of ethanol would cripple the [Manildra] Group’s entire production process at Bomaderry’ (Honan 2001: 6).

Time and again, the Manildra Group has played politics with the jobs of its 300 employees in Bomaderry and the hundreds of jobs indirectly supported by Shoalhaven Starches (see Honan 2001; Westfield 2003; Manildra Group 2009; ‘Jobs lost as ethanol expansion plans shelved’ 2012). In 2012, when the NSW government abandoned its proposed ban on regular unleaded fuel, Manildra’s Dick Honan hit back immediately. The policy change necessitated an urgent visit to the Bomaderry ethanol plant, Mr Honan said, in order for him to ‘assess what has to be stopped’ on the plant expansion (Nicholls 2012a). The Manildra Group then very publicly suspended the expansion of the plant, causing the loss of six jobs in a local engineering firm (‘Jobs lost as ethanol expansion plans shelved’ 2012). Having built its ethanol business on a foundation of government support, the Manildra Group now lays the responsibility for protecting the jobs of its employees and contractors at the feet of the government. Nice work, if you can get it.

9.7.1 Ethanol policy after Howard

In opposition, the Labor Party was a loud critic of state support for the ethanol industry in general, and for the Manildra Group in particular. In 2003, the Labor Party even placed a ban on political donations from the Honan family, although this was later revoked (Koutsoukis 2005). In 2004, the Manildra Group engaged the services of a former Labor MP—Con Sciacca—to lobby the party and ‘get … the party organisation to really listen to Honan’ (Sciacca in Koutsoukis 2005). However, once in government, Labor resisted any urges to tear down the support infrastructure for ethanol in its

entirety—although it did begin to trim it immediately. In the budget of May 2008, the Rudd Labor government cut A$5 million from the Ethanol Distribution Program and A$10 million from the Ethanol Production Grants Program (Kerr 2008).

Beyond the level of budgetary assistance, the tone of public pronouncements also changed. The new Minister for Resources and Energy, Martin Ferguson, had been terrier-like in his pursuit of the Howard government over its support for ethanol manufacturers. In announcing government support for 'second generation' biofuels research, Minister Ferguson stated flatly that, 'We must ensure that biofuel development does not compete with the traditional agricultural industry for land and resources' (Ferguson, M 2009). The minister also told the media that the Rudd government was not happy about the NSW fuel ethanol mandate, because 'grain will be the primary feedstock to meet [it]' (Roberts 2009b).

The Howard government never enacted its final policy on fuel excise reform, which would have enshrined a permanent 50 per cent discount on fuel excise tax applied to alternative fuels, including ethanol. This was left to the Rudd government, which adopted the policy in 2010 and introduced an even softer implementation timetable a few months later (Sherry and Ferguson: 2010; Shorten 2010). Under the revised policy, the excise rate for ethanol would be reduced gradually to 12.5 cents per litre in 2020. Over the same period, the ethanol production subsidy would wind down to *zero*, meaning that Australian ethanol producers would, for the first time, pay excise tax (Shorten 2010; Webb 2010). However, the blow to local ethanol producers would be softened considerably by government-funded assistance. The assistance package started life as A$300 million over five years, but quickly expanded by another A$140 million and another five years, as part of a deal securing rural Independent MP Tony Windsor's support for the minority Gillard government. *The Australian* reported this alongside the observation that Mr Windsor had received a A$50,000 donation from the Manildra Group before the 2007 election (Stutchbury 2010: 5).

The punitive tariff imposed on fuel ethanol imports by the Howard government in 2002 remained in 2012, virtually guaranteeing that Australian ethanol producers would face

no competition from foreign producers[108]. Crucially, this measure of protection now has an end-date. The policy change implemented by the Rudd government was set to eliminate protection of the Australian ethanol industry from foreign competition. The rates of excise applying to ethanol from 2020 will be the same as the customs duty on imported ethanol, returning the Australian market to a (more) level playing field (The Treasury 2010: 10)[109].

Despite close to 20 years of government assistance, the Manildra Group has continued to portray its ethanol business as fledgling and fragile. In its submission to the Australian government's Energy White Paper, the Manildra Group argued for ongoing—in fact, open-ended—state support for its ethanol operations (Manildra Group 2009: 3). The company went so far as to describe the taxation system as 'at the core of the medium term survival and development of the industry' (Manildra Group 2009: 8). As for the looming abolition of the punitive import tariff on foreign ethanol, Manildra warned of dark days ahead. The company considered equal tariff and tax treatment of Australian- and foreign-produced ethanol to be 'a significant medium term threat' to the Australian industry, and one which would 'have very real and adverse effects on Rural & Regional Australia [sic]' (Manildra Group 2009: 8). By the following year, in its submission to the Alternative Fuels Taxation Policy inquiry run by the Treasury, Manildra had ramped up its language, claiming that opening the Australian ethanol market to foreign competition would 'undoubtedly lead—within a two year period—to the termination of the Australian domestic ethanol industry' (Manildra 2010a: 2). Meanwhile, *BRW* estimated that the Manildra Group took in A$1 billion in revenue in the financial year 2009–10 (*BRW* 2010).

The extent to which this public doomsaying was based on fact is impossible to judge—definitively, at least. However, ongoing capital investment at Shoalhaven Starches in Bomaderry suggests that Manildra sees a bright future for the ethanol business. The expansion of the Bomaderry ethanol plant continued apace in 2010–11, and the halt announced in 2012 was only temporary. On top of this, the US–Australian joint venture firm Algae.Tec constructed an algae plant at the Bomaderry site, to convert waste from

[108] Ethanol is not included in the Australia-United States Free Trade Agreement, meaning that even US ethanol is subject to the import tariff (Customs 2010b).
[109] An *ad valorem* duty of 'up to 5 per cent' will apply to ethanol (as it does to all other imports), depending on the country of origin (The Treasury 2010: 10).

ethanol production into biofuel, which opened in 2012 (Algae.Tec 2011a, 2011b)[110]. If biofuel manufacturers really were spooked by the Australian government's very slow withdrawal of support for ethanol, they hid it very well.

9.8 Conclusion

Manildra's dominance of the Australian ethanol industry, and the fact that its ethanol is produced in only one location in Australia (Bomaderry), creates a very direct link between government policies on ethanol and the viability of the Shoalhaven Starches facility, and its 300 jobs. Manildra has been a highly effective advocate for its own commercial interests. In all likelihood, the Manildra Group's commercial success is due to a range of factors: the standard of its production facilities; its relationships with wheat growers; its expansion into US- and Asian-based production; and the construction of long value chains, which take a primary product—wheat—from raw material to processed, packaged products on supermarket shelves. But, in one key aspect of its operations—ethanol production—the Manildra Group has had an extraordinary degree of access to, and assistance from, government. While it is true that the most crucial, and generous, support was provided by the Coalition government of John Howard, the NSW Labor government granted the Manildra Group its final policy wish, an ethanol fuel mandate.

Viewed in an historical perspective, perhaps there is nothing extraordinary about the various forms of government assistance for the ethanol industry in Australia. It could, for example, be argued that the dairy and paper manufacturing industries also benefited at various times from government protection and support. Dairy farmers in the Shoalhaven did well from years of restrictions on domestic trade and foreign imports, and from mandated prices. The Shoalhaven Paper Mill, too, was the beneficiary of active government support and protection, in the form of establishment incentives and trade barriers to competing foreign products.

However, in contrast to the dairy and paper manufacturing industries, the fuel ethanol industry in Australia simply would not exist without the massive levels of government

[110] Algae.Tec was founded in 2008, with offices in Perth and Atlanta, Georgia. The algae production plant in Bomaderry takes a direct feed of carbon dioxide from the ethanol fermenters at the site (Algae.Tec 2011a, 2011b).

assistance it has received since 2000. Government assistance is playing a far greater role in the ethanol industry than in most other industrial sectors in Australia. The Manildra Group not only created a new product after opening its Bomaderry ethanol plant in 1991, it created from scratch a market for ethanol-blended fuel. The company could only achieve this by leveraging huge amounts of financial and legislative assistance from Australian and state governments. How and why this occurred reinforces important points about the relationships between globalisation, public policy and capital. As Chapters One and Two explained, economic neoliberalism dictates that resources should be allocated to their most efficient and productive use, to ensure that economies trade on their strengths and their natural advantages. Unless there are unnatural barriers to the establishment of an industry, governments should not interfere in the operation of the market—or so says the neoliberal songsheet. But the example of the ethanol manufacturing business at Shoalhaven Starches demonstrates that governments are still able to make policies that defy aspects of neoliberalism and globalisation. As for the rationality involved in deciding *when* to defy neoliberalism and globalisation—that is very difficult to discern.

CONCLUSION

The benefits of neoliberal economic policies—from trade liberalisation to microeconomic reform—have been of a generalised nature in Australia, through lower-priced consumer goods, for example. But the negative effects have been highly localised, concentrated within particular industries, enterprises and communities. This thesis is specific to the Shoalhaven region, but its considerations and conclusions are likely to have broader relevance. Globalisation tends to present similar forces, tensions and opportunities in geographically distant locations. It would be surprising if the experience of globalisation in the Shoalhaven was a million miles, so to speak, from experiences in other parts of non-metropolitan Australia, and particularly areas with similar economic and demographic characteristics. As Beer, Maude & Pritchard (2003: xii) note, '[e]ach of Australia's regions is unique, but not so unique that they cannot learn from other places'.

What could other places learn from the Shoalhaven in the era of globalisation? Change in economies and societies is inevitable, but there was nothing inevitable about the particular changes identified in the case studies. Many of the most significant changes came about as a matter of choice—from a desire by the state (and industry) to 'rationalise' and 'globalise' sectors of the Australian economy. Yet, as Harvey (2005) has pointed out, neoliberalism never leads to perfectly orthodox policies by the state. The case studies demonstrate that globalising forces are difficult to accommodate or resist at an enterprise level—but the task becomes a whole lot easier when the government is on your side.

In deregulating the dairy industry, Australian governments thrust Australian dairy farmers into a global market. In the Shoalhaven, small family dairy farms have struggled to survive the onslaught of export-driven pricing, inequitable value chains and a retail duopoly. The closure of the Dairy Farmers factory in Bomaderry in 2006 severed a link with the region's past, and signalled a future in which 'bigger' is almost unquestionably 'better' in dairy farming. Against this background, the establishment of the South Coast Dairy label and a new manufacturing facility in Berry was astonishing, irrational—and a beacon of hope for small agricultural producers everywhere.

Manufacturers in the Shoalhaven have also ridden the wave of globalisation, with highly mixed results. At the Shoalhaven Paper Mill, the removal of government protection and the growth of foreign competition exposed painful truths: that economic rationalism demands economies of scale, and that the Shoalhaven mill was too small to hold its footing in the paper products market. The mill possessed the comparative advantages—expertise, equipment and critical government contracts—to become a high-quality niche producer, but it lacked the volume of production to justify its continued operation. This has worrying implications for the future of manufacturing in the region: if the future lies in high-volume production, can towns the size of Nowra sustain any manufacturing operation?

Perhaps the Shoalhaven region can sustain manufacturing operations, but only under particular—and atypical—circumstances. In contrast to the paper mill, the Shoalhaven Starches plant is riding high, buoyed—at least in part—by budgetary and regulatory support from government. The Manildra Group empire, built on wheat and food products, is enjoying new success through its ethanol operation in Bomaderry. Manildra's ethanol business has succeeded thanks to a set of favourable, highly interventionist industry policies introduced by the Howard government—demonstrating that the state retains the capacity, and the will, to play a very active role in industry development.

Considering these case studies, it might be tempting to conclude that each of these sectors has, at some point, benefited from government largesse, and that the burgeoning ethanol operation at Shoalhaven Starches is simply experiencing the same good fortune that the dairy and paper industries enjoyed in their formative years. Such a conclusion would miss the point of this study: that, in an era of globalisation and the purported loss of state power, the state still possesses—and exercises—the power to intervene in the market, in the interests of local producers or consumers. For the Australian dairy and paper industries, globalisation and the attendant rise of neoliberalism have provided the reason and the means for Australian governments to end industry protection and market intervention. In the Shoalhaven, dairy farmers and the paper manufacturing workforce are now very much on their own. For the ethanol operation at Shoalhaven Starches, however, the tide of globalisation and foreign competition has been held back by the state.

This thesis has demonstrated that governments in Australia still have the capacity and desire to shape how globalisation affects their citizens. Their power to resist or mediate the forces of globalisation might not be as great as Weiss (1998) indicated, but that is largely because of a shared understanding by both major political parties in Australia that, regardless of any tinkering at the policy edges, globalisation will be allowed to roll on. The decisions that governments *do* make in resistance to globalisation might appear very small, but they should not be dismissed as insignificant. On the contrary, they can, and often do, have powerful impacts: within particular towns or regions, in individual enterprises or across entire industries. The neoliberal consensus about globalisation has not removed the capacity of governments to act outside standard neoliberal policy doctrines. That governments choose to take such actions so infrequently, inconsistently and opaquely is the critical point, and the primary point of criticism in this thesis.

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