

A Strategy for Steel and Steel Making Regions

I am making this submission to the Committees Inquiry in my capacity as the Federal Member for Throsby in the Illawarra which is home to Australia's largest steel maker. I firmly believe that Australia should continue to be a country that makes things. We must commit to maintaining and fostering a viable, productive, modern steel making industry and regions in Australia.

Background

The international steel market is facing turmoil. Over the last 15 years the total production has more than doubled moving from 1,060 million metric tonnes in 2000 to 2241 MMT in 2014 with the potential to hit 2361 MMT by 2017. Most of the growth in steelmaking capacity has occurred in non-OECD economies, to support growing construction and manufacturing activity, as well as to help build the infrastructure necessary for the economic development of these emerging economies.

Over the last decade China, responding to the huge demand for steel for its rapid industrialisation and urbanisation has gone from an importer of steel to the world's largest producer. At over 800MMTpa it represents half the world production. The slowdown in its domestic growth this production is being diverted to export markets.¹

This has raised concern amongst steel making countries who are concerned that subsidised steel will flood the world market:

Members discussed the importance of examining ways to address the root causes of trade problems in steel, with a view to supporting fair competition in steel trade and thereby reducing the need to resort to trade defence instruments, thus strengthening the preconditions for growth in the global steel industry. Concerns were raised that a failure to address or halt market distortions will result in subsidised and state-supported enterprises surviving at the expense of efficient companies operating in environments with minimal government support.²

Australia's steel industry – small by international standards, is not immune from this crisis.

Although one of the world's largest exporters of iron ore and metallurgical coal, Australia has a relatively small steel making sector focused on two main smelters owned by BlueScope in Port Kembla which produces 2.52 Mtpa with 22.8% of the market and Arrium (formerly OneSteel) in Whyalla which has 19.2% of the market.

Both businesses have downstream steel processing businesses in addition to the commodity (smelting and casting) businesses.

Both businesses are restructuring to respond to domestic and international pressure. While the future of the industry lies in the companies ensuring they have productive and profitable businesses government has a role to play in supporting Australian jobs.

On 24 August 2015 BlueScope announced a net profit of \$136.3 million, it's best result since 2010 and a \$218.6 million turnaround from a loss the previous year. Guidance issued in February

¹ OECD, [Excess capacity in the global steel industry: The current situation and ways forward](#), January 2015.

² R Nezu, [Statement from Risaburo Nezu, Chairman of the OECD Steel Committee](#), OECD's Steel Committee meeting in Paris on 11-12 May 2015.

indicated a \$230 annual profit was expected by the company. At the same time it advised the ASX and its workforce that it needed to cut \$200 million in costs from its business or it would close its blast furnace and strip mill at Port Kembla. Negotiations with the unions representing the workforce, and the State Government have yielded an agreement. The workforce has been reduced by 500 workers and pay cuts were put in place. The NSW Government has also agreed to a deferral of certain tax payments. The threatened closure of the Port Kembla Blast Furnace was averted.

In similar moves, Arrium has gone through restructuring with 250 jobs lost from its Whyalla steelworks.

The Role of Steel Making in our National Economy

Steel remains a key national and regional employer:

In 2014-15 the industry employed 17,402 people across 1,221 businesses. It generated revenue of \$11 billion including export earnings of \$1.4 billion. BlueScope Steel's market share is 22.8 per cent and Arrium's is 19.2 per cent.³

Regional Economic Issues

BlueScope's steel making business in **Port Kembla** is a major employer, contractor and capital investor in the region. If BlueScope were to exit the steel making business it would lead to the loss of around 5,000 workers. Unemployment for the Illawarra (SA4 at July 2015) is 8.2 per cent, it has consistently hovered at roughly two per cent above the national average over the past decade.

The company's cost saving process, now well advanced, will remove around \$300M from local economy.

Arrium is a diversified mining and steel manufacturing business. Its steel making business is in **Whyalla**, South Australia - a state which has already been significantly affected by the loss of manufacturing jobs. Unemployment in regional South Australia hit a 14 year high, jumping from 6.8 to 8.5 per cent in the last 12 months.

Policy Response

Australian governments should work with steel producers to maintain a resilient domestic steel making industry. This will mean changes for companies and the regions they operate in. In order to successfully adapt, we need a policy for the Steel Industry and a Regional adjustment Package for the Regions affected.

Reform Package – An overt Commitment to Steel Making is needed:

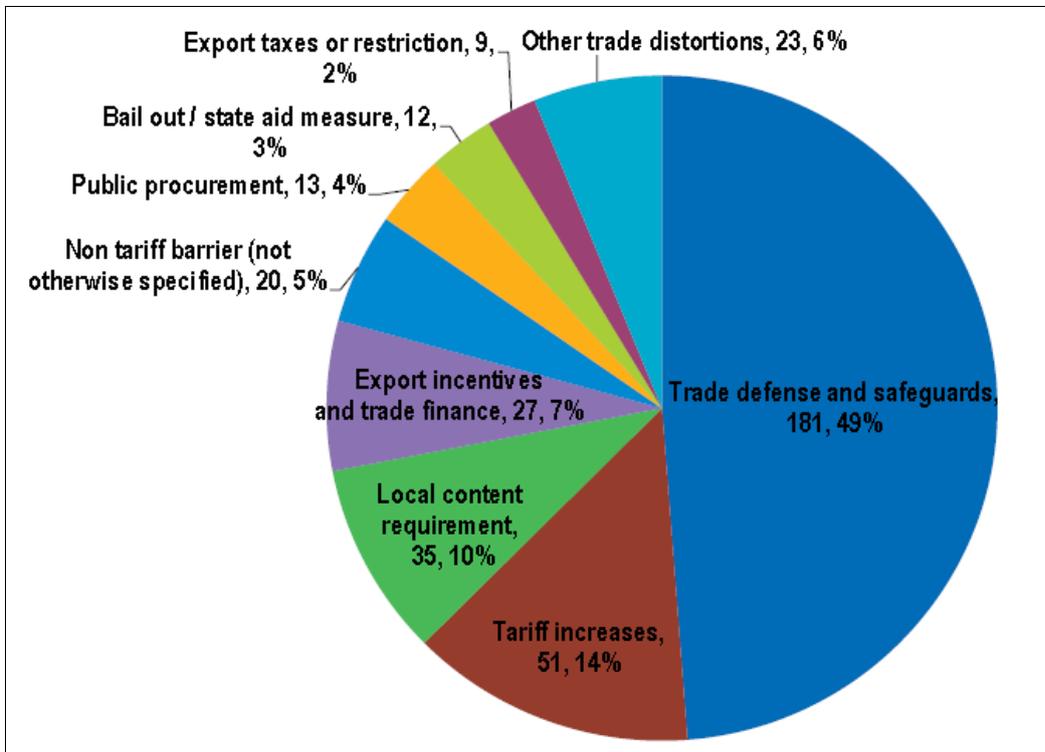
- **A Productive Steel Industry**
 - The Australian Government should have a Steel Industry strategy to ensure we have a modern, productive, and efficient steel industry which is able to produce quality steel at an internationally competitive price.

³ T Wu, *IBISWorld Industry Report C2110: Iron Smelting and Steel Manufacturing in Australia*, June 2015.

- **Tough Stance on Illegal Dumping**

- In government Labor modernised our anti-dumping laws and established a specialist commission to ensure that our industries were protected from dumping. There have been significant developments since that time. United States and Canada, for example, were imposing duties which ranged between 30 and 60 per cent. The OECD reports that there are over 180 ‘trade defence and safeguard’ measures and 190 other measures (including tariff increases, local content requirements and export incentives and trade finance measures) have been introduced.⁴
- The Australian Government should now review the operation of these laws to ensure that they are consistent with our major trading partners.
- The Australian Government must ensure the Anti-Dumping Commission is resourced to do the job it was set up to do.

Policy instruments imposed against foreign suppliers of steel (number and per cent)



Source: OECD Secretariat, [Steel trade policies: Recent measures, disputes and trade distortions in the steel sector](#), 78th Steel Committee Meeting, Paris, 11-12 May 2015.

The Australian Jobs Act

- In Government Labor legislated the *Australian Jobs Act* to ensure that Australian business and workers were not excluded from large infrastructure, mining and government projects. The Turnbull Government is under pressure to repeal this Act and its own Commission of Audit recommended scrapping the body which enforces its

⁴ OECD Secretariat, [Steel trade policies: Recent measures, disputes and trade distortions in the steel sector](#), 78th Steel Committee Meeting, Paris, 11-12 May 2015.

requirements. The Government should re-invigorate this scheme and do what is necessary to save Australian jobs.

- Although the Commonwealth is not a major purchaser of steel it does fund defence industry projects as well as major infrastructure and regional development projects. The Government should establish a structure and process within the Department of Infrastructure, Regional Development and Local Government to work with Steel Industry businesses to maximising local content in Government funded projects.
- **Innovation**
 - The Government should also work with industry and university researchers to fast track the commercialisation of specific projects which have a demonstrable capacity to expand market opportunities and for the Australian steel products.

Supporting our Regions

Without a strong commitment from governments, business and affected communities the restructuring of the Australian steel industry lead to widespread unemployment and business failures. Governments must work with the affected communities to build a viable economic and employment base.

Regional Economic Plan

For the Illawarra this means continuing to build a strong economy that can provide decent jobs and business opportunities. The region has been through significant downturns related to steel and coal industry restructuring in the early 1980s and again in 2011. Policy measures adopted then are instructive.

In 2011 the Government responded to the BlueScope downturn by putting in place a package of support which included:

- \$30 million for the Illawarra Regional Innovation and Investment Fund.
- \$10 million to enable all affected employees (including contractors) to access Stream 3 Labor Market assistance.
- Priority roll-out of the NBN to the Illawarra.

The workforce was also supported by:

Employment opportunities in the mining sector

Specialist labor market assistance which included an employment coordinator for the region.

A similar multi-layered approach is needed:

- A Regional Employment Fund
- A specialist Jobs Co-ordinator.
- A locally based facilitator to work with businesses directly impacted to facilitate access to new opportunities /markets for their goods and services.
- Investment in major capital works

- It is well established that Governments have a role in buffering the economic shocks created by industry restructuring. It is recommended that existing Regional Development funds be re-prioritised to support major capital works in regions impacted by the steel industry restructure. The RDA together with the local councils have several shovel ready projects with significant economic multipliers that should be prioritised for Commonwealth Government investment.
- Public Sector Employment
 - Regions impacted by steel and manufacturing industry job losses should be specifically quarantined from and Public Sector job cuts and prioritised as locations for the relocation of public sector work and employment to the Illawarra.
- NBN – Priority Rollout
 - Recognising the strategic importance to small businesses – particularly home based business and employees who seek to tele-commute the Government must commit to the Illawarra as a priority roll-out zone for the NBN.

Stephen Jones MP
Member for Throsby

16 February 2016