



SUBMISSION 39

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Hon Bruce Baird MP
Chairman
Standing Committee on Economics, Finance and Public Administration
House of Representatives
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

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Dear Chairman

INQUIRY INTO THE STATE OF AUSTRALIA'S MANUFACTURED EXPORT AND IMPORT COMPETING BASE NOW AND BEYOND THE RESOURCES BOOM

Introduction

Thank you for the opportunity to make a submission to this inquiry. BlueScope Steel believes it is important that the contribution of Australia's manufacturing sector to the country's prosperity is recognised and understood, and that the future of the sector is the subject of informed public debate.

We note the Terms of Reference for the inquiry are to examine:

"...the state and future directions of Australia's manufactured export and import competing base, focusing on, but not limited to:

- *Australia's dominance in commodities exports and the impacts of this on the economy following the resources boom;*
- *the state of the country's manufacturing sector (and the goods and associated services) including opportunities and challenges from the expansion in global trade (in particular by China); and*
- *policies for realising these opportunities."* (EFPA inquiry website)

Our submission is broadly structured according to, and in the order of, these Terms of Reference. It also includes introductory and concluding remarks, and some contextual information regarding BlueScope Steel, its operations and markets.

Executive Summary

BlueScope Steel is Australia's global steel company, and the only flat steel products manufacturer in Australia. It is also Australia's largest listed manufacturing company, and a major manufacturing employer and exporter.

BlueScope Steel is a world competitive manufacturer of steel products, and Australia has a range of natural advantages that make it an efficient location in which to manufacture steel. These advantages include some of the world's highest quality iron ore, extensive metallurgical coal deposits, and world-competitive energy supplies. Specific local advantages include the proximity of the Port Kembla Steelworks to a deep-water port, as well as the quality of transport and other infrastructure built up over many decades.

Steel intensive manufacturing has sharply declined in Australia in recent years, with a number of industries in danger of losing critical mass. This decline is reflected by falling sales of BlueScope Steel's products to Australian domestic manufacturing customers.

The decline in steel intensive manufacturing has led BlueScope Steel to seek new markets, including new export markets where prices and margins are typically more volatile.

The benefits of the resources boom for the steel industry are outweighed by rising raw materials costs and an uncompetitive exchange rate.

China is the world's largest producer and consumer of steel, and a growing exporter. China's dominance is at least partially the result of subsidies and other government intervention, which discriminate against Australian steel producers. There is also a fundamental imbalance in tariffs on flat steel products between China and Australia. These distortions and imbalances need to be addressed by Australia in negotiations for a bilateral free trade agreement.

The Federal Government should focus on a revitalised domestic macro and micro economic reform agenda, as well as enhanced industry policy, in order to ensure Australia is a competitive destination for manufacturing investment.

Specific areas for policy attention should include ongoing corporate and personal tax reform, workplace relations, infrastructure regulation and development, skills & training, reducing the regulatory burden on business, ensuring timely and effective anti-dumping laws, competitive pricing of raw materials, and ensuring greenhouse gas regulations do not make Australia's steel industry uncompetitive. Specific industry policy measures include export market development programs, assistance to SMEs to globalise and one-off capital investment assistance.

About BlueScope Steel

BlueScope Steel is Australia's global steel company, and the only flat steel products manufacturer in Australia

BlueScope Steel is one of three publicly listed steel companies in Australia, and the only flat steel products manufacturer. The other two listed steelmakers – OneSteel and Smorgon Steel – are long products manufacturers. Flat steel products include slab, hot rolled coil, and steel roofing, fencing, walling and decking. Long products include structural beams and sections, pipe and tube, rails, wire rope and reinforcing bar.

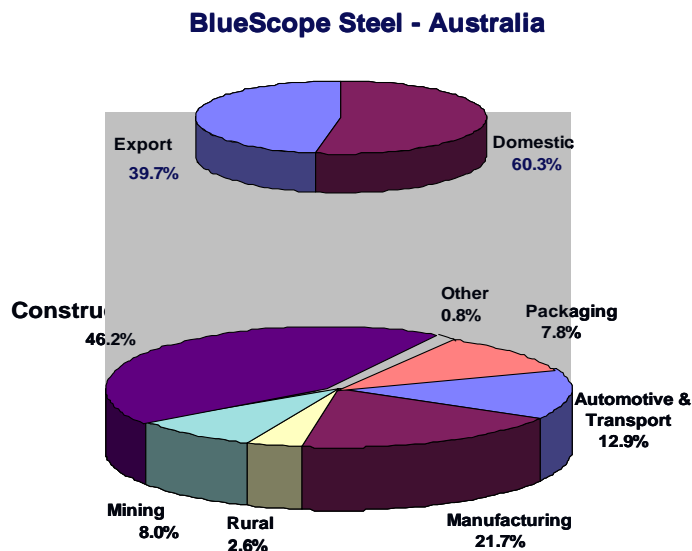
BlueScope Steel has three primary steelmaking plants - in Australia, New Zealand and the United States – as well as approximately 80 midstream and downstream steel manufacturing plants of various sizes in 17 countries.

In the last (2005/06) financial year, BlueScope Steel manufactured 5,283,000 tonnes of raw steel at the Port Kembla Steelworks in Australia, 589,000 tonnes of raw steel at New Zealand Steel, near Auckland, and 961,000 tonnes of steel (50% share of production) at our joint venture plant in Delta, Ohio.

BlueScope Steel's largest manufacturing plant is the Port Kembla Steelworks in the Illawarra region of New South Wales. Port Kembla manufactures iron and steel using the blast furnace steelmaking process, with its principal raw materials being iron ore and coking coal. Iron ore is transported by sea from third party mines in Western Australia, South Australia, Tasmania and Brazil. Coking coal is generally transported to Port Kembla by rail from the adjacent Illawarra coalfields. The Port Kembla Steelworks has two blast furnaces, and the principal products manufactured by the Steelworks are steel slab and hot rolled coil (HRC).

Approximately half of this production is exported, while the other half is further processed through BlueScope Steel's midstream manufacturing operations in New South Wales, Victoria and Queensland, and downstream operations throughout Australia. Products manufactured by these facilities include value-added coated and painted steel products, such as COLORBOND® steel and ZINCALUME® steel, for use in applications in the building and manufacturing sectors, hot rolled products such as hot rolled coil, which are used in engineering, structural and manufacturing applications, and steel building products such as roofing, fencing and trusses.

The following chart provides a breakdown of BlueScope Steel's Australian sales (domestic and export) by dollar value (AUD):



The Western Port plant in Victoria takes as its feedstock steel slab manufactured at Port Kembla, with the capacity to process some 1.4 million tonnes of steel slab per annum. The majority of steel slab is sourced from Port Kembla, and transported to Western Port by the Company's vessel Iron Monarch. A small amount of steel slab is also transported by rail from Port Kembla, and from OneSteel's plant at Whyalla.

BlueScope Steel also operates a network of almost 30 BlueScope Lysaght building products manufacturing plants across Australia, as well as seven Service Centres, which further process our steel products for a range of building and manufacturing customers, and a number of Logistics facilities, such as road-rail and warehousing operations.

The majority of BlueScope Steel's Australian domestic customers are in the building and construction sector, but the Company also sells to customers in key manufacturing segments, such as automotive, industrial packaging and general manufacturing. The Company announced in June 2006 that it would close its tinplating and electrical

steels plants in the Illawarra, after a period of prolonged poor performance. These plants manufacture approximately 120,000 tonnes per annum of tinplate steel for domestic steel can manufacturers, and approximately 10,000 tonnes of electrical steels. These announcements followed the exiting, during 2005, of most export markets for tinplate steel.

BlueScope Steel exports steel products to markets as diverse as the United States, the Caribbean, Indonesia, Thailand, South Korea and Europe. Principal exports are steel slab and HRC, but also include value-added coated and painted steel products. In 2005/06, BlueScope Steel exported 2,792,000 tonnes of steel products from Australia, valued at approximately \$1.25 billion. The major source of exports from Australia is the Port Kembla Steelworks and adjacent Springhill Works, and hence the majority of exports are shipped from ports in New South Wales.

The Company is also Australia's largest manufacturing investor in Asia, with a \$2 billion capital investment program currently underway in that region and the United States.

In Asia and the Pacific, we operate manufacturing plants in 12 countries. These include large, established plants in Thailand, Malaysia and Indonesia, which produce Cold Rolled Coil (in the case of Thailand), and a range of coated and painted steel products, many of which have been specially developed by BlueScope Steel for Asian markets. We also have a network of over 20 BlueScope Lysaght rollforming plants throughout Asia and the Pacific Islands.

BlueScope Steel has 10 plants under construction or recently completed in Asia. Major investments include a recently commissioned \$160 million metallic coating and painting facility near Ho Chi Minh City, Vietnam, and a \$280 million metallic coating and painting plant near Shanghai, China.

In the United States, in addition to the Delta, Ohio plant the Company operates three other businesses. Butler is the leading producer of pre-engineered steel buildings in the United States and China. Vistawall manufactures aluminium and glass architectural products. Castrip is a joint venture company commercialising new 'thin strip' steel casting technology.

BlueScope Steel's economic contribution

BlueScope Steel is Australia's largest listed manufacturing company, and a major manufacturing employer and exporter

BlueScope Steel employs about 18,400 people worldwide, of which about 8,400 are in Australia. Operations in the Illawarra region in NSW employ approximately 5,000 full time equivalent employees.

In Australia, during the course of over two decades of economic liberalisation, BlueScope Steel has worked hard to modernise our business, continually improve its competitiveness and adapt to the demands of competing in one of the world's most open markets. During this period the Company has invested heavily in new technology, new products and in improving the skills of our workforce.

BlueScope Steel continues to invest in Australia, in order to ensure our business remains a competitive, quality supplier into the future. For example, the Company has recently completed a \$100 million investment to install a second reheat furnace at its Port Kembla Hot Strip Mill, increasing production capacity by some 400,000 tonnes of hot rolled coil per annum. The Company is currently considering a further investment of around \$300 million to reline one of two blast furnaces at Port Kembla.

In November 2005, the Company opened a new Service Centre at Forrestfield, in Perth. And in March 2007, production is scheduled to commence at BlueScope Steel's new \$150 million Service Centre at Erskine Park, in Western Sydney, which will manufacture COLORBOND® steel.

BlueScope Steel has also diversified its Australian domestic markets by developing new applications for steel, such as the design, manufacture and installation of rainwater harvesting systems and water infrastructure products, to meet the growing demand to conserve water in Australia.

We have also expanded graduate, cadet and apprentice recruitment and training schemes, as well as investing in training for existing employees.

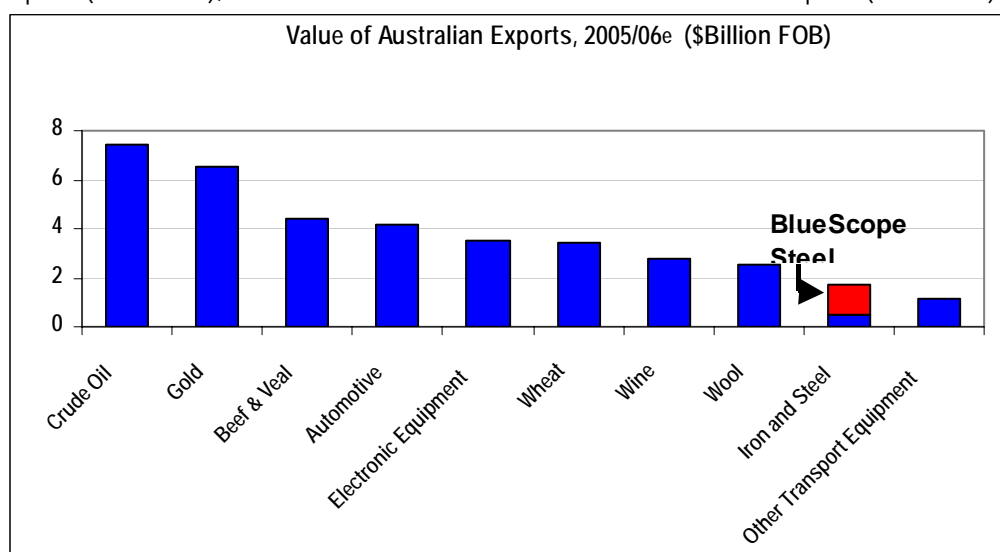
The statistics in the table below provide an indication of BlueScope Steel's economic contribution in Australia (all data is for the 2005/06 financial year):

Sales revenue	Wages & benefits	Company tax	Payments to suppliers	Dividends	Exports
\$5.2 billion	\$866 million	\$293 million	\$1.5 billion	\$453 million	\$1.25 billion

Research conducted for BlueScope Steel in 2004 indicated the Company's economic contribution to the Illawarra region was \$1.8 billion in Gross Regional Product, \$890 million in household income and over 16,000 full time jobs¹. BlueScope Steel was also estimated to be responsible for between 10.8% and 16.6% of all economic activity in the Illawarra.

Steel manufacturing itself comprises 5.8 per cent of manufacturing value added in Australia, while industries that use steel inputs and components comprise 23.2 per cent of manufacturing value added².

In terms of exports, as the graph below shows, exports of iron and steel products from Australia, of which BlueScope Steel's exports are the major component, exceeded \$1.7 billion in 2005/06. This is equivalent to approximately two-thirds of the value of Australia's wool exports (\$2.6 billion), 60% of the value of Australia's wine exports (\$2.8 billion), or about 40% of the value of Australia's automotive exports (\$4.1 billion).



Source: ABARE and FAPM data

¹ Illawarra Regional Information Service (IRIS) research conducted in 2004.

² BlueScope Steel Economics, using Australian Bureau of Statistics data

Economic rationale for an Australian steel industry

BlueScope Steel is a world competitive manufacturer of steel products

Australia is endowed with a number of natural advantages that make it an efficient location in which to manufacture steel. For example, Australia has some of the world's highest quality iron ore, extensive metallurgical coal deposits, and world-competitive energy supplies – all essential ingredients for blast furnace steelmaking and a large proportion of steelmakers' costs. Specific local advantages include the proximity of the Port Kembla Steelworks to a deep-water port, as well as the quality of transport and other infrastructure built up over many decades. As a result, the Port Kembla Steelworks is in the lowest cost quartile of global slab and hot rolled coil producers³.

While countries such as China and India maintain a labour cost advantage over Australia, as raw material prices have risen over recent years, the cost of labour has become relatively less important as a component of overall steelmaking costs. For example, prior to the current resources boom, production costs for steel slab would typically have comprised in the order of 25 per cent raw material costs, and 75 per cent other costs, including labour and depreciation. Recent price rises for raw materials (including a cumulative 185 per cent price rise for iron ore in the period 2004-2006) mean that today raw materials typically comprise in the order of 65 per cent of steelmakers' costs, with labour and other costs comprising 35 per cent.

In this environment, ready access to high quality, competitively priced raw materials is relatively more important to steelmakers' overall costs than labour costs. In fact, those steelmakers with a cost advantage are typically those who are vertically integrated with access to their own captive raw material sources, or those who have lower shipping and transport costs in obtaining their raw materials from third party suppliers. Steelmakers in countries such as China, with low labour costs but without local deposits of high quality iron ore, are seeing their relative competitiveness reduced by these factors.

Commentators and policy makers sometimes suggest Australia lacks comparative advantage in relation to manufactured products, and therefore government policy should be directed to encouraging sectors in which we do enjoy comparative advantage, such as resources and agriculture. It is important, however, that such overly generalised statements are not taken at face value, and that policymakers understand Australia does enjoy comparative advantage in relation to certain manufacturing industries, such as steelmaking.

BlueScope Steel accepts that an important focus of industry policy is to support emerging industries and firms, where such firms have the potential to make a longer-term net positive contribution to the nation's economic welfare. We also believe, however, that there is a need for industry policy to encourage existing firms that are already demonstrably successful (as measured, for example, by successful export performance), but face markets that are significantly affected by trade barriers and other distortions. While BlueScope Steel continues to pursue exports in an extremely competitive global environment, it is evident that exports from some developing countries, such as China, are being supported and protected by subsidies and tariffs. For example, while China applies tariffs of up to eight per cent on flat steel imports from Australia, most flat steel imports from China can enter Australia tariff-free. In this environment, the pursuit of effective trade and industry policies by Government will be important in ensuring ongoing export success for Australian steelmakers.

³ Source: D Barnett and BlueScope Steel

The Australian manufacturing sector and BlueScope Steel

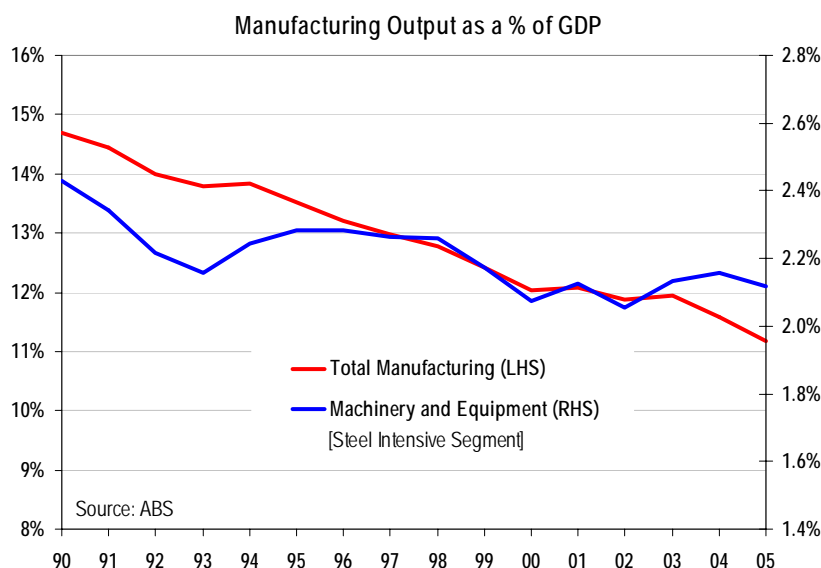
Steel intensive manufacturing has been sharply declining in Australia, with a number of industries in danger of losing critical mass

BlueScope Steel supports the Prime Minister's view that a decline in Australia's manufacturing sector is not desirable, and that:

"Manufacturing has always been at the heart of the Australian economic experience, and it must remain at the heart of our economic experience and our economic outlook. I do not believe in an Australia with a steadily diminishing contribution from manufacturing industry to the nation's future and the nation's wealth" (Comments by the Prime Minister at Ford Australia, May 2006)

Despite the current resources boom, manufacturing remains the largest sector of the Australian economy, accounting for about 13% of annual value-added activity⁴. Manufacturing also employs about 1 million Australians, is the largest source of private sector research and development expenditure, and accounts for the largest share of merchandise exports by industry of origin⁵.

Nevertheless, manufacturing's relative share of Australia's economy has fallen in recent years, as activity in other industry sectors (including sales and exports) has grown more quickly than manufacturing. Manufacturing's share of the economy has fallen from 18% of GDP two decades ago, and from 15% one decade ago⁶, as indicated by the chart below. And in 2004/05, the sector's sales volume fell for the first time since the early 1990s⁷.



Of particular concern to BlueScope Steel, manufacture of 'steel-intensive' products – that is, manufactured products in which steel is a significant component - has fallen sharply over the past decade. Significant events in this decline include the recent transfer off-shore of some white goods manufacturing, market share loss amongst Australian-made hot water systems to imported alternatives, cessation of local manufacture of hardware goods,

⁴ Australian Industry Group, *Manufacturing Futures* report, April 2006. Excludes ownership of property.

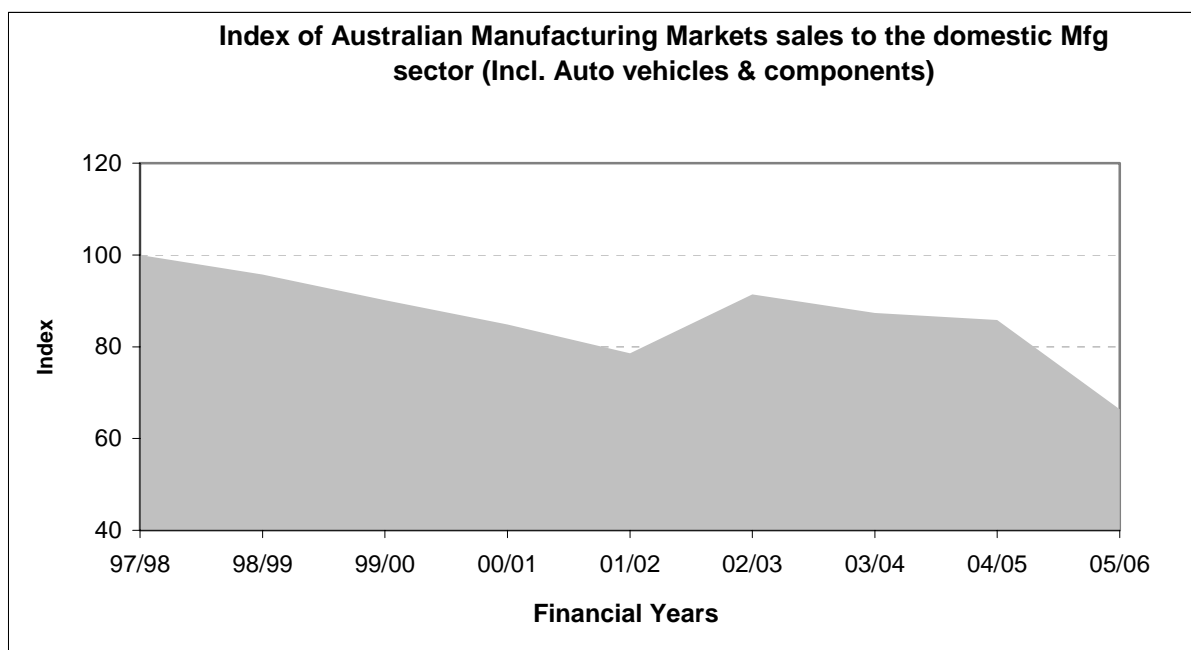
⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

household air conditioners, barbeques, baths and small kitchen appliances, inter-material losses and losses to imports in a range of industrial bulk containers, and the ongoing evidence of closures and off-shoring of automotive component manufacturing. Imports of subsidised packaged foodstuffs, from regions such as the European Union, have also had a negative impact on BlueScope Steel's tinplate manufacturing plant.

This decline in steel-intensive manufacturing is reflected in falling sales by BlueScope Steel to Australian manufacturing customers. The chart below shows sales to manufacturing customers – both direct and indirect (i.e. via intermediaries such as distributors) – from 1997/98 to the last (2005/06) financial year. The change in sales volume (tonnes) to the sector over this period is shown relative to a base year index of 100 in 1997/98.



In the last twelve months (2005/06) sales to the Australian manufacturing sector by BlueScope Steel continued to decline, due to higher levels of steel imports (at least partially precipitated by the fire and consequent loss of production at BlueScope Steel's Western Port plant), the decision by the Company to exit electrical steels, and further losses in sales as domestic manufacturing capacity closes or moves off-shore. Key events in the last twelve months include:

- Cessation of local manufacturing of brakes, rims and jacks for the automotive sector;
- Movement off-shore of the production of high labour intensity components and simply transformed manufactures, such as wheelbarrows, ironing boards, clothes lines and children's play equipment;
- Loss of market share to imports amongst local manufacturers of steel shelving, racking and office furniture; and
- Further losses in the industrial bulk container market as some oil refining moves offshore.

The following table shows the growth in imports of a range of simply transformed steel manufactured goods:

Simply transformed steel manufactured imports

Thousand tonnes (weight)

	12 months to May 2005	12 months to May 2006	% Change
Cast iron pipe & tube	36.3	32.7	-10%
Structures	110.5	128.3	16%
Tanks >300 litre	4.5	4.5	0%
Tanks <300 litre	6.0	8.4	41%
Containers compressed gas	10.2	9.6	-6%
Grill, netting, fencing	17.3	29.8	72%
Anchors, grapnels	1.1	1.4	31%
Nails, staples	20.3	19.6	-4%
Stoves, ranges	56.8	52.8	-7%
Radiators	2.4	3.3	35%
Kitchen ware	32.2	34.2	6%
Sanitary ware	5.5	6.1	12%
Other cast iron	44.1	43.4	-1%
Other iron & steel inc. forgings	115.9	137.6	19%
	463.1	511.9	10%

In June 2006, BlueScope Steel announced it would close Australia's only tinplate manufacturing plant, at Port Kembla. Domestic manufacturers – such as Visy, Amcor and NCI - use tinplate to produce steel cans for use in a wide range of food and beverage, hardware and consumer goods applications. The plant became unprofitable and unviable, as a result of significant increases in raw material costs, combined with a steep falls in sales volumes. The fall in sales was due to a combination of factors, including stronger competition from alternative packaging materials, changing consumer preferences and large retail grocers shifting to imports of low-cost canned food, which has been packaged offshore.

In the pipe and tube market, imports – particularly from China – contributed to the closure of Smorgon Steel's pipe and tube mill at Sunshine, near Melbourne.

Loss of critical mass in key manufacturing sectors is of particular concern to BlueScope Steel, given the symbiotic nature of the relationship between local steel manufacturers and their downstream manufacturing customers. For example, BlueScope Steel is the only manufacturer of flat steel products for Australia's automotive sector, supplying steel products to each of the four vehicle assemblers as well as a large number of automotive component manufacturers. BlueScope Steel's Western Port plant, in Victoria, has undertaken large investments over many years in order to maintain its position as the sole Australian manufacturer of a range of specialised coated and uncoated steel products for automotive customers. The Company has also established downstream Service Centres at Sunshine and Braeside in Victoria, and Wingfield in South Australia, primarily to service automotive customers.

Nevertheless, in global terms the Company is a small producer for the automotive sector. Supplying steel to this sector requires continual investment in upgrading processes and in new steel products in order to meet the ever-tightening standards of the globalised auto industry. It is very important that the local industry maintains critical mass – without it, BlueScope Steel would find it difficult to continue to invest to meet the demanding requirements of the sector. And a local automotive industry would, in turn, be difficult to maintain without a local steel producer.

Consequences of the decline in steel intensive manufacturing

The decline of steel intensive manufacturing has led BlueScope Steel to seek new markets, including export markets where prices and margins are more volatile

Since the Company's public listing in 2002, BlueScope Steel's raw steel production capacity in Australia has remained relatively constant, in the range of 5.0 to 5.3 million tonnes per annum. Where increases in raw steel production have taken place, these have been as a result of incremental expansion in order to ensure the Port Kembla Steelworks maintains global scale, incremental investment to feed an expansion in downstream steel processing (for the building and construction sector), and fine-tuning of upstream steel production processes.

As mentioned, the largest single market for BlueScope Steel in Australia is the building and construction sector. Sales to this sector have remained healthy in recent years, largely underpinned by strong residential, industrial and retail building activity.

Declining sales to the Australian manufacturing sector have driven three outcomes for BlueScope Steel:

- 1) The Company has sought to develop new applications for steel products;
- 2) An increased proportion of Australian production has been redirected to the domestic building & construction sector; and
- 3) The Company has exported a greater proportion of its Australian production.

New applications for steel are being pursued in both building and construction and manufacturing markets. For example, in Western Australia the Company has worked with developers to introduce a complete steel roofing, truss, guttering and fascia system for new houses. This solution provides many advantages over traditional roofing and framing materials, including lighter weight, greater spanning capacity, long life and resistance to warping and pest infiltration.

The Company has also developed a unique blue resin surface coated steel framing product for residential use, called TRUECORE®. Again, this solution provides considerable advantages over traditional framing materials, including being pre-engineered offsite to tight tolerances, ease of erection, and long life.

In the infrastructure sector, BlueScope Steel has developed a unique steel power pole and cross-arm system (SURELINE®) for electricity infrastructure providers.

In response to growing awareness of water as a precious resource, the Company has developed a range of steel-based solutions to harvest, conserve and re-use water. In 2004, the Company established BlueScope Water – an important start-up business manufacturing, marketing and installing Australian-made rainwater harvesting and irrigation products. The foundation for this business is the Company's many years of experience supplying steel-based products to our customers for the manufacture of rainwater tanks.

BlueScope Water is working with councils, developers, architects and others to introduce rainwater-harvesting solutions for both new and existing buildings. BlueScope Water is also developing products to modernise irrigation and stormwater infrastructure. Governments at all levels have an important role to play in this sector, through measures such as the mandating of water conservation measures, and by providing incentives to industry and consumers, such as rebates for the installation of water saving products.

Increasing the proportion of sales to the domestic building and construction sector means the Company is more exposed to the building and construction cycle, resulting in more volatile financial performance. Such volatility is less conducive to long-term capital investment and can make it difficult to attract skilled labour pool during periods of market contraction.

While developing new markets for steel products in Australia is important, nevertheless the major impact of the decline in steel intensive manufacturing has been to see BlueScope Steel export a greater proportion of its Australian steel production. In the last (2005/06) financial year, BlueScope Steel increased its exports of steel products from Australia by approximately 50 per cent. Export despatches from Australia grew from 1,854,000 tonnes in 2004/05 to 2,792,000 tonnes in 2005/06.

The relative decline in Australian manufacturing markets, and the unprofitable nature of some product lines due to dwindling sales volumes (such as tinplate), has meant that rather than further processing slab and hot rolled coil to produce midstream coated and painted steel products for manufacturing customers, the Company has had to divert increasing volumes of upstream slab and hot rolled coil to export markets. Approximately half (54 per cent) of BlueScope Steel's Australian steel production is now exported. This is a higher proportion of exports than most top 40 steel companies in the world⁸. It is also equivalent to approximately half the total volume of steel exports from Canada, India or Mexico, and about one-third of the total export volume of the entire United States steel industry (7.3 million tonnes per annum)⁹.

While growing exports of steel products make a positive contribution to the nation's current account, there are a number of downsides for BlueScope Steel of such a large export exposure. International prices for commodity steel products such as slab and hot rolled coil are typically lower, and more volatile, than prices for downstream steel products sold in Australia. The volatility of export markets makes it more difficult to justify new capital investment in Australia. Exports are subject to the rapidly increasing cost of sea freight – another consequence of the current resources boom. BlueScope Steel's exports also compete in markets that are distorted by large tariff and non-tariff barriers, and against steel products from countries that heavily subsidise their steel industries.

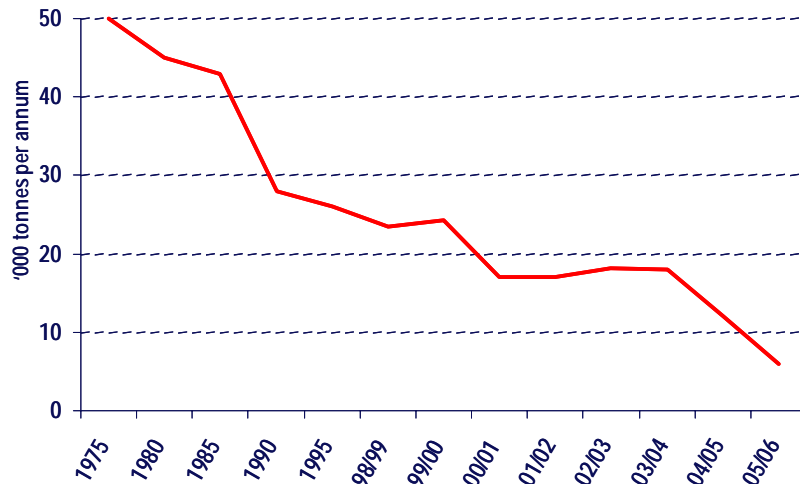
Declining sales to the manufacturing sector also leads to declining scale economies in certain products lines, particularly in cases where the Company is making unique, specialty steel products only suitable for manufacturing customers (such as certain products for the automotive sector). Declining scale economies has a negative impact on margins, as was seen in the recent announcement that the Company will close its tin plate manufacturing plant, and can ultimately result in stranded assets, such as plant and equipment, which cannot be productively employed to service other sectors. Such plant and equipment is then likely to be closed and sold (often to foreign buyers) meaning it is unlikely ever to be re-established in Australia.

The chart below shows the decline in electrical steels production at our Port Kembla Steelworks. Electrical steel is used in the manufacture of laminations and transformers. The progressive loss of volume to imported goods from low cost producers such as Eastern Europe and China gradually caused some local manufacturers to transfer operations offshore, in order to capitalise on reduced labour costs or move closer to their market. The continued reduction in sales volumes to this market meant unit costs increased until electrical steels were no longer viable, leading to BlueScope Steel's decision to cease manufacture in February 2006.

⁸ BlueScope Steel is the thirty-seventh largest steel company in the world measured by tonnes of crude steel production (IISI, *World Steel in Figures 2006*).

⁹ *Ibid*, 'Major Importers and Exporters of Steel 2004', p.12

Sales of electrical steels (tonnes)



There is no doubt that off-shoring of manufacturing and component sourcing can result in lower prices for Australian consumers for a range of manufactured goods. This includes goods in which other countries enjoy comparative advantage, goods that can be shipped cost-effectively relative to their value, and Australian-assembled finished goods whose prices are more competitive as a result of imported inputs. Even in cases where another country's cost competitiveness is underpinned by subsidies or other supports, consumers in Australia can benefit from lower prices - in effect, a wealth transfer from governments and their populations in producer countries to consumers in Australia. In third country markets, however, subsidised exports provide little or no benefit to Australian consumers, while resulting in lower earnings for Australian steelmakers and reduced returns to their (largely Australian) shareholders.

Once manufacturing is transferred offshore it is unlikely to be recovered by local producers in the future, meaning that these value-adding and employment opportunities are lost forever. To the extent that imported steel inputs replace locally manufactured steel inputs, value adding of Australian natural resources such as coal and iron ore is carried out off-shore, rather than in Australia.

For BlueScope Steel, the costs of the closure of Australian manufacturing capacity can be measured in terms of loss of domestic markets for our steel products, and lower returns as these products are diverted to alternative markets, such as export. As discussed, export markets for steel products are typically more volatile and insecure than domestic markets and, as a result, exports tend to rise when demand falls in domestic markets, and contract when domestic demand expands.

For the nation, costs include the loss of jobs from manufacturing closures and associated transfer payments from government.

Maintenance of a domestic steel industry is also an important consideration if Australia wishes to maintain a domestic defence equipment manufacturing industry. BlueScope Steel provides steel products, such as steel plate, to defence contractors, for use in a range of applications including ships and armoured vehicles. In a similar manner to the automotive industry, the competitiveness of, and rationale for, domestic manufacture of many defence products would be likely to decline without access to a domestic steel supplier.

Impact of the current resources boom

The benefits of the resources boom for the steel industry are outweighed by rising raw materials costs and an uncompetitive exchange rate

In terms of the specific impact of the current resources boom, one of the most critical and negative impacts for manufacturing exporters has been the upward pressure the boom has placed on the Australian dollar exchange rate. A persistently strong Australian dollar has a range of negative impacts on BlueScope Steel, including reducing the competitiveness of our Australian manufacturing customers' exports.

A one cent movement in the Australian dollar / US dollar exchange rate has an A\$10 million impact on BlueScope Steel's full year earnings before interest and tax (EBIT)¹⁰. So, for example, a ten cent appreciation of the Australian dollar in relation to the US dollar would reduce BlueScope Steel's full year earnings by A\$100 million. The average Australian dollar / US dollar exchange rate for BlueScope Steel has increased by over 40% in the last five years, from 52.37 cents in 2001/02 to 74.74 cents in 2005/06. The sharpest increase during this period was between 2002/03 and 2003/04, when the average exchange rate jumped from 58.46 cents to 71.36 cents.

A second, and undoubtedly very important impact of the resources boom, has been the exponential increase in the cost of key steelmaking raw materials. Since 2004, the steel industry has had to absorb iron ore price increases of forty, seventy-one, and nineteen per cent year-on-year. There is no doubt that cost increases of this magnitude are having a serious, inflationary effect on the steel industry, and therefore on costs in the wider manufacturing sector.

As mentioned, the resources boom has also placed upward pressure on transport costs, particularly sea-freight costs. And it has resulted in upward pressure on wages in manufacturing, as scarce skilled labour has been drawn to resources projects.

On the upside, the resources boom has led to increased demand for BlueScope Steel's products in selected sectors and applications. Mining equipment, machinery and structures contribute approximately 17% of sales volume (tonnes) for BlueScope Steel's Industrial Markets business, and about 2% of sales volume for the Company's Australian Manufacturing Markets business¹¹.

Increased mining activity also stimulates regional and capital city building and construction activity in states with large resources bases; namely Western Australia and, to a lesser extent, Queensland. This demand is generally relatively short lived, however, largely taking place during the construction phase of any new resources project and not generally sustained once a project is commissioned.

Specific Australian domestic sales segments boosted by the resources boom include:

- Mining rock bolts;
- Large mining sheds and buildings;
- Mining transport, such as truck trays, and specialised vehicles;
- Relocatable housing and offices
- Mining equipment, such as draglines, earth moving equipment, screens, crushers and shakers
- Mining infrastructure, such as culverts, bridges and road furniture
- Material handling equipment, such as conveyors, bins and chutes.

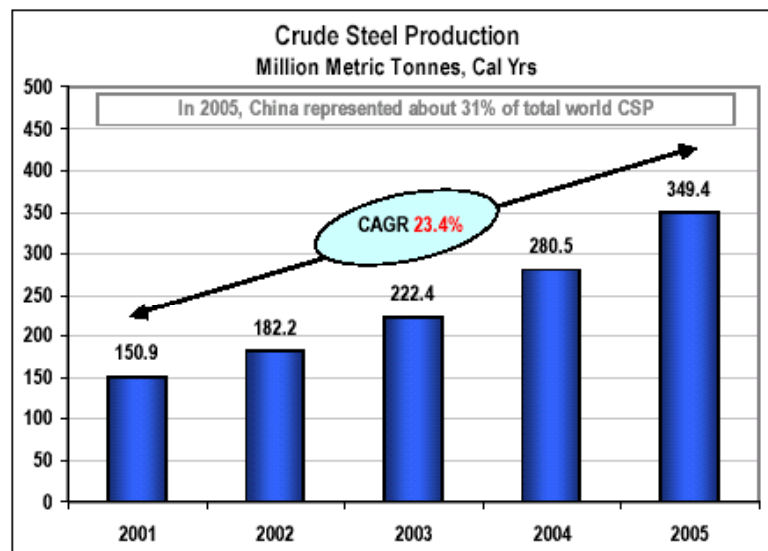
¹⁰ See BlueScope Steel full-year financial results presentation, 21 August 2006.

¹¹ BlueScope Steel, 2004 data.

The rise of China

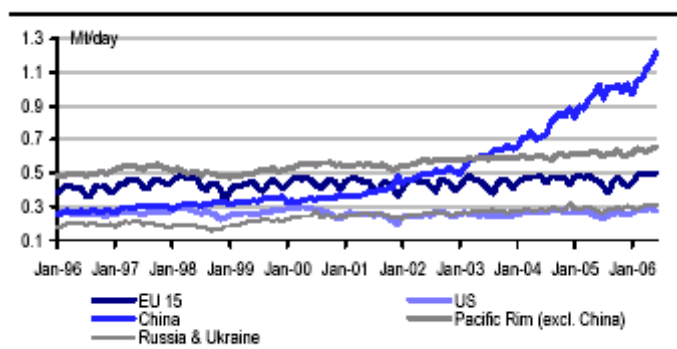
China is the world's largest producer of steel and a growing exporter. China's dominance is at least partially the result of subsidies and other government intervention, which discriminate against Australian steel producers

The steel industry is an imperfect market, characterised by extensive subsidies and other government intervention, and by the overwhelming size and increasing power of one country's steel industry – China. The Chinese steel industry is now bigger than the four next largest steel industries – those of Japan, the United States, Russia and South Korea – combined. And the Chinese steel industry's growth rate has been spectacular, growing from about 150 million tonnes per annum in 2001 to 349 million tonnes in 2005¹² (the Australian steel industry produces 7.5 million tonnes per annum).



Already, in the six months to June 2006, Chinese steel production has reached 199 million tonnes, some 18% higher than for the same period in 2005¹³. This suggests that the Chinese steel industry in 2006 is likely to exceed forecasts and comfortably produce in the order of 400 million tonnes. This growth in Chinese productive capacity has only been possible with extensive government support, as is documented later in this submission.

Chart 6: Steel production by region to June 2006 in million tonnes per day



Source: IISI

¹² Source: IISI

¹³ IISI

The sheer size of China's steel industry could pose a real threat to the ongoing viability of steel producers in a range of countries, especially if China's domestic economy slows and its steel industry becomes a large net exporter of steel products.

As recently as 2004, China was a net importer of steel products (some 13.1 million tonnes¹⁴) – as at June 2006, it is estimated that China is a net exporter of steel products, albeit small, at some 430,000 tonnes¹⁵. These aggregate numbers mask the fact that in some products, Chinese exports have been growing strongly and are having a significant impact on markets such as Australia. For example, in the structural pipe & tube segment (circular hollow sections), imports have grown from 11,000 tonnes in 1997 to 68,000 tonnes in 2005¹⁶. Approximately 60% of these imports are from China, and imports are placing significant pressure on Australian pipe & tube manufacturers, who are BlueScope Steel's customers. The impact for BlueScope Steel is loss of market share for the Hot Rolled Coil feedstock it supplies to domestic pipe and tube manufacturers, and diversion of this Hot Rolled Coil to less profitable export markets.

There is no doubt the rise of China presents both opportunities and challenges for the Australian steel industry and BlueScope Steel. BlueScope Steel is Australia's largest investor in China and a business with a long history of trade with China over nearly a century. Today, our businesses in China manufacture downstream, value-added steel products for the Chinese building and construction industry. They include high quality coated and painted steel building products, used in a range of exterior and interior applications in sports facilities, office towers, warehouses, factories, other public infrastructure and housing. Our strategy is a multi-domestic one – that is, BlueScope Steel manufactures in-country in Asia (including in China) primarily to supply these countries' domestic markets.

The Company operates four LYSAGHT® building products manufacturing plants at Shanghai (Pudong); Guangzhou; Langfang (near Beijing); and Chengdu. In 2004, the Company purchased Butler Manufacturing, the market leading pre-engineered steel building (PEB) manufacturer in China and the United States. With this acquisition the Company's operations in China grew to include two PEB manufacturing plants at Tianjin and Shanghai.

BlueScope Steel is currently constructing a major new flat steel metallic coating and painting plant, an investment of about A\$280 million. Construction began in April 2004, in the Suzhou Industrial Park about 80 kilometres west of Shanghai, and the plant is currently ramping up to full capacity.

The Company also has an extensive network of sales offices, with offices in nearly every province. BlueScope Steel currently employs about 2,000 people in China.

In addition to the opportunities created by the rise of China, there are a number of challenges for Australia's steel industry and manufacturing sector.

Key, stated objectives of Chinese Government policy are to develop an internationally competitive steel industry that is capable of supplying China's needs in all types of steel products, and to place limits on foreign ownership. It is important to understand this policy of self-sufficiency and national protectionism when contemplating the likelihood of the Australian steel industry deriving significant commercial benefits from a free trade agreement (FTA) with China.

¹⁴ IISI, *World Steel in Figures 2006*

¹⁵ World Steel Dynamics, *Global Steel Alert #28*, 19 July 2006

¹⁶ ABS import data

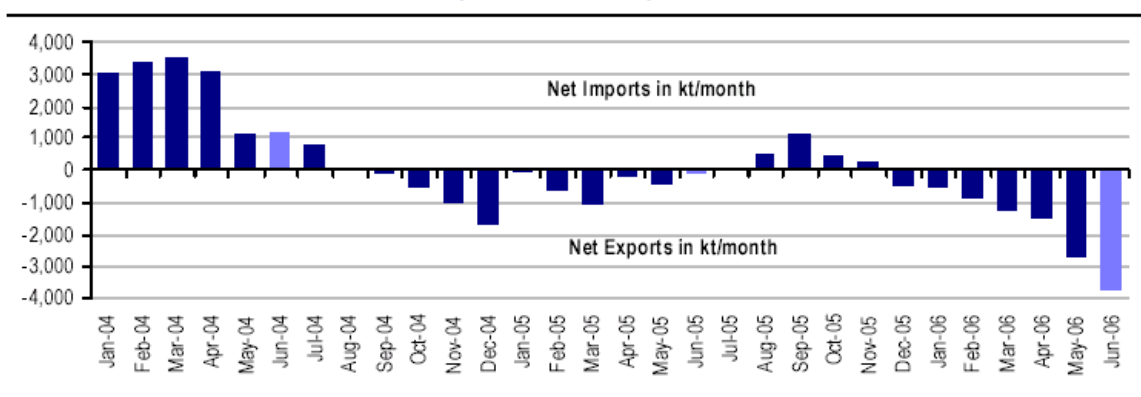
Indeed, calls for further restrictions on foreign ownership in the Chinese steel industry are growing. For example, China's steel association (CISA) has this month called for more stringent restrictions on foreign investment and on large foreign producers in particular entering the Chinese market. Luo Bingsheng, vice president and general secretary of CISA, was quoted as saying that thresholds for entry into the Chinese domestic steel industry should be lifted further to ensure the main steelmakers in China continue to be Chinese-owned¹⁷.

There is also evidence that China follows a mercantilist policy of building up its steel industry as a 'national champion' by using a variety of subsidies and other supports. A recent US report has catalogued these direct and indirect government benefits as including cash grants, land grants at a fraction of market value, transfers of ownership on non-commercial terms, conversion of debt to equity in steel producers, debt forgiveness and inaction regarding non-performing loans, preferential loans and directed credit, and manipulation of the Chinese currency (RMB)¹⁸.

The report's authors argue that:

"Between 1998 and 2005, China's steel exports more than quadrupled, as China established itself as one of the world's leading exporters. This explosive growth in both production and exports would not have been possible without the support of the Chinese government... The Chinese steel industry continues to be primarily state-owned. The Chinese government intervenes directly and extensively in the steel industry, and retains a high degree of decision making authority over its development."¹⁹

Chart: China's transition from net importer to net exporter of steel



Source: Chinese Customs Statistics

Unfortunately, China's central government has been unsuccessful in reigning in the growth in steel production capacity. According to media reports, China's National Development and Reform Commission has recently cleared some steel expansion projects that were previously suspended, which could see China's annual steel production in calendar 2006 reach as high as 446 million tonnes.²⁰

One result of Chinese subsidies is that BlueScope Steel has seen examples of steel intensive manufactured goods imported into Australia at less than the cost of the steel inputs that go into making them. Given these inputs, such as Hot Rolled Coil, are generally internationally traded commodities with prices set on global

¹⁷ 'CISA calls for tighter rules on foreign participation in industry', in *Steel Week*, Vol 12 No 22, 4 August 2006

¹⁸ Alan H Price et al, *The China Syndrome: How subsidies and government intervention created the world's largest steel industry*, Wiley Rein & Fielding LLP, July 2006

¹⁹ Ibid, p.iii

²⁰ *Metal Bulletin*, 25 August 2006

markets, it is difficult to understand how such pricing is possible, unless subsidies or other distortions are involved.

Relative to Australia, many Chinese companies operate according to lower safety and environmental standards – either because laws are less stringent, or because enforcement is weaker. While BlueScope Steel does not resile from its commitment to the highest safety and environment standards in all the countries in which we operate²¹, nevertheless it must be acknowledged that lower standards in China result in lower costs for many of our competitors, providing them with another source of competitive advantage.

There is also a significant imbalance in steel tariffs between the two countries. The Australian steel industry has very low levels of tariff protection, and negligible government support. In fact, most flat steel products are able to enter Australia from China tariff-free. By contrast, Australian steel companies face tariffs of up to eight per cent, if they choose to export flat steel products to China. In a highly competitive global market, with narrow margins, this is enough to make Australian steel products uncompetitive and unprofitable in China.

BlueScope Steel certainly supports the legitimate aspirations of China to modernise its economy and raise living standards for its people. But it is hard to argue that China is a developing country in relation to its steel industry, which is almost fifty times larger than Australia's.

In the context of a free trade agreement with China, therefore, BlueScope Steel has significant concerns about the disparity between the very open Australian market, characterised by negligible tariffs, trade barriers and government intervention, and the distorted Chinese market, characterised by higher tariffs and trade barriers, extensive government intervention and ownership, and a range of overt and covert subsidies to steel manufacturers, both state-owned and private.

BlueScope Steel supports free trade, open markets and the elimination of subsidies and other market distorting interventions by governments. We have, for example, been a strong supporter of the process currently being facilitated by the OECD to eliminate subsidies and introduce market discipline to the global steel industry. BlueScope Steel was also a strong supporter of the Australia – US Free Trade Agreement, chairing a key pro-FTA lobby group and publicly voicing our support for the agreement on a number of occasions.

However, in relation to an FTA with China, we have very real concern about the potential for subsidised Chinese steel products and other manufactures to swamp open markets such as Australia's.

Policies to support Australian manufacturing in realising market opportunities

Government should focus on a revitalised domestic economic reform agenda, as well as enhanced industry policy development

One of the perennial criticisms of industry policy is that it amounts to 'picking winners' and that markets, not governments, are better at determining which companies and industries are likely to succeed and which are not. In the case of firms that are already demonstrably winners (in that, for example, they have a successful record of profitably exporting and winning markets) this dilemma would seem to be less important. Indeed, it could be argued that encouragement for such firms amounts not to picking winners, but to helping winners do even better

²¹ BlueScope Steel has one of the best safety records in the global steel industry. In the 2005/06 financial year, the Company had a global lost time injury frequency rate (LTIFR) of 0.8 injuries per million hours worked. This compared to the average for companies that are members of the International Iron & Steel Institute of approximately 10 injuries per million hours worked. The Company's Asian operations were amongst its safest, with our Asian Building & Manufacturing Markets achieving an LTIFR of 0.05 injuries per million hours worked.

(an adage firmly adopted in Australia's support for talented sportspeople via such government funded institutions as the Australian Institute of Sport). BlueScope Steel agrees with the Government's own recent Global Integration paper, which states: "In the industry policy arena, the focus has shifted from crude protectionism to encouraging capable businesses which can compete successfully in an open market."²²

We believe sound macro and micro-economic policies are an essential foundation for industry success. BlueScope Steel strongly endorses the need for ongoing economic reform and sectoral policy development, in order to help underpin the competitiveness of manufacturing and to make Australia a more attractive country for manufacturing investment. We believe there is a need to extend and revitalise the reform agenda in a range of areas, a number of which are discussed below (in no particular order):

We also believe there is an ongoing need for robust industry policy in relation to matters such as export market development, anti-dumping measures, assistance to SMEs and sectoral assistance programs. These matters are also detailed below.

- **Trade Policy** – Australia must continue to take a robust approach to the negotiation of bi-lateral and multi-lateral trade agreements, and to the enforcement of Australia's rights under such multi-lateral arrangements as WTO rules. Careful consideration also needs to be given to which countries are accorded 'developing country status'. Some countries currently accorded this status, such as China, have steel industries that are many times larger than Australia's, and steel companies that are the equal of any in Australia in terms of the quality and competitiveness of their products. There is understandable frustration that developing country status confers an additional commercial benefit on these foreign steel makers, when they are already competitive with Australia's, and therefore arguably do not need such a benefit.
- **China FTA** - A fundamental objective of any FTA, and indeed any multilateral trading system, must be to promote trade that is both free and fair. Clearly, an FTA that is designed to promote freer trade must, at a minimum, ensure the imbalance in steel tariffs is removed, as well as seeking to address the subsidies and other distortions in the Chinese steel industry. The Australian Government should also urge China to accelerate market reforms, including moving its financial sector to a commercial footing, speeding up the privatisation of state-owned enterprises (SOEs), and ensuring SOEs do not enjoy unfair commercial privileges in the Chinese market.
- **Workplace Relations** - The Federal Government's recent workplace relations reforms are encouraging and are supported by BlueScope Steel. Our experience in recent years of industrial disputation under both the State and Federal systems, has demonstrated to us that the previous workplace relations system was in need of reform. We particularly support reform measures that minimise the adversarial approach surrounding award negotiations and industrial disputation.
- **Tax Reform** - We believe tax reform is essential in order to ensure Australia remains a competitive location to work and invest. In particular, the corporate tax contribution as a proportion of GDP is higher in Australia than in many of our major trading partners (5.3 per cent in Australia, versus an average of 3-3.5 per cent of GDP in OECD countries). Australia's relatively high tax burden risks discouraging investment. High personal income tax rates can also discourage talented people from moving to Australia. Our tax system needs to be competitive in order to attract the capital and skilled labour we will need for future prosperity. The benchmark for tax burden should be competitors in our region, rather than the high taxing economies of Europe.

²² Department of Tourism, Industry and Resources, *Global Integration Background Paper*, July 2006.

- **Infrastructure** - Governments at all levels need to ensure a strategic and coordinated approach is taken to upgrading and expanding vital infrastructure. Such an approach would include scrutinising and prioritising infrastructure investment on the basis of sound cost/benefit analysis, and ensuring a favourable regulatory environment that encourages private sector investment in infrastructure. We need to ensure that the regulation of infrastructure is as efficient as possible, and encourages greater public and private sector investment.
- **Skills & Training** – Given current skills shortages being experienced in many industries, governments and industry need to think creatively about ways to attract, retain and further develop skilled personnel. From BlueScope Steel's perspective, two issues that especially need addressing are:
 - Making it easier for high school graduates to transition directly into key TAFE mechanical and electrical engineering Advanced Diploma programs - rather than requiring prerequisite trade qualifications.
 - Streamlining the complexity involved in having Diploma and Advanced Diploma courses accredited - particularly when much of the subject matter is pre-existing (e.g. Metal and Engineering Training Package - Metallurgy). The current approvals process typically takes many months, despite pressing needs in this area.

Both these initiatives affect our ability to attract, develop and fast track suitable candidates into relevant Diploma / advanced Diploma courses - which establish direct career paths into the technical and supervisory ranks of the steel manufacturing industry.

BlueScope Steel also welcomes the Federal Government's recent initiative in opening the Illawarra Technical College, and BlueScope Steel is represented on the Board of this college. This is a worthwhile initiative, which has the potential to increase the supply of quality tradespeople for manufacturers such as BlueScope Steel.

- **Regulatory Burden** – The Business Council of Australia (BCA) has observed that the volume of government regulation in Australia is growing at three times the rate of economic growth, with Federal and State governments adding some 30,000 pages of new laws and regulations per year. Notwithstanding the recent Federal Government review of regulation, BlueScope Steel believes there is a need for a permanent, ongoing mechanism to review government regulation, with a view to eliminating duplication, redundant regulations, and the cost and complexity of regulation. Such a mechanism needs to encompass all levels of government in Australia.

Two examples (amongst many) of unnecessary, duplicated or overly burdensome regulation faced by BlueScope Steel include:

- **Emissions, energy, water and waste reporting** - BlueScope Steel is required to report emissions and energy usage to multiple State and Federal agencies. For example, we currently report emissions to State EPAs, as well as data on energy use, water use and solid waste. Reporting is also undertaken for the National Pollutant Inventory, and energy usage and improvement data will soon need to be reported to the Federal Government for the purposes of the Energy Efficiency Opportunities legislation. State Governments in NSW and Victoria now also require BlueScope Steel to prepare mandatory energy and water savings plans. Fuel intensity is reported to the Australian Bureau of Agricultural and Resource Economics. This duplication of reporting is costly and time consuming.
- **Development approvals** – We note the wide disparity in the time taking for State development approval processes in Australia, and between Australia and many of the countries in Asia in which BlueScope Steel invests. For example, government development approvals for BlueScope Steel's new coating and painting plant in Suzhou, China, were granted in three days. While this is an

extreme example, the relative speed of development approvals in many Asian countries contrasts with the months and even years sometimes required to obtain development approvals in Australia.

- **Anti-Dumping Laws** - Australia needs to ensure that it remains committed to anti-dumping laws, and that these laws are effective in practice. It is our experience that investigation of anti-dumping complaints can be slow, and any penalty levied (i.e. dumping duties) often occurs long after the material injury caused by the dumping has taken place. The definition of material injury also needs to consider all material injury factors, including the loss of potential profits, and consideration of the industry rate of return on investments. Administrative procedures need to be sufficiently flexible to deal with cases of duty absorption, where an Australian importer decides not to increase prices once dumping duties have been levied, thereby negating the effect of the duties.

We are also concerned that increasingly, information gathered on steel imports to Australia is incomplete and therefore inadequate for initiating anti-dumping complaints. Specifically, country of origin data as well as destination data (e.g. State and importer's name) is often missing from publicly available data. There is a need to establish clear, agreed criteria for determining what information becomes confidential.

Effective anti-dumping measures are particularly important in cases where Australian producers are threatened by injurious surges of imported steel products. To provide just one example, imports of hot dipped galvanised (HDG) steel products from China increased from approximately 2,500 tonnes in January 2005 to almost 25,000 tonnes in May 2005²³. Although short in duration, sudden surges of this magnitude have the potential to severely disrupt local manufacturers and supply chains and, in some cases, threaten their viability.

- **Competition in Raw Materials Markets** – Notwithstanding Australia's abundance of steelmaking raw materials, such as iron ore and coking coal, one of the frustrations experienced by BlueScope Steel is our inability to obtain supplies of these raw materials at prices that enable the Australian manufacturing sector to remain competitive in the long term. Two companies – Rio Tinto and BHP Billiton - dominate supply of these raw materials in Australia, with BHP Billiton supplying the majority of BlueScope Steel's requirements. BlueScope Steel currently purchases raw materials from these companies under long-term take or pay contracts with prices being subject to yearly re-set based on benchmark prices negotiated with large overseas steel producers.

BlueScope Steel also obtains some iron ore from OneSteel's Middleback Ranges mine in South Australia but understand that the majority of the iron ore produced by OneSteel (above and beyond its own steel production requirements), is to be marketed and sold to export customers by BHP Billiton on OneSteel's behalf. This joint marketing arrangement further reduces BlueScope Steel's ability to negotiate and agree the supply of cost competitive iron ore located in Australia.

While there is an international demand for these raw materials, it should also be recognised there is a separate and distinct domestic Australian market. The current structure of the Australian iron ore market requires review and measures to increase competition in this market are urgently needed.

- **Greenhouse Gas (GHG) Regulation** - Steelmaking generates greenhouse gas emissions, mainly carbon dioxide, both directly when making iron and steel, and indirectly through the use of electricity and gas in a range of steel manufacturing processes. Emissions of carbon dioxide and other GHGs are an unavoidable consequence of current steel making technology. Governments in Australia need to ensure that regulation of

²³ ABS data

greenhouse gases and related matters (such as renewable energy) do not undermine ongoing access to low cost energy, one of the cornerstones upon which Australian manufacturing competitiveness is built.

One major risk of inappropriate greenhouse gas regulation is that it causes inefficient investment decisions to be made - for example, by re-directing investment towards non-carbon constrained jurisdictions. As nations develop their economies, demand for steel products increases. Meeting this growing demand while improving the world steel industry's greenhouse intensity is an enormous challenge. It is a challenge that requires a global response, and not a response that results in inefficient investment decision-making or distorts trade flows.

Regulation of greenhouse gas emissions in developed countries only is likely to lead to further relocation of steel production to the developing world. This is highly unlikely to reduce greenhouse gas intensity or emissions, and may actually increase them if less efficient technology is used. That is why measures to cut greenhouse gas emissions must be comprehensive and global, covering both developed and developing countries. Such measures must also take account of the legitimate aspirations of all countries for economic development.

BlueScope Steel believes that technology solutions will be important in reducing GHG emissions from steelmaking globally. To this end, BlueScope Steel is a participant in the International Iron and Steel Institute's CO2 Breakthrough Project. The CO2 Breakthrough Project is aimed at developing breakthrough technologies to significantly reduce CO2 emissions in steelmaking by the iron ore process route. The CO2 Breakthrough Project is a long-term project aimed at developing technologies for the post-Kyoto environment, with breakthroughs and subsequent commercialisation likely to be many years or decades into the future.

BlueScope Steel is also supporting the Asia-Pacific Partnership on Clean Development and Climate Change Initiative (or AP6). BlueScope Steel's Vice President Technology and Environment is representing the Australian Steel Industry as a member of the AP6 Steel Task Force.

- **Export Market Development** – The slowing of manufactured exports from their high rates of growth in the 1990s suggests Government needs to give further consideration to the policy framework for encouraging exports. In addition to the measures already outlined, revitalised attention should be given to export promotion and development programs. Consideration could also be given to financial incentives for exporters, to the extent that such incentives are consistent with WTO rules. Existing assistance programs, such as the Export Market Development Grants (EMDG) program, tend to be limited in scale and narrowly focused on SMEs. The effectiveness of such schemes has also been eroded in recent years by a reduction in their funding.
- **Assistance to SMEs to globalise** – Given the closure of much large-scale manufacturing capacity in Australia since the removal of tariffs and other liberalisation, SMEs are an increasingly important part of the steel sector. However, Australian SMEs often lack expertise and relationships to tap into global supply chains or develop off-shoring strategies. If Australian manufacturing is to prosper, it must go global. While some niche manufacturers may be able to survive by only servicing the Australian domestic market, the fact is, this market is too small for most. Achieving global scale, or integration with global supply chains, is essential to the competitiveness of most manufacturers.

There is a need to revitalise and expand programs that provide assistance to SMEs to help them globalise. SMEs are important customers for BlueScope Steel. Helping SMEs to become globally competitive and integrated into global supply chains will, in turn, assist Australian suppliers to the SME sector, such as BlueScope Steel.

- **Assistance for large firms** - As a generalisation, BlueScope Steel's experience is that many Federal Government industry support programs tend to be aimed at small and medium firms. Indeed, eligibility criteria for such programs sometimes actively seek to exclude large firms. While we fully support programs to help SMEs globalise, we also believe there is a need to support existing large firms in cases where they face distorted world markets, or foreign competitors who receive government assistance in their home countries. One such area in which the Government might consider providing assistance is in relation to the expansion of existing industry capability and supplier programs, so as to provide Australian exporters with greater access to global supply chains and major projects.
- **One-off capital investment assistance** - From time-to-time, the Federal Government has seen fit to provide one-off assistance in order to facilitate major capital investment projects in Australia. This was the case, for example, under the Strategic Investment Coordinator framework, in which assistance was provided to establish pulp and paper and alumina manufacturing facilities at Tumut and Gladstone. More recently, we note government assistance has been provided to automotive manufacturers to enable them to undertake new product development. And we note also that many of the countries in Asia in which BlueScope Steel has undertaken capital investment provide generous incentives, such as tax relief, training assistance and assistance with infrastructure.

BlueScope Steel is currently investing approximately \$250 million in capital expansion projects in Australia (Port Kembla Hot Strip Mill and Erskine Park Service Centre), with a further \$300 million of investment under consideration (Port Kembla blast furnace reline). If governments wish to continue to provide one-off assistance for special projects in order to enhance the attractiveness of Australia as a destination for investment, they need to provide clear signals to the market about which projects they wish to attract. This includes ensuring there are transparent criteria for one-off assistance, which are understood by all firms.

- **Sectoral Assistance Programs** – Sectoral assistance programs, such as the Automotive Competitiveness and Investment Scheme (ACIS), provide billions of dollars in government assistance to promote investment and innovation in local industries. Given the large amounts of public funding provided via such programs, it could be argued that there is a case for requiring recipients of assistance to direct as much of their spending as possible - on items such as raw material inputs, components, and services – to Australian domestic suppliers. Government could provide assistance to help facilitate domestic supplier programs, as it currently does in relation to the defence sector. Subsidising companies to buy imports might assist those companies' competitiveness, but it does little to assist the Australian domestic supply chain.
- **Manufacturing Industry Government Research Agency** – Australian manufacturing currently lacks a single, identifiable, high profile government agency charged with undertaking independent research and analysis into the sector, and contributing to its competitiveness. While ABARE is noted for its research and support for the agricultural, fishing, forestry, energy and minerals industry, no equivalent body appears to exist for the manufacturing sector. Given the large contribution of manufacturing to GDP, employment and exports, this is perhaps surprising. A manufacturing industry-specific agency could play a powerful ongoing role in monitoring the health of the manufacturing sector, producing forecasts of manufacturing exports and production, championing the importance of manufacturing within government and the wider community, periodically assessing the effectiveness of government industry programs, and making policy recommendations to government.

Conclusion

Thank you again for the opportunity to make a submission to the inquiry. We would be happy to provide further information in support of our submission, and we look forward to the Committee's report.

If you have any questions regarding BlueScope Steel's submission, please contact David Jenkins, Manager Government Relations, on tel: 03 9666 4022 or David.Jenkins@bluescopesteel.com.

Yours faithfully

A handwritten signature in black ink, appearing to read 'K Adams', written in a cursive style.

Kirby Adams
MANAGING DIRECTOR & CEO