



AUSTRALIAN STEEL INSTITUTE

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Standing Committee on Economics, Finance and Public Administration  
House of Representatives  
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20 July 2006

**Re: Submission on the “Inquiry into the state of Australia’s manufactured export and import competing base now and beyond the resources boom”**

Dear Sir / Madam,

Please find attached Australian Steel Institute’s submission to the Standing Committee on Economics, Finance and Public Administration on the “Inquiry into the state of Australia’s manufactured export and import competing base now and beyond the resources boom”. The Australian Steel Institute is submitting on behalf of its member companies. These members include the full spectrum of companies and individuals involved in the manufacture, distribution, fabrication, design, detailing, education, surface protection and construction of steel, as well as suppliers of goods and services to the steel industry.

We look forward to the findings and conclusions of the committee on this very important topic.

Yours sincerely,

Don McDonald  
Chief Executive

Ian Cairns  
National Manager  
Manufacturing & Distribution

## **Australian Steel Institute (ASI) Submission**

### **“Inquiry into the state of Australia’s manufactured export and import competing base now and beyond the resources boom”.**

#### **About ASI**

Australia’s steel industry employs 75,000 people and has an annual turnover in excess of \$21 billion. The Australian Steel Institute (ASI) is the peak industry association representing this important sector of the Australian economy. ASI provides representation, technical and marketing leadership and an independent forum to facilitate steel promotion and industry competitiveness. ASI’s mission is to increase the awareness of the benefits of steel and promote Australian made steel as the material of choice. Increasing the competitiveness of the Australian steel industry and its member companies is central to this mission.

ASI members represent the full spectrum of companies and individuals involved in the manufacture, distribution, roll forming, fabrication, design, detailing, education, surface protection and construction of steel, as well as suppliers of goods and services to the industry.

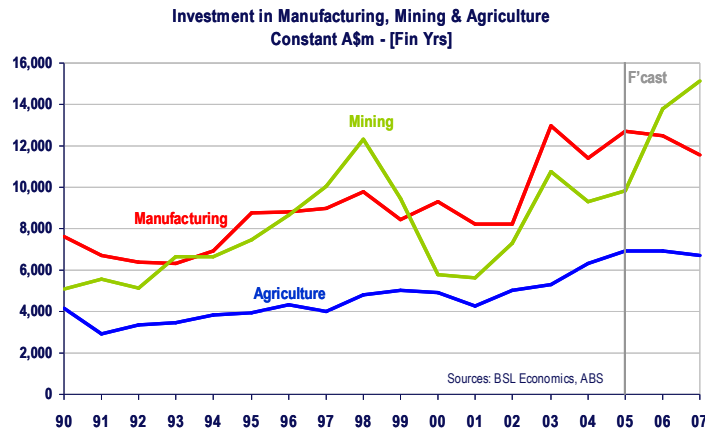
Steel is an important segment of Australia’s economy. Our members and the Australian steel industry as a whole will be directly and indirectly affected by the ongoing health and viability of our manufacturing sector. Considering this, it would be beneficial to our members to have a meaningful and sustained dialogue on this issue.

This submission has been put together following feedback and a meeting with our major steel manufacturing members and their distributors, namely, BlueScope Steel, OneSteel, Smorgon Steel, Orrcon Operations, Southern Steel Group and Coil Steels.

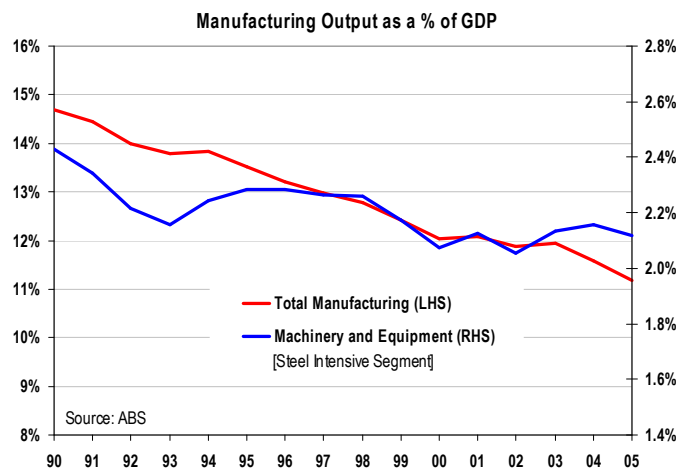
#### **Introduction and industry changes**

Firstly, we would like to commend the initiative of the inquiry and its identification of challenges facing the manufacturing sector both now and following the resources boom. While there are many sectors enjoying busy times, we also have concerns following the boom. We have also seen a notable decline in our broader manufacturing base over the past 3 to 5 years. There is no doubt that this important

sector is shrinking irrespective of the surging investment in mining. This decline will only be exacerbated once the current resources boom abates.



In 1986, manufacturing represented 18% of Australia's gross domestic product. Now it is 11%, lower than the US (14%), Britain (17%) and New Zealand (19%). While each industry must take steps to stay competitive we feel the Government must take a lead role in assisting before the skills and manufacturing infrastructure is lost for good.



The Australian steel industry has undergone significant rationalisation and structural change to maintain its competitiveness. The steel manufacturing and distribution sectors are amongst the most innovative and competitive in the world and have invested in upgrading processes and technology in recent years. We have also seen business closures such as the Newcastle steel mill, the Smorgon Steel pipe & tube mill in Melbourne and the recent announcement of the tin mill closure by BlueScope Steel at Port Kembla.

The Steel-intensive manufacturing industry contributes approximately 5% of total manufacturing employment and 6% of manufacturing value added. However, more importantly, steel manufacturers underpin broader steel users which account for approximately 280,000 jobs or 27% of total number of jobs in manufacturing and generated \$19.3B in sales and service income in 2003-04.

In recent years we have also seen the demise of a number of long standing heavy fabrication shops, ABB in Newcastle, United Constructions in WA and Transfield in Sydney, with the loss of more than 1000 Jobs. The decline in mining investment in period from 1998 to 2001 contributed to the demise of these businesses. The recent surge in mining investment has highlighted that industries which have been built up over a long period of time and then undergo a sudden loss of capacity seldom re-establish.

In sheet steel manufacturing segments we have experienced a dramatic decline in volumes sold into the Australian market. This has occurred whilst mining activity has been high. This is further illustration that the general manufacturing base is more concerned by the immediate intense pressure from finished imported goods from low cost countries rather than the prospect of a softening in mining activity. There have been numerous examples where steel customers have closed down, relocated or invested offshore – particularly in automotive, consumer and industrial products segments. It is unlikely that local raw steel manufacturing companies would undertake significant investment should the reduction in critical mass continue at the current rate.

There have also been many take-overs and mergers over the last 5 years, one of the biggest being the recent announcement of the proposed merger between OneSteel and Smorgon Steel. These have all been steps by the industry to stay globally competitive. However, there are limitations to the amount of mergers and closures that can be made without affecting the foundations from which to compete. We feel that without a macro approach from the Government these could be in vain.

## **ASI Concerns**

The Australian steel industry produces less than 8 million tonnes of steel per annum (approx 0.7 of the world's production). We do not have the luxury of the economies of scale that our world competitors do, yet we are forced to compete at a world price. The Australian steel industry has also invested heavily in their quality, social and environmental responsibilities and has a world-class safety record the envy of many countries.

We do not feel that we are competing on a 'level playing field' with many of our competitors, especially our major competitor, China. We find it staggering that China (and by consequence their steel and manufacturing industries) is still recognised as a 'developing country'. Their steel industry is approximately 50 times larger than ours and they are continuing to grow their capacity. Chinese production of crude steel was 349.4 million tonnes in 2005. This represented an increase of 69 million tonnes or 25% on 2004.

A report released by the American Iron & Steel Institute this month entitled "The China Syndrome: How Subsidies and Government Intervention created the World's Largest Steel Industry" provides evidence that Chinese steel companies do not operate on a purely commercial basis. (refer [www.steel.org](http://www.steel.org) for more details)

We see that the Chinese economy has advantages in the following areas:

- *Legal responsibility and framework;*
- *Monetary policy;*
- *Intellectual Property laws and responsibilities;*
- *Export incentives;*
- *Environmental responsibilities;*
- *OH&S laws and responsibilities and*
- *Tariffs on imports.*

These all come at a cost to Australian industry and in our opinion are contributing to the demise of the manufacturing sector and the deteriorating current account deficit. There is also a concern that China and neighbouring countries will develop a monopoly situation in the region in the manufacture of steel and steel based manufactured goods and when the infrastructure and skills have disappeared from Australia we will be in an unenviable position.

## **Areas for consideration**

### **We would like to suggest three macro areas for consideration:**

- A revitalized domestic microeconomic reform agenda supported by Federal and State Governments including better company tax and depreciation arrangements and reducing business regulation.
- A more realistic and supportive attitude to trade matters, and particularly to unfair trading behavior.
- A greater commitment by, and support for Australian companies to innovate, up-skill and export globally.

### **Some of the micro areas for consideration could include:**

- Enhanced training and skills development to support manufacturing.
- Tax concessions for capital investment in manufacturing.
- Export incentives for manufactured goods.
- Parity for Australian Standard (AS) Quality products.
- Greater incentive for Research and Development in the manufacturing sector.
- Education program for companies to capitalize on Government incentives.
- Promotion and incentive for partnering / clustering to improve competitiveness in manufacturing.

We would also like to take this opportunity to support the work done by the Australian Industry Group and in particular the recommendations and conclusions formed in their publication 'Manufacturing Futures', which was released in April this year.

## **Conclusions**

Firstly, we would like to impress that the steel industry is not looking for an unfair advantage or a 'free kick' against our competitors. The ASI supports free trade and open markets underpinned by a rules-based trading system. We are only looking for a 'fair go' and the proverbial 'level playing field'.

Despite its small size by world standards, manufacturing in Australia is still the nation's largest employer, the largest investor in R&D, and accounts for the largest share of merchandise exports. The continued strength of the Australian steel industry is closely aligned and under-pinned to that of the Australian manufacturing industry. For the sake of our future prosperity we must acknowledge the importance of our manufacturing sector in creating skilled, well-paid jobs, in driving innovation across

the economy and in generating the exports that will sustain Australia beyond the current resources boom.

It is in the Nation's interest that we take steps to support the manufacturing sector as soon as possible. The Australian Steel Institute and its member companies encourages the Government to consult with the steel industry both directly and through the ASI to discuss further activity that will assist in this issue.

*Further information on the ASI and the member companies involved in this submission can be found by following the web links below:*

[www.steel.org.au](http://www.steel.org.au)

[www.bluescopesteel.com](http://www.bluescopesteel.com)

[www.onesteel.com](http://www.onesteel.com)

[www.smorgonsteel.com.au](http://www.smorgonsteel.com.au)

[www.orrcon.com.au](http://www.orrcon.com.au)

[www.southernsteel.com.au](http://www.southernsteel.com.au)

[www.coilsteels.com.au](http://www.coilsteels.com.au)

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