

Chapter 1

Introduction

Referral and conduct of the inquiry

1.1 On 26 November 2015, the Senate referred the following matters to the Senate Economics References Committee (the committee) for inquiry and report by the last sitting day in June 2016 (30 June 2016):

- (a) the future sustainability of Australia's strategically vital steel industry and its supply chain; and
- (b) any other related matters.¹

1.2 Details of the inquiry were placed on the committee's website. The committee also wrote to individuals and organisations, inviting submissions by 15 February 2016.

1.3 The committee held three public hearings and performed two site visits. On 1 April 2016, the committee conducted a site visit of BlueScope steelworks and then held a committee hearing in Wollongong, New South Wales. On 5 April 2016, the committee conducted a site visit of the Arrium steelworks and subsequently held a public hearing in Whyalla, South Australia. The third hearing was held on 6 April 2016 at Parliament House, Canberra. A list of witnesses who appeared at the hearings is at Appendix 3.

1.4 On the dissolution of the Senate and the House of Representatives on 9 May 2016 for a general election on 2 July 2016, the parliamentary committees of the 44th Parliament ceased to exist. At that time, the committee's inquiry lapsed.

1.5 On 11 October 2016, the Senate agreed to the committee's recommendation that the inquiry be re-referred in the 45th Parliament and for a final report to be presented by 1 December 2017.²

1.6 The committee resolved to re-open submissions with a closing date of 17 February 2017. This was notified on the committee's website and additional direct invitations were issued to stakeholders.

1.7 At the time of tabling this interim report, the committee has received 39 submissions to the inquiry. A list of the submissions received by the committee is provided at Appendix 1. Other documents authorised for publication by the committee are listed at Appendix 2.

1 *Journals of the Senate*, No. 130, 26 November 2015, p. 3495.

2 *Journals of the Senate*, No. 9, 11 October 2016, p. 295.

Interim Report

1.8 The committee has decided to table this interim report primarily focused on the issues affecting Arrium, drawing on evidence provided by submitters and witnesses from the Whyalla region. The committee will table a final report by 1 December 2017 which will cover in depth the broader issues canvassed in this inquiry.

1.9 The interim report is structured as follows:

- chapter 1—provides background information to the inquiry and presents an overview of the steel industry in Australia and the current challenges and pressures; and
- chapter 2—outlines the current position of Arrium and its contribution to Whyalla and sets out the committee's conclusions and recommendations.

Note on terminology

1.10 Arrium Limited is an international diversified mining and materials company with three business segments: Arrium Mining Consumables, Arrium Mining and Arrium Steel. Unless otherwise specified, references to 'Arrium' in this report are in relation to the activities of Arrium Steel (Arrium).

Background to the steel industry in Australia

1.11 Significant steelmaking activities have occurred in Australia since 1915.³ The modern Australian steel industry is comprised of a large number of companies involved in different segments of the steel production and supply chain. In addition to two companies producing crude steel in Australia, the industry incorporates downstream steel products manufacturers, steel distributors and steel recyclers.⁴

1.12 There are two integrated steel producers in Australia: Bluescope Steel, with Australian production operations based primarily in the Illawarra region, New South Wales; and Arrium (formerly OneSteel), with production facilities in Whyalla, South Australia.

1.13 Both of these steelworks are connected to downstream steel fabrication and distribution networks Australia wide. In 2015, total Australian crude steel output of 4.9 million tonnes (Mt) represented about 0.3 per cent of world output. The Department of Industry, Innovation and Science (the department) submitted the following summary of the two producers in Australia:

3 Department of Industry, Innovation and Science, *Submission 18*, p. 6.

4 Arrium Mining and Materials, *Submission 16*, p. 2.

Table 1: Summary of Australia Producers⁵

	Major Product Type	Product Description	Production
Arrium Limited	Steel long products	Hot-rolled structural bars, rail and sleepers	2.5 Mt
BlueScope Steel Limited	Steel flat products	Hot-rolled coils	2.6 Mt

Source: Arrium Mining and Materials Annual Report 2014; BlueScope Annual Report 2014/15

1.14 Further to this, the department submitted:

The volume of Australian crude steel production has fallen in recent years. World Steel Association time series data starting from 1980 indicates that Australian crude steel output was 7.6 Mt in 1980 reaching a peak of 8.9 Mt in 1998; Australian steelworks were still producing 7.3 Mt in 2010.⁶

1.15 Arrium Ltd developed from the demerged long products segment of BHP Steel, a wholly owned subsidiary of BHP Ltd, in 2000 and listed on the Australian Stock Exchange (ASX) originally as OneSteel. Arrium stated in its submission:

Arrium generates approximately 14,000 jobs through its activities, employs nearly 7,000 people directly, and spends nearly \$4b in goods, services and taxes each year. We produce approximately 44 per cent of the total amount of crude steel made in Australia each year, with a total steelmaking capacity of 2.6 million tonnes per annum (MTPA).⁷

1.16 BlueScope, formerly BHP Steel, de-merged from BHP Billiton in 2002 to form a stand-alone public company. The steelworks now operated by BlueScope in Port Kembla were first opened in 1928.⁸ BlueScope stated in its submission that it employs approximately 7,500 workers in total in its Australian operations, as well as a further 8,500 employees overseas.⁹ According to its website, BlueScope employs around 3,000 directly in the Illawarra and supports about 10,000 jobs in the Illawarra - including contractors, suppliers and other service providers who are dependent on the Port Kembla Steelworks.¹⁰

Steel manufacturers and distributors

1.17 The steel supply chain in Australia also incorporates a large number of diverse small and medium-sized enterprises. This includes over 200 steel distribution outlets across Australia, as well as other businesses including steel fabrication and advanced engineering firms. As of June 2014, a total of 12,253 businesses were registered as operating in the Australian steel industry supply chain.¹¹

5 Department of Industry, Innovation and Science, *Submission 18*, p. 6.

6 *Submission 18*, p. 6.

7 *Submission 16*, p. 2.

8 Department of Industry, Innovation and Science, *Submission 18*, p. 6.

9 *Submission 4*, p. 3.

10 BlueScope, *BlueScope in the Illawarra*, <https://www.bluescopeillawarra.com.au/about-us/> (accessed 21 November 2016).

11 Australian Industry Group, *Submission 10*, p. 16.

Contribution of the steel industry

1.18 The steel industry makes a significant contribution to the Australian economy. Submitters referred to ABS data showing that in 2013-14, the entire steel industry supply chain employed over 100,000 people in Australia, with an annual turnover in excess of \$35 billion.¹² Within this supply chain, the upstream steel industry (iron smelting and steel manufacturing) employed about 18,500 people, paid annual wages of \$1.5 billion and had an annual sales and service income of about \$11.1 billion.¹³

1.19 According to the World Steel Association, Australia produced 4.9 million tonnes of crude steel in 2015 and 4.6 million tonnes in 2014. This production ranked Australia as 29th and 30th respectively out of the top 50 crude steel producing countries. The top three producers in 2015 were China (803.8 million tonnes), Japan (105.2 million tonnes) and India (89.4 million tonnes).¹⁴

Challenges and pressures affecting the steel industry

1.20 Evidence to the inquiry highlighted the challenges and pressures affecting the Australian steel industry which are briefly summarised below. Further details and analysis of these challenges will be provided in the committee's final report.

1.21 Australia is a relatively small contributor to global steel output. Furthermore, Australian steel imports as well as exports have declined in recent years. Data provided by the department indicated that in the 2014-15 financial year, approximately 0.83 million tonnes of steel product was exported from Australia, while approximately 1.6 million tonnes of steel product was imported. This compares to the export of approximately 2.6 million tonnes and import of 2.3 million tonnes of steel in the 2006-07 financial year.¹⁵

1.22 The Australian experience mirrors the international situation. Since the onset of the Global Financial Crisis, excess global steel production has led to an oversupply in the international market.¹⁶ In addition, there has also been falling investment in 'downstream' industries that use iron and steel manufacturing products.¹⁷

1.23 On this issue, Arrium submitted:

In recent times...the significant global oversupply has resulted in an increasing amount of marginally costed/priced imported steel being used in Australian projects. In turn, these low-priced imports have pushed Australian prices to unsustainable lows.¹⁸

12 See: Australian Steel Institute, *Submission 19*, p. 3.

13 Australian Industry Group, *Submission 10*, p. 11.

14 World Steel Association, *World Steel in Figures 2016*, 2016, p. 9.

15 Department of Industry, Innovation and Science, *Submission 18*, p. 14 (refer to data in Export and Import Quantity Indices, Table 10).

16 See for example, Arrium Mining and Materials, *Submission 16*, p. 4.

17 Department of Industry, Innovation and Science, *Submission 18*, p. 21.

18 *Submission 16*, p. 1.

1.24 Evidence to the inquiry highlighted concerns about the ongoing competitiveness of Australian steel producers and manufacturers.¹⁹

1.25 The department submitted that productivity costs, in particular the relatively high contribution of labour and overhead costs to total production costs have also been a challenge for the industry.²⁰

Sustainability of the Australian steel industry

1.26 The committee notes that domestic conditions and international market pressures are impacting the steel industry and that these challenges are expected to continue. Submitters and witnesses expressed concern that, should the current situation continue unabated, the steel industry will cease to operate in Australia.²¹

1.27 The Australian Manufacturing Workers' Union argued that maintaining the domestic industry is important to ensure a supply of steel during times of international conflict.²² Other submitters noted that maintaining a domestic steel industry is important both for the economic performance of other industries in the supply chain²³ and the overall economy.²⁴

1.28 A majority of submitters and witnesses advocated for a higher level of government support and intervention to ensure the sustainability of the domestic steel industry. The committee received evidence suggesting a range of assistance options including:

- direct financial assistance and support;²⁵
- changes to procurement rules and processes to provide:
 - a preference for domestic labour;²⁶
 - a requirement to assess whole of life costs (not only up-front costs);²⁷
 - mandating local content procurement targets;²⁸ and

19 See for example, BlueScope Steel, *Submission 4*, p. 1.

20 *Submission 18*, p. 22.

21 See for example, South Coast Labour Council, *Submission 23*, pp. 2–3; Mr Misha Zelinsky, National Vice President, Australian Workers Union and Dr Tom Skladzien, National Economics and Industry Adviser, Australian Manufacturing Workers Union, *Committee Hansard*, 6 April 2016, p. 13.

22 Australian Manufacturing Workers' Union, *Submission 27*, pp. 3–4.

23 See for example, Australian Constructors Association, *Submission 13*, p. 3.

24 See for example, Illawarra Business Chamber, *Submission 5*, pp. 2–3, Bureau of Steel Manufacturers of Australia, *Submission 6*, p. 9.

25 See for example, Australian Workers Union, *Submission 25*, pp. 25–26.

26 See for example, Regional Development Australia—Illawarra, *Submission 2*, p. 2.

27 See for example, Mr Geoff Crittenden, Chief Executive Officer, Welding Technology Institute of Australia, *Committee Hansard*, 6 April 2016, p. 40; Australian Industry Group, *Submission 10*, p. 7.

- further review and amendment of anti-dumping regulations. Whilst some submitters were broadly supportive of the changes implemented in November 2015,²⁹ several submitters and witnesses argued that the current anti-dumping regime is inadequate and that further work was required to provide adequate safeguards for the domestic industry.³⁰

Context of the interim report

1.29 The committee notes the ongoing uncertainty affecting the Australian steel industry, in particular the operations of Arrium.

1.30 Arrium was placed into voluntary administration on 7 April 2016. On 12 April 2016, KordaMentha were appointed as voluntary administrators of Arrium Ltd and its 93 subsidiaries.³¹

1.31 On 5 October 2016, KordaMentha advised that the sale process for Arrium is continuing: non-binding indicative offers are due in October 2016 and shortlisted bidders are expected to submit final bidding offers during December 2016.³²

1.32 On 4 November 2016, following a vote in favour by the majority of creditors, the voluntary administrators (Mark Mentha, Martin Madden, Cassandra Mathews and Bryan Webster) were appointed as Deed Administrators of the Arrium Group Companies. The Arrium Group Companies will continue to operate on a business as usual basis, and the Deed Administrators will continue to progress the sale and recapitalisation process.³³

28 See for example, Australian Manufacturing Workers' Union, *Submission 27*, p. 8.

29 See for example, Bisalloy Steel Group Limited, *Submission 33*, p. 3, Australian Industry Group, *Submission 10*, p. 37.

30 See for example, Bisalloy Steel Group Limited, *Submission 33*, pp. 3–4, Australian Workers' Union, *Submission 25*, p. 4, 15. The committee notes the House of Representatives Standing Committee on Agriculture and Industry presented a report on their inquiry into circumvention of anti-dumping in June 2015.

31 KordaMentha, *KordaMentha Restructuring appointed as Voluntary Administrators of Arrium Limited*, 12 April 2016, <http://kordamentha.com/news/kordamentha-restructuring-appointed-as-voluntary-administrators-of-arrium-limited> (accessed 8 September 2016).

32 KordaMentha Restructuring, *Update on the Administration of the Arrium Group of Companies (Administrators Appointed)*, 5 October 2016, <http://www.arrium.com/~media/Arrium%20Mining%20and%20Materials/Files/ASX%20Announcements/FY2017/Update%20on%20the%20Administration%20of%20the%20Arrium%20Group%20of%20Companies%20Administrators%20Appointed%205%20October%202016.pdf> (accessed 10 October 2016).

33 KordaMentha Restructuring, *Arrium Group of Companies enter Deeds of Company Agreement (Subject to Deeds of Company Arrangement)*, 4 November 2016, <http://www.arrium.com/~media/Arrium%20Mining%20and%20Materials/Files/ASX%20Announcements/FY2017/Arrium%20Group%20of%20Companies%20Enter%20into%20Deeds%20of%20Company%20Arrangement%204%20Nov%202016.pdf> (accessed 8 November 2016).

1.33 The committee notes the recent sale of the mining consumables segment of Arrium (Moly-Cop). In accordance with the terms of reference, the interim report focuses on Arrium in the context of its steel business.³⁴

1.34 Further details about Arrium's position and activities undertaken since being placed into voluntary administration are provided in chapter 2.

34 KordaMentha, *Arrium announces sale of Moly-Cop*, 4 November 2016, <http://kordamentha.com/news/arrium-announces-sale-of-moly-cop> (accessed 8 November 2016).

