

## Submission 41 - Department of Industry, Innovation and Science

The Department of Industry, Innovation and Science made submission 18 to the inquiry into the Future of Australia's steel industry in the 44th Parliament.

This document is intended as a supplementary submission to the original submission 18.

All submissions received in the 44th Parliament can be accessed via the following link:

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Australias\\_Steel\\_Industry/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Australias_Steel_Industry/Submissions)



**Australian Government**

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**Department of Industry,  
Innovation and Science**

Senate Economics References Committee

**Supplementary submission to the inquiry into the  
future of Australia's steel industry**

February 2017

## **Introduction**

This supplementary submission updates submission number 18, made on 23 February 2016, by the Department of Industry, Innovation and Science (the department) to the 44<sup>th</sup> Parliament's Senate Economics References Committee inquiry into the future of Australia's steel industry (the inquiry).

The department notes the inquiry was re-adopted on 11 October 2016 by the Senate in the 45<sup>th</sup> Parliament with the same terms of reference. This supplementary submission provides information on matters within the Australian steel industry that have occurred since the time of the department's initial submission.

## **Arrium Limited**

### *Sales Process*

On 7 April 2016, Arrium announced that it had entered voluntary administration. Grant Thornton Australia was initially appointed as Administrator, however KordaMentha replaced Grant Thornton on 12 April 2016 following an agreement between major bank lenders and unions.

On 4 July 2016, KordaMentha announced that the sale of Arrium's assets would involve two processes:

1. A trade sale or initial public offering for Moly-Cop, Arrium's mining consumables business, and
2. A sale or recapitalisation of Arrium's combined steelworks, port and mining operations at Whyalla, together with its manufacturing, distribution and recycling businesses (OneSteel and OneWhyalla assets).

Moly-Cop has been sold to United States based private equity firm American Industrial Partners for approximately \$1.6 billion (AUD). The sale was managed by Deutsche Bank and completed on 4 January 2017.

The sale of Arrium's remaining assets is being managed by Morgan Stanley. Non-binding indicative bids were lodged in October 2016 and a number of bidders are involved in the bidding process.

The department continues to engage with relevant Australian Government agencies, KordaMentha and the South Australian Government as part of the sale process. The department has also held discussions with bidders as requested.

### *Australian Government Assistance*

The Government has announced a number of measures to support Arrium and its workers since the department's initial submission.

On 9 March 2016, the Prime Minister, the Hon Malcom Turnbull MP, announced that the Australian Rail Track Corporation would fast track a project to upgrade 1200 kilometres of rail between Adelaide and Tarcoola in partnership with Arrium. The project is now underway and is estimated to require 72 000 tonnes of steel.

On 7 May 2016, the Government announced \$1.1 million in assistance for workers who may lose their jobs at Arrium, including workers at the steelworks in Whyalla. This is in addition to a previously announced \$270 000 package of measures to support retrenched Arrium workers (detailed in the department's initial submission). The additional funding includes the engagement of two employment facilitators and makes employment support services available to all workers retrenched from Arrium.

On 19 June 2016, the Government made an election commitment to provide a \$49.2m loan to Arrium for the purchase of beneficiation equipment for the company's iron ore operations. On 22 July 2016, the Prime Minister announced that the Export Finance and Insurance Corporation would provide the loan to OneSteel Manufacturing Pty Ltd under the National Interest Account. The loan has been provided to enable Arrium's OneWhyalla business to process iron ore to export quality and is estimated to boost Arrium's cash flow by more than \$200 million over the next five years.

At a wider regional level, the Upper Spencer Gulf is one of ten regions being targeted under the Government's Regional Jobs and Investment package.

In addition to Commonwealth assistance, the South Australian Government has announced the following support for Arrium and other affected businesses:

- a \$50 million financial commitment to support a new owner of the Whyalla Steelworks, on the condition it is used to support the long term sustainability of the Whyalla operations; and
- a \$10 million interest-free loan scheme to support small businesses experiencing cash-flow challenges as a result of Arrium entering administration.

### **G20 Global Forum on Excess Steel Capacity**

At the G20 Leaders' meeting in China on 4-5 September 2016, there was agreement to establish a Global Forum on steel excess capacity (the Forum). The G20 Communique recognised that excess steel capacity is a global issue, and called for increased information sharing and cooperation and the active participation of G20 members and interested OECD members in the Forum.

Australia supports the establishment of the Forum and will be an active participant, emphasising increased information sharing and communication between all members on excess capacity issues. As a global issue, collective action is needed to resolve problems caused by excess steel capacity.

On 16 December 2016, at a meeting convened by the German G20 Presidency in Berlin, the approval of the terms of reference was announced and the Forum was formally established. China and the US will act as co-chairs of the Forum, with Germany, for 2017. Two working-level meetings are planned for early 2017, with the first G20 reporting opportunity on the Forum at the G20 Sherpa meeting on 18-19 May 2017. Australia will participate in the working-level meetings.

## **Australian Industry Participation (AIP)**

The Government is working with the states and territories to review the AIP National Framework, through the COAG Industry and Skills Council. A working group of senior officials is considering opportunities for greater consistency of industry participation requirements between jurisdictions and better information sharing and reporting of outcomes for Australian industry. Any revisions to the Framework would need to be endorsed by Ministers at a future Council meeting.

The AIP Authority has now approved 23 new AIP plans for major projects since commencement of the Jobs Act. Summaries of approved AIP plans for current projects continue to be published on the department's website<sup>1</sup>.

From 1 July 2016, AIP plans are required for Northern Australia Infrastructure Facility loans of \$20 million or more.

## **Code for the Tendering and Performance of Building Work 2016**

The *Building and Construction Industry (Improving Productivity) Act 2016* (the Act) and the new *Code for the Tendering and Performance of Building Work 2016* (the Code) introduce new requirements for Commonwealth funding entities regarding building materials used in Commonwealth-funded building work.

On 2 December 2016, the Minister for Employment issued the new Code. The Code, which replaces the Building Code 2013, applies to all new tenders for Commonwealth-funded building work.

Under the Code, a funding entity must ensure that before a contract is entered into in respect of Commonwealth-funded building work, the preferred tenderer provides the following information:

- a) the extent to which domestically sourced and manufactured building materials will be used to undertake the building work;
- b) whether the building materials to be used to undertake the building work comply with relevant Australian standards published by, or on behalf of, Standards Australia;
- c) the preferred tenderer's assessment of the whole-of-life costs of the project to which the building work relates;
- d) the impact on jobs of the project to which the building work relates; and
- e) whether the project to which the building work relates will contribute to skills growth.

The Code also requires a Commonwealth funding entity to enter into a contract in respect of building work with a code covered business only where that business uses products in building work that comply with the relevant Australian standards published by, or on behalf of, Standards Australia.

The Australian Government will work with the states and territories in applying the Code to projects funded through relevant National Partnership Agreements.

## **Commonwealth Procurement Rules**

The Government has updated the way it buys goods and services to ensure equitable access to Government contracts for Australian businesses, in particular small business. Updated Commonwealth Procurement Rules will take effect from 1 March 2017 and will require:

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<sup>1</sup> <https://www.industry.gov.au/industry/IndustryInitiatives/AustralianIndustryParticipation/Pages/PublishedExecutiveSummariesofAIPPlans.aspx>

- for non-construction procurement above \$4 million or construction procurement above \$7.5 million, a consideration of the economic benefit of the procurement to the Australian economy;
- procurement to be consistent with relevant regulations and regulatory frameworks, and reasonable enquiries will be expected to be made into a prospective supplier's employment practices, occupational health and safety and environmental impact; and
- where a standard is applicable, tender responses must demonstrate the capability to meet the Australian or international standard and reasonable steps must be taken to check for evidence of compliance.

## **Anti-Dumping Reforms**

### *Anti-circumvention inquiries into the slight modification of goods*

A number of anti-circumvention cases involving steel products, underway at the time of the previous submission, have been concluded by the Anti-Dumping Commission (the Commission). The Commission found that certain exporters had slightly modified their products to circumvent existing anti-dumping measures in place for zinc coated (galvanised) steel and hollow structural sections<sup>2</sup>. As a result the Government broadened the measures to prevent specific exporters from China, Taiwan and Malaysia from making minor changes to their products to avoid anti-dumping duties.

### *Operational improvements to the anti-dumping system*

On 9 September 2016, the Government announced a range of operational improvements to the anti-dumping system. As part of these, the Commission has put in place a new investigations model to create efficiencies and improve the quality and timeliness of anti-dumping investigations. The Commission has adopted a more active, risk-based approach to address proven circumvention activities, to further improve outcomes for Australian industry. The Commission is working with the Department of Immigration and Border Protection to take a stronger whole-of-government approach to ensuring overseas exporters and Australian importers comply with Australian anti-dumping and countervailing (anti-subsidy) duties.

During late 2016, the department engaged with a wide range of anti-dumping stakeholders (including steel manufacturers, steel importers and steel fabricators) regarding the overall effectiveness and efficiency of the anti-dumping system. The feedback received will inform the Government whether additional opportunities for improvement exist.

### *Updated anti-dumping measures related to steel products*

As of 17 January 2017, there are currently 47 anti-dumping measures (in the form of dumping duty, countervailing duty, and provisional measures) in place on 14 steel products from 14 countries. In this context, a World Trade Organization (WTO) count is used in which one 'measure' is one type of duty applied to one country although one 'application' may cover multiple duties and measures.

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<sup>2</sup> <http://minister.industry.gov.au/ministers/pyne-andrews/media-releases/latest-anti-dumping-decisions-support-local-steel-industry>

Of the measures, on a WTO count, 19 of 47 apply to products produced by the Arrium and 16 out of 47 measures apply to products produced by BlueScope.

Since 2012, the Commission has investigated nine requests for trade remedies from BlueScope<sup>3</sup>. Eight of these investigations have been completed. The ongoing dumping and countervailing investigations are in relation to zinc coated (galvanized) steel exported from India, Malaysia and Vietnam.

Product lines produced by BlueScope currently subject to trade measures include hot rolled plate steel, zinc coated (galvanised) steel, aluminium zinc coated steel, and hot rolled coil steel. Countries covered by these measures include: China, Korea, Taiwan, Japan, Malaysia, and Indonesia.

Since 2011, the Commission has investigated 13 requests for trade remedies from companies within the Arrium Group. Twelve of these investigations have been completed<sup>4</sup>. The ongoing dumping investigation is in relation to alloy round steel bar exported from China.

Product lines produced by Arrium currently subject to anti-dumping or countervailing measures include hollow structural sections, rod in coils, steel reinforcing bar, hot rolled structural steel sections and grinding balls<sup>5</sup>. Countries covered by these measures include China, Korea, Taiwan, Japan, Thailand, Singapore, Spain and Malaysia.

Investigations are currently underway into the following steel products: alloy round steel bar, zinc coated (galvanized) steel, resealable can end-enclosures, and steel shelving units.

#### *Economic analysis of the steel and aluminium markets released*

On 9 September 2016, the Assistant Minister for Industry, Innovation and Science, the Hon Craig Laundy MP, released the Anti-Dumping Commissioner's detailed economic analysis of global steel and aluminium markets<sup>6</sup>. The Commissioner's report highlighted Government interventions in a number of countries as significant causes of continuing global overcapacity, excess production and low world prices. Continuing global excess production of steel and aluminium has placed Australian steel and aluminium producers under sustained pressure.

The analysis is consistent with OECD conclusions that excess production capacity poses a major threat to the global steel industry's longer-term efficiency and viability. The OECD also found the impact of excess capacity was worsened by Government financial support, tax concessions and other assistance for new and existing steel plants.

<sup>3</sup> The nine investigations include seven investigations into dumping or countervailing and two anti-circumvention inquiries. Resumed investigations and reinvestigations are not included in this total.

<sup>4</sup> The 12 completed investigations include 11 investigations into dumping or countervailing and one anti-circumvention inquiry. Resumed investigations and reinvestigations are not included in this total.

<sup>5</sup> The administrators of Arrium announced the sale of the Arrium Mining Consumables Division ("Moly-Cop") responsible for the production of steel grinding balls on 4 November 2016. (<https://www.arrium.com/~media/Arrium%20Mining%20and%20Materials/Files/ASX%20Announcements/FY2017/Arrium%20Announcements%20Sale%20of%20Moly-Cop%204%20November%202016.pdf>)

<sup>6</sup> <http://www.minister.industry.gov.au/ministers/laundy/media-releases/international-steel-markets-analysis-released>