

**STRONGER
TOGETHER**

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First Last
Senate Standing Committees
PO Box 6100
Parliament House
Canberra ACT 2600

By email:

RE: Senate inquiry into the state of Australia's rail industry

Dear Committee Secretary

EXECUTIVE SUMMARY

The Australian Workers' Union (AWU) is a major supporter of government procurement policies which include local content requirements in particular for projects of strategic significance under a competitive tender / value for money framework.

Experience in Victoria with the Victorian Industry Participation Policy (VIPPP) and its Strategic Projects requirements is a guide for the way government as the largest purchaser of goods and services in the economy can assist local industry within a competitive tender process.

For example, local train and tram manufacturing supply chains have benefited from contracts awarded in recent years to both Bombardier and Alstom in addition to Downer Rail among other local manufacturing suppliers. The Victorian Government has currently committed more than \$2 billion to purchase new, locally made trains and trams.¹

In the absence of government policy focused on maximising local investment and jobs, it is questionable that these industries would still be so heavily invested in productive and profitable manufacturing in Australia supporting thousands of local jobs and their knock-on contribution they make to the Australian economy.

Government procurement therefore has a vital role to play in assisting local manufacturing, including in the steel sector.

The AWU supports the national adoption of a policy which mirrors Victoria's Strategic Projects policy.

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For example, a major driver of future demand for steel (among other products and services) would be the declaration of a future Melbourne to Brisbane High Speed Rail project as a project of national significance with a local content weighting attached. This would instantly improve the prospects for the Whyalla Steelworks from where production of hard coated steel for the rail track would be required.

Recommendations from the Senate Economics References Committee into the future of Australia's steel industry support this call.

The AWU remains committed to pursuing every opportunity to assist local manufacturing including our local steel makers.

The AWU urges the Committee to share the vision that the AWU has for securing a sustainable future for a profitable national rail industry by recommending the adoption of National Strategic Projects policy in order to promote investment in local rail manufacturing and jobs.

INTRODUCTION

This submission addresses the terms of reference of the Senate's Rural and Regional Affairs and Transport References Committee inquiry based on the experience of AWU members in train and tram manufacturing and also the AWU's coverage of steel industry members supplying strategic projects in Victoria including level crossing upgrades among many other strategic - nation-building - projects.

The submission briefly outlines the strategic importance of local steel manufacturing and elements of Victoria's Strategic Projects model (under the VIPP) relevant to the development of a National Strategic Projects policy in the rail sector. The submission raises the prospect that a well-designed National Strategic Projects policy would assist in increasing demand for local steel – including for advanced, hardened steel - among other locally manufactured products and services and generate future export opportunities in the rail sector as identified by the Rail Manufacturing CRC (RMCRC).

As a catalyst, the High Speed Rail project should be declared a project of national strategic significance in order to maximise these local benefits, including assisting to secure the future for the Whyalla Steelworks and local rolling stock manufacturing.

THE STRATEGIC IMPORTANCE OF LOCAL STEEL

No significant advanced manufacturing economy does not have its own local steel capability defended by stronger local content policies other than Australia – including the US, Canada, Japan, Korea, and the EU to name a few.

Australia has already lost its motor vehicle manufacturing capability. Local manufacturing capability will be hollowed out even further if Australia also loses its steel industry.

Steel is a vital strategic manufacturing industry in the Australian economy. There are three main reasons why the Australian Government should be encouraging the local steel industry:

- The steel industry makes a significant contribution to the Australian economy. ABS data indicates 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.² 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.³ Additionally, there are hundreds of thousands of Australians employed throughout various sectors of the economy reliant on the production and utilisation of steel in Australia.

- The industry is the basic building block to essential infrastructure – our roads, bridges, ports, tunnels, hospitals and schools. Without local steel Australia must rely on imported steel from other countries that also have major demands for steel, such as China.
- There is absolutely no guarantee that the absence of local steel will not harm Australia in the event that foreign suppliers reduce their supplies to Australia or fail to meet quality standards which meet Australia's fit for purpose requirements for our essential infrastructure.

In Australia, almost 97 per cent of steel products are purchased by three industries. These are:

- Manufacturing (48.7 per cent)
- Construction (42.6 per cent)
- Mining (5.3 per cent)

Combined, these industries purchased \$17.5 billion of iron and steel manufacturing inputs in 2013-14.⁴ Imports' share of supply for these industries is currently around 33.9 per cent.⁵ Local steel supply is therefore an industry of national significance.

As steel is an intermediate product, the demand for steel products in Australia is driven by demand for these services. For example, the Construction industry, which is the second largest consumer of steel products, has grown at 3.7 per cent per year for the past five years in terms of Industry Value Add. Over the last decade, employment in the industry has grown from around 880,000 persons to nearly 1,080,000.⁶

RAIL

As noted by the Rail Manufacturing CRC (RMCRC) in their submission to the review of the VIPP⁷, at present, Australia is a net importer of rail equipment. According to

² The Senate Economics References Committee Future of Australia's Steel Industry Interim report, December 2016, p4, quoting from a submission from the Australian Steel Institute [file:///C:/Users/user/Downloads/report%20\(1\).pdf](file:///C:/Users/user/Downloads/report%20(1).pdf)

³ Ibid, p4, quoting from a submission by the Australian Industry Group

⁴ Anti-Dumping Commission: Analysis of Steel and Aluminium Markets – Report to the Commissioner of the Anti-Dumping Commission, August 2016, pp12-13, <http://www.adcommission.gov.au/adsystem/referencematerial/Documents/MASTER%20-%20Steel%20aluminium%20report%20%20-%2031%20August%202016%20-%20for%20public%20release.pdf>

⁵ Source: ABS, Australian National Accounts: Input-Output Tables, 2013-14 cat. no. 5209.0.55.001.

⁶ Anti-Dumping Commission: Analysis of Steel and Aluminium Markets – Report to the Commissioner of the Anti-Dumping Commission, August 2016, p15, <http://www.adcommission.gov.au/adsystem/referencematerial/Documents/MASTER%20-%20Steel%20aluminium%20report%20%20-%2031%20August%202016%20-%20for%20public%20release.pdf>

⁷ http://rmcrc.com.au/wp-content/uploads/2016/01/RMCRC-Sub_Review-of-Victorian-IPP_Nov2015.pdf

IBISWorld, in 2014-15 the value of imports was \$1.4 billion whereas the value of exports was \$98.8 million.⁸ While imports of rail equipment are expected to grow at around 13.1% over the next five years, exports are smaller and grew slower at an annual rate of 2.9% over the past five years.

RMCRRC believes that the rail manufacturing industry in Australia, with its close proximity to the growing Asia-Pacific markets, is well placed to integrate into the global supply chain that will service the expanding markets driven by increased urbanisation in the region.

The location of global rail manufacturing companies including Bombardier Transportation, Downer, Alstom and Faiveley Transport in Australia creates a strong foundation for developing greater export opportunities into the Asia-Pacific region as these companies leverage local infrastructure projects and Australian manufacturing expertise into growing markets.

The RMCRRC is also a strong advocate for the inclusion of innovation as an important criterion in the consideration of local content tenders in order to invest in Australia's advanced manufacturing capabilities and future export opportunities. (Note: technology transfer (inclusive of innovation) has been explicitly included as a selection criterion under the revised VIPP Strategic Projects policy).

LOCAL JOBS FIRST -THE VICTORIAN INDUSTRY PARTICIPATION POLICY (VIPP)

Through its Victorian Industry Participation Policy (VIPP), the Victorian Government is committed to improving opportunities for local suppliers to create more new jobs and grow the economy.

As the largest purchaser of goods and services in the state, the Victorian Government is committed to leveraging government procurement to boost local economic growth and job creation.

The VIPP ensures that small and medium size enterprises (SMEs) are given a full and fair opportunity to compete for government contracts, such as hospitals, schools and road projects, while still achieving value for money. The Victorian Government has strengthened VIPP further in order to use its purchasing power to increase economic activity, opportunities for SMEs and boost local jobs. A factsheet on the VIPP program also refers.⁹

STRATEGIC PROJECTS

Under VIPP, large procurements that are of **strategic significance** to the Victorian economy are deemed Strategic Projects, with minimum local content requirements set to ensure local industry gets a fair opportunity to compete.

Strategic Projects under VIPP are major projects that have an estimated total project value of \$50 million or more (set on build phase), but excluding maintenance and

⁸ 4 IBISWorld Industry Report C2393, Railway Equipment Manufacturing and Repair in Australia, May 2015, p16

⁹ http://economicdevelopment.vic.gov.au/_data/assets/pdf_file/0005/1363289/Attachment-1-Factsheet.pdf

operational costs. Maintenance projects valued at \$50 million or more are classified separately as Strategic Projects.¹⁰

For each Strategic Project, the government sets a minimum local content requirement that project proponents are required to meet. This ensures that local spending means local jobs. These changes are already enhancing opportunities for local industry to participate in projects such as the High Capacity Metro Trains and the 50 Level Crossings Removal Project.

Strategic projects are expected to:

- contribute to the productive capability of Victoria and make a strategic economic contribution to the State
- potentially generate significant local industry participation, employment or skills and training/ technology transfer
- create opportunities to build ongoing industry capability, skills and employment benefits, and/or
- contain significant contestable items.

The minimum local content requirements for Strategic Projects are determined on a case-by-case basis by the Victorian Government. Other conditions that may be applied to Strategic Projects include requirements to demonstrate other industry outcomes such as number of new and retained jobs, number of new and retained apprentices/ trainees, training and skills development of the workforce and technology transfer (such as through innovation, research and development, transfer of intellectual property or transfer of know-how).

Shortlisted bidders on Strategic Projects under VIPP prepare a Local Industry Development Plan (LIDP). LIDPs collect a more detailed level of information on the local goods and services that would be engaged on the project, should the bidder be awarded the contract.¹¹

FORWARD PLAN – AUGUST 2016

The forward plan¹² lists current and upcoming Victorian government VIPP Strategic Projects to provide industry with early notification and to enhance opportunities to engage in government procurement projects.

The Melbourne Metro Tunnel Project is currently working with project proponents to capture the maximum local content under a competitive tender process. The Victorian Government has identified the Metro Tunnel Project as a strategic project under the Local Jobs First Victorian Industry Participation Plan guidelines, which mandates a minimum level of local content that must be achieved as part of a bidder's tender.¹³

¹⁰ http://economicdevelopment.vic.gov.au/_data/assets/pdf_file/0003/1314390/VIPP-Annual_Report-2014-15.pdf, p4

¹¹ Ibid, p7

¹²

<file:///C:/Users/user/Downloads/Victorian%20Government%20VIPP%20Strategic%20Projects%20Forward%20Plan%20-%20August%202016.pdf>

¹³ <http://www.icn.org.au/content/national/major-metro-rail-project-calling-expressions-interest>

With a project value of \$10.9 billion the Metro Tunnel Project is the biggest public transport project in Victoria's history and ICN Victoria is working with the Melbourne Metro Rail Authority on an Industry Engagement strategy to help local suppliers get involved in the early stages.

VICTORIA'S FUTURE INDUSTRIES - TRANSPORT TECHNOLOGIES (DECEMBER 2015)¹⁴

The outlook for the rail sector has been significantly boosted by the Victorian Government's Rolling Stock Strategy: Trains, Trams, Jobs 2015-2025 – an industry blueprint.¹⁵ This strategy commits more than \$2 billion for new train and tram building, maintenance and workforce training.

The blueprint is already encouraging new investment, evidenced by Downer Rail's decision to develop the Newport rail workshops to compete for new Victorian and Australian rail opportunities.¹⁶

Through the VIPP, the High Capacity Metropolitan Trains project has a 50 per cent minimum local content target. The Victorian Government has also committed to using 100 per cent local steel in the removal of 50 of the most dangerous and congested level crossings.

In addition to new rolling stock, the Victorian Government has provided \$55.6 million for the first stage trial of High Capacity Signalling (HCS) on the Sandringham train line using CBTC (Communications-Based Train Control) technology. The technology allows trains to operate safely with reduced distances between one another by constantly monitoring train location, speed and intervals in a dynamic environment, effectively increasing capacity on the tracks.¹⁷

HARDENED STEEL FOR HIGH SPEED RAIL PROJECT

In 2016 the AWU and other unions and rail organisations called on the federal government to fast-track plans for high-speed rail from Melbourne to Brisbane, saying the steel needed for the project could help shore up Arrium's troubled steelworks.

Former AWU National Secretary Scott McDine stressed that a major fast rail project, built with Australian steel, could be the difference between the Whyalla steelworks surviving or not.

The project would require thermally hardened steel to be produced, which would mean a \$50 million upgrade to the Whyalla steelworks. On 9 June 2016, the South Australian

¹⁴ http://yoursay.business.vic.gov.au/futureindustries/application/files/7614/4972/8304/Transport_Technologies_Discussion_Paper_for_Public_Release_9_Dec_2015.pdf

¹⁵ <http://www.premier.vic.gov.au/trains-trams-jobs-2015-2025/>

¹⁶ The Victorian Government demonstrated its commitment to improving how government procurement is used to generate local jobs and boost economic activity by implementing changes to strengthen VIPP, effective from 1 July 2015, including lowering the threshold for Strategic Projects to \$50 million project value and calculating minimum local content requirements on build phase, separate to ongoing maintenance and operational costs. Large maintenance costs projects will continue to be subject to VIPP requirements.

The government has also built on these changes by collaborating with business, unions and the wider community to develop and implement a strengthened industry participation policy, effective from 1 July 2016.

http://yoursay.business.vic.gov.au/futureindustries/application/files/7614/4972/8304/Transport_Technologies_Discussion_Paper_for_Public_Release_9_Dec_2015.pdf, p16

¹⁷ http://yoursay.business.vic.gov.au/futureindustries/application/files/7614/4972/8304/Transport_Technologies_Discussion_Paper_for_Public_Release_9_Dec_2015.pdf, p16

Government committed \$50 million to support a new owner of the Whyalla steelworks. When making the announcement, South Australian Premier Jay Weatherill noted that 'the funding will be placed in a facility that can only be accessed by a new owner if it is used to support the operations at Whyalla'.¹⁸

Any upgrade would therefore be contingent on a guarantee the rail line would go ahead.

It has been reported that the government is looking to use value-capture finance to bolster the business case for a very fast train running from Melbourne to Brisbane.

The rail line has been estimated to cost between \$30 billion and \$114bn.

Australasian Railway Association (ASA) chief executive Danny Broad noted the government had already preserved most of the route for the railway line.

The ASA agrees that high-speed rail will provide an opportunity for local Australian constructors and suppliers to contribute to the construction, maintenance and operation of a transformative transport project.¹⁹ The AWU would explicitly add local rail and steel manufacturing must supply this project.

Procurement of major fast rail would also be entirely consistent with the recommendations of the Senate Economics References Committee's inquiry into the future of Australia's steel industry (Interim Report), namely:

Recommendation 1: The committee notes commitments made by the Australian and South Australian Governments to secure the sale of Arrium and recommends that this funding be deployed as a matter of urgency to assist with the sale process, in accordance with advice from the company administrators.

Recommendation 2: The committee notes that further government support may be required to secure the sale of Arrium, depending on the nature of the final offers, and recommends that governments' work with bidders and the administrators to ensure that additional support is provided, as appropriate, to secure the sale of the company and the future of the Whyalla steelworks.

Recommendation 3: The committee recommends that additional policy and legislative reforms, particularly in the areas of anti-dumping and countervailing measures, government procurement, and standards, should be addressed in detail as part of the committee's deliberations and final report.²⁰

CONCLUSION

The AWU is actively supporting members in the rail sector and its supply chain including local infrastructure project proponents and the Australian steel industry. There

¹⁸ The Senate Economics References Committee Future of Australia's Steel Industry Interim report December 2016, pp13-14, [file:///C:/Users/user/Downloads/report%20\(1\).pdf](file:///C:/Users/user/Downloads/report%20(1).pdf)

¹⁹ Verity Edwards, Sarah Martin: **Steel for high-speed rail project 'could save Arrium'**, *The Australian*, 13 April 2016, <http://www.theaustralian.com.au/national-affairs/steel-for-highspeed-rail-project-could-save-arrium/news-story/26458105a2da33dde64cdd6a89df9401>

²⁰ The Senate Economics References Committee Future of Australia's Steel Industry Interim report December 2016, p vii, [file:///C:/Users/user/Downloads/report%20\(1\).pdf](file:///C:/Users/user/Downloads/report%20(1).pdf)

is an important opportunity under the terms of the Committee's inquiry to both acknowledge the value of the contribution which local rail supply chain manufacturing makes to the Australian economy and the vital role Government plays in facilitating investment through its procurement decisions.

Investment in rail infrastructure can play a major role in driving supply chain activity. This includes in the supply of steel related inputs which meet local quality standards and which also have significant knock-on benefits to local steel manufacturers including Arrium and BlueScope Steel.

The Whyalla Steelworks in particular is well positioned to supply the fast rail project with hardened coated steel output (and mining rail projects) contingent upon the agreement of the federal government to undertake the project and to implement a strategic projects policy which accounts for local content opportunities on a competitive tender and value for money basis. Local supply of hardened steel should be written into the future High Speed Rail project specifications as a strategic local content requirement.

Support for the project would unlock government assistance for the Plant in turn assisting to secure the Plant's future consistent with the recommendations contained in the Senate Economics References Committee's interim report into the future of Australia's steel industry.

Over the last decade, above track investments by Bombardier, Alstom and Downer Rail, including in Victoria have (via strategic government procurements) revitalised a local rail manufacturing capability which is today supplying jurisdictions throughout Australia and the region; bringing with it the creation and maintenance of thousands of local jobs through the rail manufacturing supply chain and more broadly throughout the Australian economy.

These positive outcomes have been facilitated by a proactive approach by the Victorian Government especially in establishing a best practice local content framework accounting for benefits to local investment, jobs and innovation under a strategic projects framework. Weighted to ensure that competing tenders deliver outcomes of strategic benefit to the nation, the strategic projects framework is entirely consistent with Australia's multilateral and bilateral trade obligations governing government procurement.

The Australian Government is therefore urged to urgently make progress with formulating a National Strategic Projects policy consistent with and building upon progress made with equivalent policies in other jurisdictions, in particular Victoria.

The AWU stands ready to assist the Committee in this vital work.

Yours sincerely

Daniel Walton
NATIONAL SECRETARY

