Senate Standing Committees on Economics Inquiry Into the Future Sustainability of Australia’s Strategically Steel Industry and its Supply Chain

Submission by Steelforce

February 2016

Terms of Reference

Report on:

a. The future sustainability of Australia’s strategically vital steel industry and its supply chain; and
b. Any other related matters.

STEELFORCE

About Steelforce

The Steelforce Group is a 100 percent Australian owned manufacturer and trader of a range of steel pipe and tubular products into the Australian and NZ steel markets and also a distributor of structural steel, merchant bar and steel pipe and tubular products into the Australian steel market. The steel pipe and tubular products are manufactured at its wholly owned foreign entity, Dalian Steelforce, which operates out of Dalian in China. Steelforce was established in 2000.

The Steelforce business has its Head office located at the Port of Brisbane, Queensland and employs approximately 127 full time equivalent (FTE) Australians. Steelforce sells its long steel products into the Australian steel market to over 2,000 customers.

In response the local steel manufacturer's refusal to supply, Steelforce decided to involve offshore sourcing of product, so rather than just purchase product from overseas companies, a move was made to establish a 100% Australian owned mill at Dalian in China.

For FY2015 Steelforce sold in excess of 130k tonnes of long steel products into the Australian and New Zealand markets generating approx. $168 million in sales revenue for the Group.

Steelforce is the fourth largest distributor of long steel products in Australia with annual sales in excess of 107,000 tonnes and operates a national distribution network with four strategically located branches:

- Brisbane, Queensland;
- Sydney, New South Wales;
- Melbourne, Victoria; and
- Perth, Western Australia

The Steelforce Group features in BRW Top 500 Australian Private Companies list, No. 366 (FY2015).

Commissioned in 2005 the Steelforce Dalian facility now runs two pipe and tube mills and two steel coil slitters. The facility is operational seven days a week manufacturing products that fully comply with Australian and New Zealand Standards. Steelforce actively participates with the preparation of Australian Standards with Standards Australia committees.

The products that are manufactured are only sold in Australia and New Zealand and not in China.

Steelforce profits are repatriated to Australia and subject to Australian income tax laws paying taxes to the Australian State and Federal Governments including GST, Payroll Tax and FBT.

Annual overhead spending including salary and wages plus applicable on-costs, transport, rent, etc. also stimulates the local economies and communities.

NOTE: Steelforce requests permission to appear as a witness to a Committee hearing in an appropriate venue when these are made public.

STEELFORCE

The Steel Industry in Australia – A Competitive Landscape

Overview

The Australian steel industry consists of two main producers, BlueScope Steel Ltd (BlueScope) and Arrium/OneSteel Ltd. (Arrium/OneSteel)

The steel industry, like much of industry, is globally changing. Many commentators predict that days of manufacturing in Australia are numbered. For example, a recent analyst's report that describes the closure of BlueScope's Port Kembla steelworks was a matter of 'not if but when.' Already the workforces of both BlueScope and OneSteel have been reduced considerably in an effort to cut costs.

An ANZSIC report in June 2015 provides data that the Australian steel sector employs 17,400 across 1220 business operations.

Like the motor vehicle manufacturing industry, government and industry will face the question 'do we subsidise and/or implement trade barriers to protect Australian manufactures'. Invariably over the many years when Australia has done that to a range of industries it has led to increased consumer prices and the eventual removal of such barriers. In 2015 free trade agreements are under global discussion and more are likely. The China-Australia Free Trade Agreement (ChAFTA) became enforceable on 20 December 2015.

Under ChAFTA Australian producers will have full access to trade remedies under the World Trade Organisation, such as anti-dumping and countervailing measures, and temporary bilateral safeguard measures will be put in place to protect against surges in imports.

Steel Pipe and Tube Products (Dalian Steelforce range)

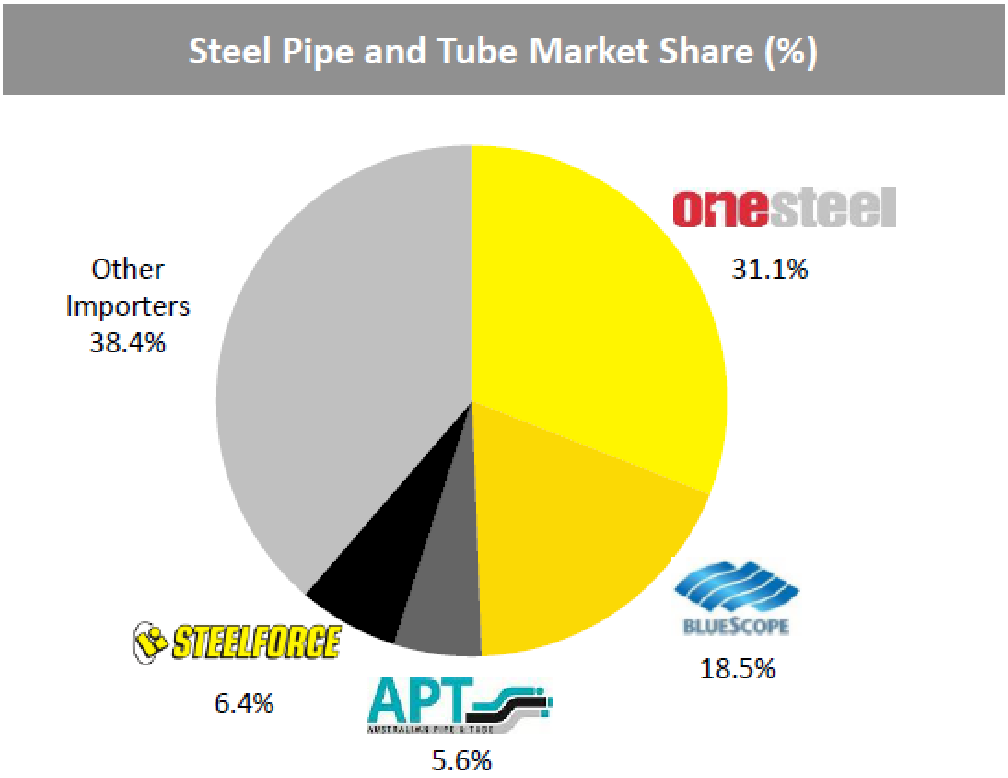
It is estimated that over 500,000 tonnes of steel pipe and tube products, encompassing the Dalian Steelforce product range, are supplied in the Australian market per annum (including imports).

Approximately 45.0% of this product is sourced from offshore manufacturers including Steelforce.

Steelforce is unique in the Australian market as it:

- is the only wholly owned Australian business with an Asian-based manufacturer of steel pipe and tube set up exclusively to supply the Australian market; and
- as a result of local supply restrictions Steelforce operates on a full import model and takes no direct supply from Australian manufacturer.

Market share is estimated to be:



Note: Based on electric resistance welded steel pipe and tube ranging from 20 x 20 x 1.5mm to 400 x 400 x 16.0mm

Source: Management Estimates

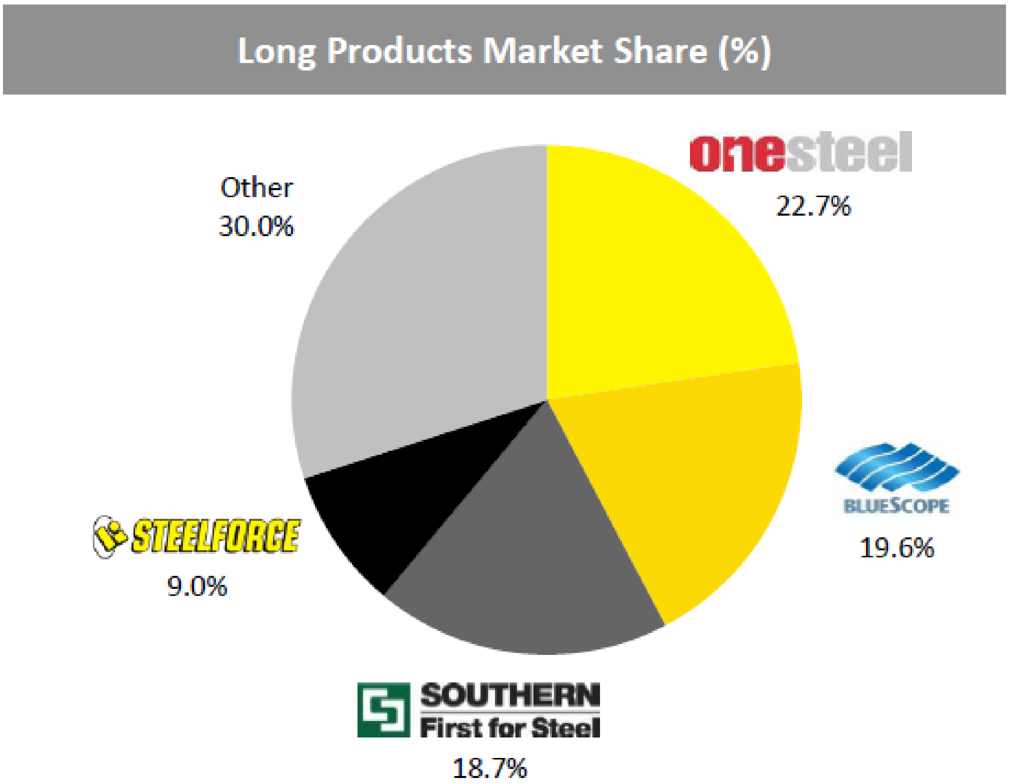
Long Products

Long products include hot rolled structural sections, merchant bar and steel pipe & tube.

It is estimated that over 1.0 million tonnes of long products are distributed throughout Australia per annum.

Steelforce is the fourth largest distributor of this product range in Australia with an estimated market share of 9.0%.

Market share is estimated to be:



Note: Based on hot rolled structural steel, steel pipe and tube and merchant bar
Source: Management Estimates

An Importing Model in Australia

In a competitive global market Steelforce decided to establish a 100% Australian owned mill in China in direct response to OneSteel's refusal to supply Steelforce with its range of steel pipe and tubular products.

An Australian business such as Steelforce that is manufacturing Australian Standard compliant products in China exclusively for the Australian and NZ markets introduces some drawbacks and challenges not faced by Australian producers. For example, Steelforce must manage a very long supply chain (3+ months compared to Australian manufacturers of 4 to six weeks) requiring significant working capital investment that is subject to delays, foreign exchange fluctuations and volatility in freight costs.

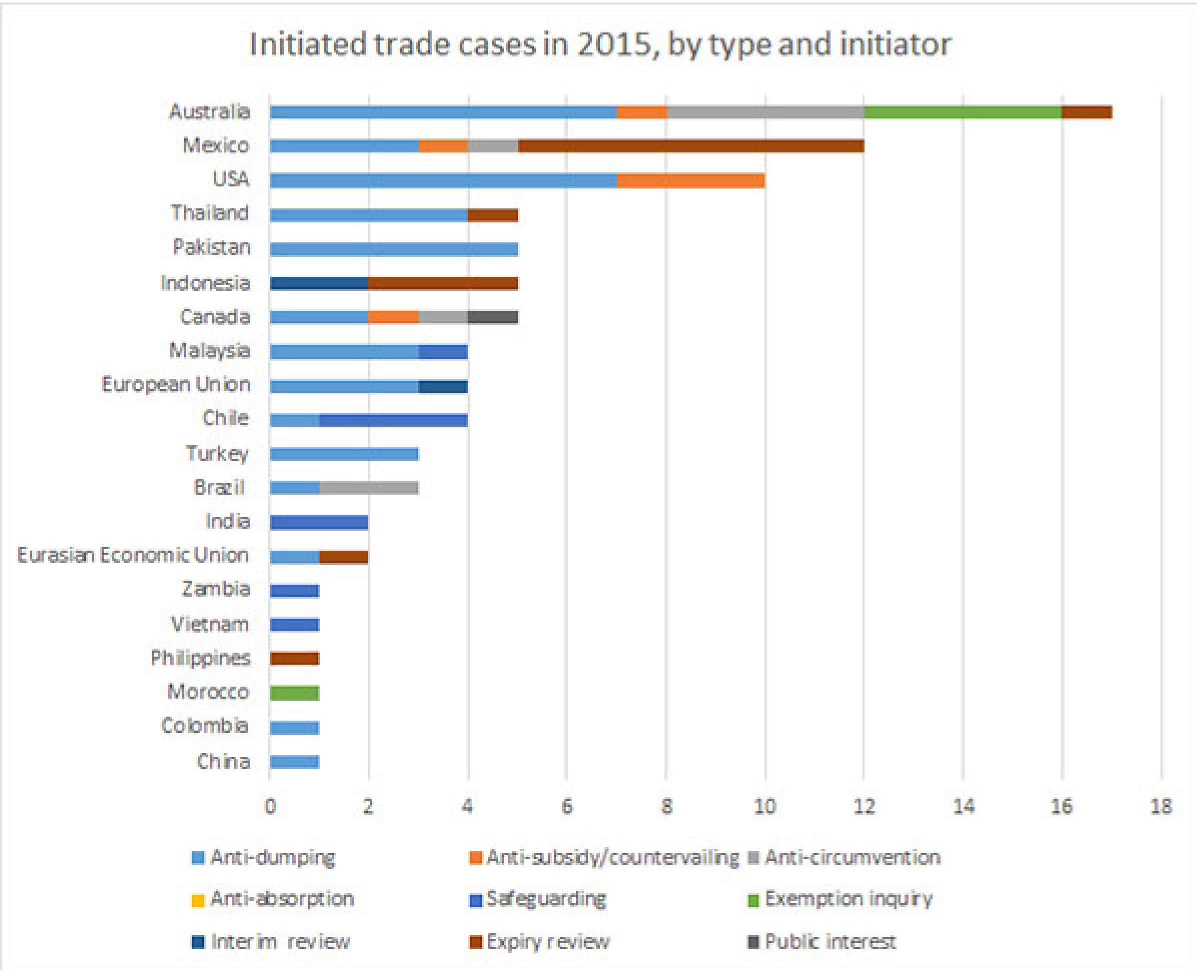
Steelforce has approached OneSteel on a number of occasions to request supply of hot rolled structural steel and merchant bar (approximately 53,000 tonnes per annum). Each time OneSteel has either ignored requests or effectively declined supply.

Throughout 2015, steel market participants from around the world have expressed their support for free trade.

In fact, "free and fair" is the reference term that is most commonly used and it is the perceived lack of "fairness" that turned last year into one of the busiest for erecting barriers against the flow of ferrous products, particularly from China.

Worldwide, a total of 87 trade cases involving steel were initiated in 2015 (source: Steel First) including anti-dumping, anti-subsidy or countervailing, anti-circumvention, anti-absorption, safeguarding, exemption and public interest inquiries, as well as interim and expiry reviews.

An overview is:



Australia was clearly the most active initiator of trade cases last year. This is somewhat ironic, considering the country's small share of global steel production.

Australia produced 4.542 million tonnes of crude steel during January to November 2015, compared with 16.789 million tonnes in Mexico and 73.139 million tonnes in the USA in the same period.

The production figures are based on the latest data available from the World Steel Association (Worldsteel).

China-Australia Free Trade Agreement (ChAFTA)

The Steelforce investment in China is exactly the form of investment that ChAFTA has been designed to promote.

Relevant extracts from commentary on the ChAFTA (source: www.dfat.gov.au):

"ChAFTA builds on Australia's large and successful commercial relationship with China, by securing markets and providing Australians with even better access to China across a range of our key business interests, including goods, services and investment"

"Trade and investment with China is central to Australia's future prosperity"

"For Australian consumers and businesses - consistent with Australia's other bilateral trade agreements, remaining Australian tariffs on Chinese imports will be eliminated progressively. This includes removing the five per cent tariff on Chinese manufacturing exports, electronics and white goods, with consumers and businesses to benefit from lower prices and greater availability of Chinese products"

"ChAFTA will support increased trade and investment between the two countries by reducing barriers to labour mobility and improving temporary entry access within the context of each country's existing immigration and employment frameworks and safeguards"

Conclusions and Recommendations

1. The Australian domestic steel manufacturing industry will continue to become less competitive due to a range of factors including high labour, transport and energy costs. This is consistent with other domestic manufacturing industries most notably the motor vehicle manufacturing industry.
2. Giving preference to Australian manufactured steel products over imported steel products for construction projects is anticompetitive as are tariffs and subsidies. Governments cannot support the local steel industry in isolation and they cannot offer carrots to encourage capital investment or enforce requirements on major new projects to buying Australian made products.
3. Government can however assist the Australian manufacturing industry to seek to become world leaders in innovation, technical competence and productivity. This can be done through supporting education, training and practical encouragement. For example the University of Wollongong's steel research hub is already trying to find the products of the future that Australia can make competitively.

4. Government should plan for job losses from the some 17,400 currently employed in the steel sector and provide re-training and job subsidies to employers to take on often highly skilled redundant workers.
5. Given that some 1,220 businesses operate in the sector the large majority of these will continue to operate to support infrastructure, construction, manufacturing and other industries regardless of the source of the steel products.
6. Government needs to move away from protecting the “duopoly” of Australian steel manufacturers in favour of creating a more competitive market for steel products to allow the downstream fabricators and end uses of steel products to be more competitive against imported fabricated products which are not subject to the anti-dumping regime.
7. Genuine steel suppliers to the Australian market such as Steelforce should not be treated the same as other overseas based steel manufacturers that dump their products from excess production capacity into the Australian steel market (as a secondary market).