

Chapter 2

Arrium

Introduction

2.1 Arrium Limited is an international diversified mining and materials company with three business segments: Arrium Mining Consumables, Arrium Mining and Arrium Steel.

2.2 Arrium Steel includes both the Steel and Recycling businesses. The steel business is Australia's only manufacturer of steel long products with steelmaking capacity of approximately 2.5 million tonnes per annum. It is also Australia's leading steel distributor and reinforcing steel supplier. The Recycling business has operations focused on the southern and eastern coasts of Australia, as well as non-ferrous operations in Asia.¹

2.3 The Department of Industry, Innovation and Science (the department) provided the following overview of Arrium:

Arrium Ltd is an Australian public company with its head office in Sydney, New South Wales. Its Australian steel operations include both the Steel and Recycling businesses. Its steel manufacturing businesses, OneSteel Whyalla Steelworks and OneSteel Rod Bar Wire, specialise in steel long (hot-rolled structural sections, tubes and pipes, bars, rail and sleeper) products with production capacity of approximately 2.5 million tonnes per annum.

It reported steel and steel recycling operations' sales revenues of about \$4 billion in the 2015 financial year. Its Australian steel operations employed around 5,500 persons in 2015, with about 1,100 employees at its Whyalla steelworks in South Australia.²

2.4 Broadly, this chapter will focus on the following matters:

- challenges facing Arrium, cost reduction measures undertaken and government commitments made to date;
- developments during the period since Arrium was placed into voluntary administration; and
- contribution of the Whyalla steelworks to the community and the potential impact should the steelworks close.

1 Arrium Mining and Materials, *Annual Report 2015, Building resilience*, p. 2.

2 *Submission 18*, p. 7.

Challenges facing Arrium

2.5 As outlined in chapter 1, the Australian steel industry is facing a number of challenges, in particular the oversupply in the global market placing downward pressure on prices.

2.6 In its submission to the inquiry, Arrium outlined how these challenges are affecting the industry:

Many of the challenges Australian steelmakers are facing can be attributed to the current status of the global steel market. In the simplest terms, there is too much capacity and facilities are being run far below economic levels. This situation is pushing prices and margins to ten-year lows.

...

This oversupply is not being met with the expected market response – that is, a reduction in supply. It is estimated that approximately 300 to 400 mtpa [metric tonnes per annum] needs to be removed from the market to return it to its optimal utilisation rate of 85 per cent (the current rate is approximately 70 per cent).

The Chinese Iron and Steel Association has estimated it will take at least ten years for this overcapacity to correct.³

2.7 Evidence to the inquiry noted there are a number of factors impacting on Arrium's current financial position. Whilst acknowledging that they were not involved in Arrium's management decisions, witnesses expressed concern about the expansion of operations into other parts of South Australia and the impact this may have had on the organisation's financial position. Mr Scott Martin, Branch Organiser, Australian Workers' Union told the committee:

[T]he reason the company is in the position they are in has nothing to do with the carbon tax being in place or being taken out of place. It is to do with what they did up at Southern Iron—establishing a mine up there that basically had to collapse as soon as they got the thing up and running. They spent \$600 million of capital expenditure that they had to go to the market to get. They built that mine and the rail lines, expanded the port and put ore sheds in out here. Within five minutes of doing that it was gone. That is what has put the company in this position; it has nothing to do with the carbon tax.⁴

2.8 On this issue, Mr Stephen Young, Managing Director, E&A Ltd provided evidence to the committee:

I am obviously not involved in the management of the business. I sit outside the business and do not have detailed firsthand information, and I should obviously qualify my response with that observation first of all. Having said that...the decision that was made in different times by the Arrium board to expand the company's operations in the Middleback Ranges and then to

3 *Submission 16*, p. 4.

4 *Committee Hansard*, 5 April 2016, p. 15.

acquire the Peculiar Knob iron ore facility has, with the benefit of hindsight, been a mistake. The debt that was incurred in making those acquisitions is currently not repayable, or would not appear to be repayable, and my understanding is that those operations have been running on a cash-flow-negative basis, and they are struggling currently to get them to break even.

It is always easy to be wise with the benefit of hindsight. In my life I have most probably made more mistakes than Arrium, so I am always somewhat reluctant about criticising businesspeople who try and make good decisions at the time. They obviously thought that the decision to expand iron ore would protect the steel making business.⁵

Cost reduction measures

2.9 The committee received evidence detailing the cost reduction measures that Arrium has taken in recent years in response to the competitive pressures in the global industry.

2.10 Arrium explained the cost reduction program it has undertaken since 2009:

Arrium has worked to maintain competitive pricing, even though this is marked against products that are likely dumped. To achieve this, since 2009 we have reduced our total delivered cost of steel per tonne by 24 per cent after inflation, as well as improving productivity and reducing margins wherever possible.

Overall, Arrium achieved an annualised cost base reduction of \$40m in 2014-15. Over the last five years, Arrium's steel business has been radically restructuring to improve efficiency, and has done so while producing a greater amount of steel than we produced five years ago.

... Further, Arrium has identified a cost reduction and efficiency target of \$100m for our Whyalla operations for the 2016 financial year. To date, approximately \$100m of this has been identified, and unfortunately has included approximately 200 job losses, with an additional 50 losses likely from contractors. The continued deterioration of the market, however, has now increased the required target to \$160m.

Despite these significant efforts, Arrium cannot continue with the status quo... In short, Australia's domestic industry – like steel industries around the world – is under significant pressure due to a global situation that has been created largely by non-market forces and is accordingly beyond our control.⁶

2.11 Mr David Gabb, AWU delegate and steelworker also detailed the commitments agreed to by Arrium employees:

We [Arrium employees] made a sacrifice to save \$100 million, and that target, apparently, has been achieved. We have done that. But then they came back and said, 'No, we need another \$60 million.' That \$100 million,

5 *Committee Hansard*, 5 April 2016, p. 34.

6 *Submission 16*, pp. 7–8.

by the way, we got from restructuring wage cuts, shift changes, overtime bans and other cost-saving measures, so we all hurt to get that. That was only six months ago that they came out with that, and we did it. We got it. And myself, I suffered a great financial loss through these changes and, because we now have less people, I do the work of two people compared to what I used to do. As I am getting older, in an ideal world life should be getting easier, not getting harder.⁷

2.12 Questions about the future of the steelworks at Whyalla were raised by Arrium in February 2016 after the announcement of a \$43 million operating loss for the facility due to low steel prices, with planning underway to put the steelworks into care and maintenance by the middle of the year unless conditions improved.⁸ In late February 2016, a recapitalisation plan for Arrium was announced.⁹

2.13 At a public hearing in April 2016, representatives from Arrium told the committee that they were exploring a range of options to support operations at Whyalla:

What we have said is that we think that, to achieve an outcome to make that facility, at a minimum, cash break-even, which is what we need to do, it will require all of our stakeholders to be involved. Government is one of those stakeholders. Our employees are another. Our contractors and partners that we work with in those operations are another.¹⁰

...What I can say is that, in the present circumstances, there is nothing that the company is not considering in terms of finding a way through.¹¹

2.14 On a related matter, the committee received evidence on 5 April 2016 from the Australian Manufacturing Workers' Union (AMWU) about the activities undertaken by employees to support the steelworks and improve the situation:

What have the employees done to assist to secure the viability of the steel industry? Over the past 12 months the direct employees have contributed both economically and practically to ensure the ongoing sustainability of the steelworks and mines. This has been achieved in many ways. They have injected ideas on cost savings and productivity improvements, moved to multiskilled roles to allow for reduction of numbers of their fellow workers and still maintained production outputs. At present, there is a variation

7 *Committee Hansard*, 5 April 2016, p. 8.

8 Michael Janda, *ABC Online*, 'Arrium, Mt Gibson iron ore losses remain large; Whyalla steelworks future in doubt', 17 February 2016, <http://www.abc.net.au/news/2016-02-17/arrium-mt-gibson-iron-ore-losses/7175698> (accessed 17 February 2016).

9 Tim Binstead, *The Canberra Times*, 'GSO Capital extends \$US957m lifeline to Arrium as subs builders look to Whyalla', 22 February 2016, <http://www.canberratimes.com.au/business/gso-capital-extends-us957m-lifeline-to-arrium-20160221-gmzw2z.html> (accessed 29 March 2016).

10 Ms Naomi James, Chief Executive, Strategy, Arrium Mining and Materials, *Committee Hansard*, 6 April 2016, p. 27.

11 Ms Naomi James, Chief Executive, Strategy, Arrium Mining and Materials, *Committee Hansard*, 6 April 2016, p. 28.

being voted on to reduce their take-home pay, base pay and allowances by 10 per cent and forgo a three per cent pay increase under their current enterprise agreement, a total of 13 per cent. On top of this, the restructuring in late 2015, which reduced employees' pay by up to 15 per cent, reduced costs to company in the way of roster changes, shift penalties and the like.¹²

2.15 The committee notes further cost reduction activities undertaken since the public hearing in April 2016. Media reports in September 2016 noted that Arrium employees accepted a 10 per cent pay cut recommended by KordaMentha.¹³ This proposal had previously been rejected by workers in August 2016. The pay deal was reported to act as a cost-saving measure of approximately \$17 million in labour costs.¹⁴

Arrium placed into voluntary administration

2.16 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.¹⁵

2.17 On 5 October 2016, KordaMentha advised publicly that the sale process for Arrium was continuing: non-binding indicative offers were due in October 2016 and shortlisted bidders are expected to submit final bidding offers during December 2016.¹⁶

Commitments to support Arrium

2.18 The South Australian Government as well as the Australian Government and Opposition have made commitments to support Arrium.

2.19 On 9 June 2016, the South Australian Government committed \$50 million to support a new owner of the Whyalla steelworkers. When making the announcement, South Australian Premier Jay Weatherill noted that 'the funding will be placed in a

12 Mr Steve McMillan, Organiser, Australian Manufacturing Workers' Union, *Committee Hansard*, 5 April 2016, p. 6.

13 *ABC Online*, 'Arrium steelworks employees accept administrator's bid for pay cut', 29 September 2016, http://www.abc.net.au/news/2016-09-29/arrium-steelworks-employees-accept-planned-paycut-whyalla/7890960?WT.ac=statenews_sa (accessed 11 October 2016).

14 Simons Evans, *Australian Financial Review*, 'Arrium steelworkers say no to 10 per cent pay cut', 24 August 2016, <http://www.afr.com/business/mining/iron-ore/arrium-steelworkers-say-no-to-10-per-cent-pay-cut-20160824-gr08pk> (accessed 8 September 2016).

15 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).

16 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).

facility that can only be accessed by a new owner if it is used to support the operations at Whyalla'.¹⁷

2.20 On the same day, KordaMentha issued a media release welcoming South Australia's investment in Arrium:

KordaMentha Restructuring today welcomed the SA Government's \$50 million contribution to help secure the future of Arrium's OneWhyalla business.

Administrator Mark Mentha said the decision will go a long way towards assisting the town's steelworks and mining operations. It's a great response to what has been an unbelievably strong display of unity by all stakeholders in the Arrium businesses that include government, business, local people, suppliers and employees he said.

Mr Mentha said he looks forward to working with South Australia to gain a further \$100 million for future investment.¹⁸

2.21 On 16 June 2016, the Opposition Leader Bill Shorten announced that a Labor Government would work with the South Australian Government to establish a joint Steel Reserve to support Arrium. Federal Labor would provide \$100 million as part of the Steel Reserve—\$50 million in co-investment grants and \$50 million in financing or loan guarantees through the Export Finance and Insurance Corporation. The \$100 million commitment from the Opposition Leader is in addition to the \$50 million commitment from the South Australian Premier.¹⁹

2.22 On 19 June 2016, the Coalition-led federal government announced that it would provide Arrium with a \$49.2 million loan in order to upgrade its machinery and protect jobs at the steelworks.²⁰ On 22 July 2016, the Prime Minister confirmed that the Export Finance and Insurance Corporation will provide a loan under the National Interest Account of \$49.2 million for new machinery at the Iron Knob and Iron Baron mines.²¹

17 The Hon. Jay Weatherill, Premier of South Australia, 'State Government commits \$50 million to ensure future of Whyalla steelworks', *Media Release*, 9 June 2016.

18 KordaMentha restructuring, 'Administrators welcome SA Government investment in Whyalla', *Media Release*, 9 June 2016, <https://www.arrium.com/~media/Arrium%20Mining%20and%20Materials/Files/ASX%20Announcements/FY2016/Administrators%20welcome%20SA%20Government%20Investment%20in%20Whyalla%209%20June%202016.pdf> (accessed 10 October 2016).

19 The Hon. Bill Shorten MP, 'Backing Australian Steel, Backing Australian Jobs', *Media release*, 16 June 2016.

20 Jane Norman, *ABC Online*, 'Election 2016: Government promises \$49.2 million lifeline for steelmaker Arrium', 19 June 2016, <http://www.abc.net.au/news/2016-06-19/election-2016-government-promises-arrium-lifeline/7523332> (accessed 1 August 2016).

21 The Hon. Malcolm Turnbull MP, Prime Minister of Australia, 'Deal Struck to Secure Jobs at Arrium', *Media Release*, 22 July 2016.

2.23 On 21 September 2016, the Opposition Leader reiterated his commitment to support Arrium and called on the Government to match Labor's commitment.²²

2.24 On 3 November 2016, the Hon. Greg Hunt MP, Minister for Industry, Innovation and Science reported the Australian Government's willingness to make support available under the Clean Energy Finance Corporation and the Export Finance Insurance Corporation. This commitment has also been outlined in a Letter of Support available to all potential buyers.²³

Arrium's steelworks at Whyalla

2.25 As already highlighted, Arrium operates a major steelworks in Whyalla, South Australia. The city of Whyalla is located 396km northwest of Adelaide, is the largest in the Upper Spencer Gulf region, and is located on the western shores of Spencer Gulf. Whyalla has a population of 22,754 people and is the main manufacturing, mining and retail shopping centre in the region.²⁴

2.26 Submitters highlighted that the economic footprint of the steel industry in Australia is not evenly distributed, with the regional economy of Whyalla heavily reliant on the ongoing operations of Arrium.

Arrium's contribution to Whyalla

2.27 A number of submitters and witnesses told the committee that the steel industry is central to the community of Whyalla.

2.28 Arrium made the following comments in relation to its Whyalla operations:

[The Whyalla steelworks] employs 25 per cent of the town's workforce and makes up 35 per cent of its economy. The presence of the Steelworks also provides indirect benefits: other sectors, such as education, health, hospitality and tourism rely on the population base the Steelworks provides. This base also ensures access to a level of services from governments (including schools and healthcare) that generally do not exist in nearby, lower-population towns.²⁵

2.29 Furthermore, the committee heard:

At the 2011 census, the ABS reported that the industry sector employed more than 29 per cent of Whyalla's workforce of just over 9,100 people. This compared significantly to the 11.8 per cent employed in the sector for

22 The Hon. Bill Shorten MP, 'Mr Turnbull: Don't wait until it's too late for Arrium', *Media release*, 21 September 2016.

23 The Hon. Greg Hunt MP, Minister for Industry, Innovation and Science, 'Positive talks on Arrium with POSCO in Korea', *Media Release*, 3 November 2016.

24 Regional Development Australia, Whyalla and Eyre Peninsula Inc, *Regional Overview*, tabled on 5 April 2016, p. 19.

25 *Submission 16*, p. 10.

the South Australian workforce and to the 10.8 per cent for the nation's workforce.²⁶

2.30 As well as directly employing a number of people in Whyalla, the committee heard evidence about other organisations who rely on business from Arrium. For example, Mr Nicholas Bindi, Chief Executive Officer, ICE Engineering and Construction (a specialist electrical and instrumentation installation company) told the committee that approximately 25 per cent of its business comes from Arrium.²⁷

Possible closure of the steelworks

2.31 There has been ongoing concern that the challenges facing Arrium may result in the closure of the Whyalla steelworks. Arrium commented in its submission on the impact such a closure would have on the community:

The impact of a closure on a region such as Whyalla will be significant. It is highly unlikely steelmaking jobs would be replaced with a similar number of high-value jobs in an equivalent industry. This would result in higher levels of unemployment and a significant population drop, leading to poorer socio-economic outcomes that would properly need to be addressed by governments.²⁸

2.32 Cr Tom Antonio, Acting Mayor, City of Whyalla, explained that the Whyalla community is 'endeavouring to diversify and grow into other sectors of the economy, such as tourism, aged and disability care and tertiary education'.²⁹

2.33 When outlining the proactive efforts of Whyalla City Council to initiate change and encourage the growth of a range of sectors, Cr Antonio argued that the diversification of the economy should occur in conjunction with support from the federal and state governments to support the local steel industry:

One thing I must say is that we need to be proactive. I find we seem to be reactive, and, when you are reactive, you do not succeed. No business that only reacts is successful. One thing this council will do is be proactive, and all I ask is for the federal and state governments to work with this council to be proactive, to make sure that the longevity of the city is far greater than the next 20 to 30 years. That is all I can really say.³⁰

2.34 When responding to a question about the possible 'closure' of Whyalla as a community should Arrium close, Cr Antonio told the committee:

That is not an option. I understand what you are saying, but I am not going to accept that. There might be a status quo, but I think that is where the federal government and state government have to work cohesively with

26 Councillor Tom Antonio, Acting Mayor, City of Whyalla, *Committee Hansard*, 5 April 2016, p. 27.

27 *Committee Hansard*, 5 April 2016, p. 2.

28 *Submission 16*, p. 10.

29 *Committee Hansard*, 5 April 2016, p. 28.

30 *Committee Hansard*, 5 April 2016, p. 28.

Arrium and its banks to make sure that that does not happen. I will not accept that.³¹

2.35 The committee notes that this is not the first time that Whyalla has faced the prospect of losing a significant employer in the community. The Whyalla Shipyards closed down in 1978, at the same time as a worldwide downturn in the steel industry. The committee was advised that approximately 4,000 jobs were lost during that period and the Whyalla population subsequently decreased from 34,000 to approximately 19,000.³²

2.36 The committee heard evidence that if Arrium was to close, the effects would be widespread. Representatives from 63 businesses, many Illawarra based and others from all over Australia, told the committee:

Arrium failing would affect us severely. Even though we are in a different part of the country and even though Mr Leussink's company [Leussink Engineering] only does a little bit of work for them, it would affect us massively. Immediately, BlueScope would be viewed by everyone—their own employees, their own management, the community and every politician in the country—exactly like the car industry was. They would say, 'Well, the other one failed, so this one will fail as well.' Everyone would give up on BlueScope and they would have a massive challenge on their hands. So it is really important for us in the Illawarra area that Arrium survives, for that one reason.³³

Community impact should Arrium cease to operate

2.37 Evidence to the inquiry outlined the impact on the community should Arrium cease to operate in Whyalla. Submitters and witnesses highlighted impacts in a range of areas: direct and indirect job losses, devaluing of the housing market, negative social consequences (such as drug and alcohol issues), an increase in mental health issues and a greater reliance on welfare and government assistance.

2.38 Data from the department shows that the employment counts for steel production in South Australia stayed at or above the 2006 levels from 2007 to 2012. However, employment in the sector recorded their lowest level in 2015.

Table 2 Steel employment in South Australia

Employment, by state	2006 (000)	2007 (000)	2008 (000)	2009 (000)	2010 (000)	2011 (000)	2012 (000)	2013 (000)	2014 (000)	2015 (000)
South Australia	3.5	4.8	3.5	3.3	4.0	4.8	3.9	2.5	3.3	1.9

Source: Department of Industry, Innovation and Science (citation: Economic and Analytical Services, Department of Industry, Innovation and Science; ABS, Labour Force, Australia, Detailed, Quarterly, Nov 2015, cat.no. 6291.0.55.003)³⁴

31 *Committee Hansard*, 5 April 2016, p. 28.

32 Mr Dion Dorward, Chief Executive Officer, Regional Development Australia Whyalla and Eyre Peninsula Inc, *Committee Hansard*, 5 April 2016, p. 29.

33 Mr Ian Waters, Director, Cambewarra Engineering, *Committee Hansard*, 6 April 2016, p. 47.

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

2.39 Research conducted by the Australian Industrial Transformation Institute, Flinders University of South Australia analysed the impact of the closure of the steelworks as well as the South Australian mine owned by Arrium. As shown in Table 3, the impact in terms of job losses could be quite significant.

2.40 The modelling by Flinders University was undertaken as follows:

- A base case where all of the people who lose their job leave the Whyalla region, and 50 per cent leave the state. It is assumed that those who remain in the region/state will reduce their consumption expenditure by 50 per cent (many will be in retirement and living off superannuation savings, or welfare).
- A conservative case where 50 per cent leave the region and 25 per cent leave the state.
- A high case—where all leave the region, but also so do 100 per cent more as individual businesses face a critical mass issue. Further 50 per cent of those who leave the region also leave the state in search of employment.³⁵

Table 3 Summary of Impacts on Whyalla Region and State due to Arrium Closure³⁶

	Scenario — Total closure		
	Conservative case	Base case	High case
Whyalla Region			
Gross Regional Product (\$ m)	\$490.7	\$503.70	\$529.9
Household Incomes (\$ m)	\$243.5	\$252.1	\$269.4
Employment (FTE's)	3,545	3,676	3,939
South Australia			
Gross Regional Product (\$ m)	\$678.7	\$709.3	\$770.6
Household Incomes (\$ m)	\$344.5	\$359.8	\$390.6
Employment (FTE's)	4,762	4,962	5,363

2.41 Mr Nicholas Bindi, Chief Executive Officer of ICE Engineering and Construction Pty Ltd explained the impact of job losses for an organisation that supplies material to the steelworks:

Should the steel industry close, our local branch would cease to exist here in Whyalla. Thirty-five employees and their families, some 150-plus people dependent on ICE Engineering providing them with employment and an

35 Burgan B & Spoehr J 2016, *Modelling of the Arrium Closure on the Regional and State Economies*, Adelaide: Australian Industrial Transformation Institute, Flinders University of South Australia, p. 2.

36 Burgan B & Spoehr J 2016, *Modelling of the Arrium Closure on the Regional and State Economies*, Adelaide: Australian Industrial Transformation Institute, Flinders University of South Australia, p. 3.

income, will be out of work. ICE will not be in a position to further train and develop the youth of Whyalla into quality tradespeople, as the current skilled workforce of our business will be forced to leave the town to look for work. I feel that the skilled employees in nearly all Whyalla businesses currently dependent on Arrium will do the same, leaving a town mostly with unskilled people dependent on the government for an income.³⁷

2.42 Looking more broadly at the effect on the Whyalla community, the committee heard:

I do say that Whyalla is in a different category, because of its geographic location and its lack of other employment alternatives, from even the city of Elizabeth, which, clearly, with the automotive industry closing, also faces very significant challenges. But the people of Whyalla have no genuine alternative other than to be part of the social welfare safety net, which is a huge problem in the long term.

Beyond Whyalla, there will be knock-on effects. There will certainly be a very significant loss of confidence in the broader South Australian community, and it could not come at a worse time. Certainly, my submission calls upon the federal government, state government and local government to really focus on Whyalla. Whyalla is potentially going to go through a crisis that would be, in my words, as bad as we have seen since the Great Depression. You only need to look at history to see what the real cost is of one-third or more of the community being unemployed long term.³⁸

2.43 Witnesses highlighted that the isolation of Whyalla means that there are limited options if people were to no longer be employed at the steelworks:

The point that I particularly want to make is that these individuals who lose employment will not be able to secure employment elsewhere: they are four hours from the city of Adelaide, and obviously that is not an effective commute; fly-in fly-out opportunities are currently not available to skilled tradesmen; and, more importantly, they will be—my words—trapped in their own homes. They will not be able to sell their homes. There are already 1,000 homes for sale in Whyalla, and if another 3,000 people were to lose their employment, there will be thousands of homes for sale. Their homes will be without commercial value and many of these individuals will not be able to support their mortgages; we will be left with a social crisis, in my view, which basically we have not seen in Australia since the Great Depression.³⁹

37 *Committee Hansard*, 5 April 2016, p. 1.

38 Mr Stephen Young, Managing Director, E&A Ltd, *Committee Hansard*, 5 April 2016, pp. 33–36.

39 Mr Stephen Young, Managing Director, E&A Ltd, *Committee Hansard*, 5 April 2016, p. 33.

2.44 The committee was advised that the effects of a closure would be further exacerbated because of other closures across the region:

Would there be opportunities to find work in their residential region? The simple answer to that is no. At present in the region we have a pending closure of the Alinta power station in Port Augusta. We have had one of the major engineering companies that serviced the steelworks, Link Engineering, go into voluntary administration just under a month ago; they have since closed their doors. We have seen all other service contractors in the region go through restructuring to assist Arrium and OneSteel reduce their costs, with a total loss in excess of 600 jobs in the last 18 months. The AMWU's view is that there would be limited, if any, new opportunities for employment.⁴⁰

2.45 Mr Peter Chesworth, Head of Division, Department of Industry, Innovation and Science also noted that the isolation of Whyalla presents challenges for the region that may not necessarily be experienced elsewhere:

So, for BlueScope, the issues there seem to have dissipated, and I guess the department itself does try to draw a line between the two because, whilst the Illawarra is a distinct region, there are a significant number of people who live in the Illawarra and who work in Sydney, so the regional impacts would not perhaps have been as great if the crisis in the Illawarra had come to a head, whereas in Whyalla the isolation works against it in relation to those regional issues.⁴¹

2.46 On the issue of the challenges affecting the housing market in Whyalla, Cr Antonio advised:

I will give some of the stats I have acquired for you here today. The predicted job losses could be up to 6,000 total jobs in Whyalla. In 2013-14 we had 9,234 [total jobs in Whyalla]. That is coming from regional employment data. The total tax loss and welfare costs will be to the tune of \$230 million for decades. Gross state product loss will be \$1.5 billion. The Whyalla property market has already devalued from \$2.73 billion down to what I believe is currently \$1.5 billion. I believe that will continue to decline if we do not act, and act quickly. The ability for employees to own homes and to relocate to other regions will be significantly constrained. Mining services, freight and heavy industry contracting business will withdraw from the region, and this will negatively impact on the viability of the current and future projects across the state.⁴²

40 Mr Steve McMillan, Organiser, Australian Manufacturing Workers' Union, *Committee Hansard*, 5 April 2016, p. 6.

41 *Committee Hansard*, 6 April 2016, p. 58.

42 *Committee Hansard*, 5 April 2016, p. 28.

2.47 Mr Scott Martin, Branch Organiser, Australian Workers' Union (AWU) provided further examples of the impact on the housing market in Whyalla:

The housing properties have dived 20 per cent in recent times. There are over 600 properties on the market in Whyalla at the moment. Some of them have been up for sale for a number of years and cannot sell because nobody wants to buy into a town that does not have a future, and that is a fact. Rentals have dropped, so people cannot rent their houses now. There are places out there that have been vacant for a long, long time that cannot get rented and there are places that are on the market that cannot get sold. And there are people who have just invested in housing, young families, who had jobs at the steelworks or the mine and who are now contemplating selling it or giving it back to the bank. We have heard stories of banks reclaiming housing and we have had houses out the back in a half-built state that have not been completed because of people losing their jobs and the downturn in the industry.⁴³

2.48 Mr Martin also explained the broader social consequences for the Whyalla community should the steelworks close:

My main concerns are unemployment, the housing market, crime and drug and alcohol use. An isolated town in a region like this needs a major industry attached to it to keep the place surviving, as well as all the contractors. We support and work with all the contractors too, and you are talking about half a dozen major firms in this town that would also pull the pin if anything happened to the steelworks.⁴⁴

2.49 Mr David Gabb, AWU delegate and local steelworker told the committee that the challenges experienced by Arrium were already being widely felt across the community:

Just one other thing: with my association with Rotary, we help out different groups. We have seen the demand from these groups in the community increase quite significantly, simply because of all of this. That is from all parts—from the YMCA right through to the hospital. They are all suffering.⁴⁵

2.50 On the issue of mental health issues in the community Cr Antonio explained:

You have just got [to] understand the stress on not only the people who are behind me but also the community in total. People who have lost their jobs. People have got their children in apprenticeships, and there is uncertainty: what are they going to do when they are second or third year apprentices if they cannot finish those jobs? The mental health and the stress it is putting on the community is enormous, and you only have to go to the hospital and go to the department for mental health and you will see that...I can assure

43 *Committee Hansard*, 5 April 2016, p. 6.

44 *Committee Hansard*, 5 April 2016, p. 16.

45 *Committee Hansard*, 5 April 2016, p. 14.

you it is putting enormous pressure on the mental health of this community.⁴⁶

Predicted welfare costs should the steelworks close

2.51 Witnesses argued that should the Whyalla steelworks close, there would be an increase in the welfare assistance required in the community. Councillor Antonio estimated the cost of the additional assistance as follows:

If Arrium goes down the road that we believe they are going down, over 3,000 jobs will be lost in Whyalla. This will result in a social security and support services bill of over \$3 million per month. If the entire city fails due to lack of employment, the loss to the state will be in the billions of dollars.⁴⁷

2.52 Whilst noting that assistance to the community would be required, other witnesses did not specify or estimate a particular figure. One witness stated:

Closure, or placing the plant into care and maintenance, would impact the workers of Whyalla severely. It would have dire psychosocial consequences and economic costs not only to their families but to all workers in the community. It would also impact the state and national governments by way of income tax losses and the cost of welfare services.⁴⁸

2.53 Mr Dion Dorward, Chief Executive Officer, Regional Development Australia Whyalla and Eyre Peninsula Inc. noted that the quantum of the government assistance package required to help restructure the economy 'would ultimately depend on the eventual fallout' and 'should be based on comparable packages that have been awarded elsewhere in Australia and around the state'.⁴⁹ Mr Dorward went on to say:

I would hope that consideration would be given to being proactive in putting money towards diversification of this economy prior to a full crisis around any closures.⁵⁰

Committee view

2.54 The committee notes with grave concern the continuing crisis in Australia's steel industry, and in particular uncertainty about the future of Arrium. In light of the impending sale and recapitalisation of Arrium's operations, governments must work together with unions and supply chain companies to ensure that the industry remains viable.

2.55 Arrium is Australia's only manufacturer of long steel products and the leading steel distributor and reinforcing steel supplier. If domestic production of long steel

46 Cr Tom Antonio, Acting Mayor, City of Whyalla, *Committee Hansard*, 5 April 2016, p. 31.

47 Cr Tom Antonio, Acting Mayor, City of Whyalla, *Committee Hansard*, 5 April 2016, p. 27.

48 Mr Steve McMillan, Organiser, Australian Manufacturing Workers' Union, *Committee Hansard*, 5 April 2016, p. 6.

49 Mr Dion Dorward, Chief Executive Officer, Regional Development Australia Whyalla and Eyre Peninsula Inc., *Committee Hansard*, 5 April 2016, p. 29.

50 *Committee Hansard*, 5 April 2016, p. 29.

products were to cease, Australia's construction and infrastructure sectors, which employ more than a million people, would become vulnerable to import delays and to fluctuations in global prices and transport costs. The end of production by Arrium would have repercussions throughout the national economy.

2.56 Furthermore, the prosperity of Whyalla and its region relies on Arrium continuing to trade. The steelworks is the town's major employer, and Arrium's workforce generates much of the demand for other local businesses and for government provision of healthcare, education and other community services. The importance of the steelworks for Whyalla and the surrounding region cannot be overestimated.

2.57 Even though the outcome of the sale and recapitalisation process is not yet determined, it is already clear that a range of measures will be required to secure the future of the steelworks and to maintain Australia's steelmaking capabilities.

2.58 The committee notes the funding commitments that have already been made by the Australian Government and the South Australian Government. As a first step, this funding will need to be made available to assist with the sale process.

2.59 The committee further notes that additional government support for Arrium may be required, depending on the nature of the final bidding offers. This may include funding in the form of co-investment grants, access to finance, and measures to ensure long-term energy security and stability.

2.60 Beyond the immediate issues pertaining to the sale and future of Arrium and the steelworks in Whyalla, the committee is also investigating the broader Australian steel industry and supply chain.

2.61 In this context, and in view of the evidence already collected as part of this inquiry, further industry-wide reforms will be required to secure the future of this vital industry and maintain Australia's steel making capabilities.

2.62 It is the committee's view that additional reform options should be included in its deliberations and final report. These are likely to include recommendations for policy and legislative reform in the areas of anti-dumping and countervailing measures, government procurement, and standards.

Recommendation 1

2.63 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

2.64 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

2.65 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.

Senator Chris Ketter

Chair