

Executive summary

1.1 This inquiry arose after a growing crisis in the Australian steel industry came to a head during the 44th Parliament. Australia's two major integrated crude steel producers, the Arrium steelworks in Whyalla, South Australia, and the BlueScope steelworks in the Illawarra region, New South Wales, faced major financial issues, leading to the decision of both to lay off significant numbers of employees. On account of these financial problems, Arrium was placed into voluntary administration, leading to further uncertainty surrounding the future of the steel industry in Whyalla and Australia more broadly.

1.2 The sale of Arrium to British consortium GFG Alliance was completed in September 2017, thereby securing the continued operation of the Whyalla steelworks for the immediate future. However, the conditions creating the crisis that manifested most obviously in Arrium's collapse remain. This inquiry investigated a number of these conditions in detail and how they have impacted the Australian steel industry, including: inconsistent standards; issues in procurement policies; and unfair and uncompetitive trade practices, leading to dumped and subsidised imports and further price strains on steel produced in Australia.

1.3 The inquiry received alarming evidence regarding the safety risks posed by products that do not meet Australian standards, including steel used in bridges, poles, caravans, trailers and safety structures used on mining sites. Most steel fabricated in Australia conforms to appropriate standards produced by Standards Australia, with contracts in many instances requiring proof of third party certification. However, evidence provided to this inquiry suggested that legal loopholes in contracts and gaps in regulatory regimes in some instances may allow imported fabricated steel to avoid complying with the same standards as steel made in Australia, meaning that Australian steel incurs a higher cost base than imported products that do not necessarily have to meet the same level of quality.

1.4 In other instances, imported steel is accompanied by fraudulent third-party certificates, or first-hand declarations that the product meets standards without independent inspections. Some evidence suggested that as much as 80 per cent of fabricated structural steel, most of it imported, is found to be non-compliant with Australian standards when inspected. The committee heard examples of tubes filled with water to meet weight requirements; non-conforming levels of lead in paint on pre-painted steel products; and other non-conforming products that led to the collapse of buildings and signs. With little incentive to comply with standards, and no compliance or inspection regime, these products are entering Australia and being used in key construction and manufacturing projects.

1.5 Submitters and witnesses to the inquiry told the committee that in government procurement, standards compliance through third-party certification is compulsory only for contracts above a particular threshold. Nor does the government currently require that subcontractors meet the same standards as primary contractors, and there is no system to monitor conformance at any level in government-funded contracts.

The committee is concerned that the government is not leading the way by ensuring that steel procured in government contracts meets appropriate standards, thereby raising the potential that government funds are being used to source material used in structures that pose a risk to public safety.

1.6 Australia's Industry Participation policy aims to provide full, fair and reasonable opportunity for Australian industry to supply goods and services to major project. However, the Australian Government only requires Australian Industry Participation plans to be completed by successful tenderers who have been awarded contracts, meaning that tenderers are not required to consider how they will involve Australian industry during the tender application process. The committee heard that the threshold of \$500 million above which a project requires an Australian Industry Participation plan was set at a level more relevant for projects undertaken during the mining boom than projects in current conditions. Further, many Australian businesses are at a competitive disadvantage when competing for contracts because their costs are higher to meet product, occupational health and safety and environmental standards, and Australian steel is not subsidised by the government, unlike steel sourced from other countries in Asia that is able to compete at a lower price as a result.

1.7 The Australian steel industry has been affected by a global oversupply in steel occurring at the same time as an upsurge in production from China, where government support for the industry in the form of subsidies and tax remedies help to keep prices artificially down, as is the case in a number of other countries in Asia. The result of this oversupply is an increase of dumped products from around the world as countries seek to offload their excess steel at low prices. The pressures caused by the influx of dumped and subsidised steel into Australia are considerably greater than the normal pressures expected in naturally competitive markets, creating additional pressures on the Australian steel industry. The committee heard that the costs involved in lodging an anti-dumping case, as well as a framework that does not suit fabricated products, mean that many Australian companies, particularly small and medium-sized enterprises, are unable to make use of Australia's trade remedy system to offset the unfair advantages that many of their international competitors have. As one submitter said, 'I am not saying competition is not fair; I am saying it is not fair competition'.

1.8 Since this inquiry commenced, energy prices have doubled. Energy price volatility is affecting the viability of energy-intensive manufacturers like steel. The impact of energy prices on steel production has led the new owner of the Whyalla steelworks to invest in forms of renewable energy to ensure that the steelworks will be self-sufficient and protected from future energy price volatility. If rising energy prices are not curtailed, and security of supply is not established, Australian steel will suffer further disadvantage and the industry may not be able to survive.

1.9 Despite these challenges, Australia's steel manufacturers have several key advantages over international competitors. These include access to high quality reserves of iron ore and coking coal; the ability to respond quickly to local demand requirements; relatively short lead times; less likelihood of reworks because of misinformation and mistakes; reduced whole-of-life costs, including maintenance and technical support; a skilled labour force trained in the latest steel fabrication

techniques and welding processes; strong international brand recognition of several product lines; and high quality products that comply with established Australian standards. The Australian steel industry also has a strong track record of innovation and producing new and cutting-edge steel products, as well as a relatively reduced environmental impact compared to many international competitors.

1.10 Even with these advantages, the committee heard that the domestic steel industry has declined in recent years and will continue to decline without urgent action by the Australian government to address the issues of standards, procurement and unfair import competition. The recommendations proposed by the committee are intended to maximise the competitiveness of the Australian steel industry and to level the playing field so that Australian steel has the best opportunity to compete fairly in an increasingly globalised market.

