

Chapter 3

The collapse and sale of Arrium

3.1 The inquiry's interim report, tabled in December 2016, focused on the collapse of Arrium and made several recommendations regarding Government support to ensure the success of the sale of Arrium.

3.2 This chapter summarises the key developments set out in the interim report that led to Arrium being placed in voluntary administration. It provides an update on the outcome of the sale, and sets out its immediate impact on the Whyalla community.

3.3 Arrium Limited (Arrium) was an international diversified mining and materials company, consisting of three business segments: Arrium Mining Consumables (Moly-Cop), Arrium Mining and Arrium Steel (previously OneSteel).

3.4 On 7 April 2016, Arrium was placed into voluntary administration.

3.5 The purchase of Moly-Cop by the United States-based private equity firm American Industrial Partners was announced in November 2016 and completed in January 2017.¹ GFG Alliance formally acquired Arrium Mining and Arrium Steel on 1 September 2017. Arrium mining was renamed SIMEC Mining and Arrium Steel was renamed Liberty OneSteel.²

Events leading up to voluntary administration

3.6 As outlined in chapter 2, the Australian steel industry is currently facing difficulties largely brought on by global conditions. The committee heard evidence from representatives of Arrium suggesting that the collapse of Arrium Steel was caused, in part, by global conditions, including a global oversupply of steel.

3.7 Arrium's Chief Executive of Strategy, Ms Naomi James, outlined some of the conditions that had led to Arrium's financial crisis:

The key challenge in the current external environment is margin. We have seen steel prices in absolute terms reduce by 60 per cent since 2012 and we have seen steel margins over scrap reduce by 80 per cent. Volume helps—do not get me wrong, volume helps—but steel pricing globally right now is the challenge.³

3.8 The inquiry also heard evidence that a number of other factors may have impacted Arrium's financial position. Some witnesses expressed their concern about the expansion of operations into other parts of South Australia, which they suggested may have contributed to Arrium's financial problems.

1 Department of Industry, Innovation and Science, *Submission 41*, p. 2.

2 Liberty OneSteel, 'GFG Alliance has completed the acquisition of the Arrium Mining and Steel businesses', <https://www.libertyonesteel.com/announcement/> (accessed 12 September 2017).

3 Ms Naomi Margaret James, Chief Executive, Strategy, Arrium Mining and Materials, *Committee Hansard*, 6 April 2016, p. 31.

3.9 Mr Stephen Young, the Managing Director of E&A Ltd, a South Australian company that owns three businesses in the construction and engineering industry in Whyalla, stated that:

I am obviously not involved in the management of the business. I sit outside the business and do not have detailed firsthand information...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 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....

It is always easy to be wise with the benefit of hindsight...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 steelmaking business.⁴

3.10 Mr Scott Martin, the Whyalla and Eyre Peninsula Branch Organiser for the Australian Workers' Union, gave evidence that in his opinion:

...the 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.⁵

Cost reduction measures

3.11 The committee received evidence explaining what cost reduction measures Arrium had taken in response to the challenges it faced.

3.12 Arrium outlined in a submission provided to the committee before it went into administration that:

...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...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

4 Mr Stephen Young, Managing Director, E&A Ltd, *Committee Hansard*, 5 April 2016, p. 34; E&A Limited, *Submission 34*, p. 1.

5 Mr Scott Andrew Martin, Branch Organiser, Australian Workers' Union, *Committee Hansard*, 5 April 2016, p. 15.

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.⁶

3.13 Mr David Gabb, an Australian Workers' Union delegate and steelworker, outlined some of the measures that employees had agreed to in order to ensure Arrium's survival, and the personal impact of these measures:

We 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, 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.⁷

Arrium placed into voluntary administration

3.14 In February 2016, Arrium announced an operating loss of \$43 million in its Whyalla steelworks.⁸ This was followed by the announcement of a recapitalisation plan for Arrium, including up to \$US927 million in funding from United States group GSO Capital Partners.⁹

3.15 Arrium was placed into voluntary administration on 7 April 2016. KordaMentha Restructuring were appointed as voluntary administrators of Arrium and its 93 subsidiaries on 12 April 2016.¹⁰

3.16 During its administration, the company came close to collapsing several times.¹¹ Among the measures the administrator recommended was a 10 per cent pay cut for employees, which was agreed to in September 2016.¹²

6 Arrium Mining and Minerals, *Submission 16*, pp. 7–8.

7 Mr David Gabb, AWU Delegate/Steelworker, Onesteel, *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 9 August 2017).

9 Tim Binstead, *The Sydney Morning Herald*, 'GSO Capital extends \$US957m lifeline to Arrium as subs builders look to Whyalla', 22 February 2016, <http://www.smh.com.au/business/gso-capital-extends-us957m-lifeline-to-arrium-20160221-gmzw2z.html> (accessed 12 September 2017).

10 KordaMentha, 'KordaMentha Restructuring appointed as Voluntary Administrators of Arrium Limited', <http://www.kordamentha.com/News-and-Insights/KordaMentha-Restructuring-appointed-as-Voluntary-A> (accessed 12 September 2017).

11 KordaMentha, 'Arrium sale proceeds start to flow', 8 September 2017, <http://www.kordamentha.com/News-and-Insights/Arrium-sale-proceeds-start-to-flow> (accessed 12 September 2017).

Impact of Arrium's collapse on Whyalla

3.17 The Government of South Australia outlined in its submission some of the impacts the continuing uncertainty surrounding the future of Arrium had on Whyalla, including the following:

- the rate of closures of small business has escalated with more than half of the 700 small businesses in Whyalla closed since Arrium entered administration;
- there are approximately 800 properties either for sale or vacant rentals which are adversely impacting house prices and owner options;
- apprenticeships have almost stopped and the businesses still operating remain primarily focused on Arrium; and
- sporting clubs are failing due to the inability of the community to cover fees and costs and the impact of a reduced available population.¹³

3.18 Evidence given to the committee indicated that if Arrium were to close, the town's economy would likely collapse, meaning Whyalla could become a 'ghost town'. The CEO of a local business, ICE Engineering and Construction, outlined in further detail what this would mean:

Should the steel industry close, our local branch would cease to exist here in Whyalla... [T]he 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. We have already witnessed many companies, both larger and smaller than ICE, go into administration due to the current dire economic conditions... Unfortunately, the survival of Whyalla and its people is dependent on the local steel industry, and without it we would soon become the largest ghost town in the country.¹⁴

3.19 Whyalla's Acting Mayor also noted the social and economic impact that job losses had had on community and recreational activities:

It is estimated that in recent times Arrium and the contractors have shed their workforce by more than 900. It is estimated that this has resulted in a further 800 to 1,000 job losses indirectly. With significant job losses in the sector, the social and economic impact is being widely felt in the community, with falling membership of sporting clubs and community clubs and falling participation in many activities that help to create the sense of community. There are business closures, stalled investments and

12 *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> (accessed 12 September 2017).

13 Government of South Australia, *Submission 44*, p. 4.

14 Mr Nicholas John Bindi, Chief Executive Officer, ICE Engineering and Construction Pty Ltd, *Committee Hansard*, 5 April 2016, pp. 1–2.

falling school enrolments, and the brightest and best are leaving our community.¹⁵

3.20 Submitters and witnesses to the inquiry stated that the measures undertaken by Arrium to ensure its survival had impacted the town's economy. For example, the branch organiser of the Australian Workers' Union outlined how these measures had affected the local property market:

The housing properties have dived 20 per cent in recent times. There are over 600 properties on the market in Whyalla at the moment... [N]obody wants to buy into a town that does not have a future... Rentals have dropped, so people cannot rent their houses now... And there are people who have just invested in housing... 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... in a half-built state that have not been completed because of people losing their jobs and the downturn in the industry.¹⁶

Commitments to support Arrium

3.21 The South Australian Government, the Australian Government and the Federal Opposition made a number of commitments to ensure the survival of the Whyalla steelworks owned by Arrium.

South Australian Government measures

3.22 Prior to Arrium's collapse, the South Australian Government established a Steel Task Force in November 2015, which aimed to secure the future of steelmaking in South Australia.¹⁷ The South Australian Government stated in its submission that it would allocate the Task Force \$2.7 million over four years, and had mandated the use of Australian standard steel in South Australian government projects.¹⁸

3.23 After Arrium entered voluntary administration, the South Australian Department of State Development established a Whyalla Response Office for community and businesses to access financial and other support services.¹⁹ The South Australian Government also outlined in its submission that in its 2016–17 State Budget it had allocated 'nearly \$70 million to support steelmaking, businesses and the community in Whyalla', including a small business loan scheme and a foodbank.²⁰

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

16 Mr Scott Andrew Martin, Branch Organiser, Australian Workers' Union, *Committee Hansard*, 5 April 2016, p. 16.

17 Department of State Development South Australia, 'High-powered Steel Taskforce to secure Whyalla's future', <https://statedevelopment.sa.gov.au/news-releases/all-news-updates/high-powered-steel-taskforce-to-secure-whyallas-future> (accessed 14 September 2017).

18 Government of South Australia, *Submission 44*, pp. 4, 8.

19 Government of South Australia, *Submission 44*, p. 4.

20 Government of South Australia, *Submission 44*, p. 4.

3.24 The South Australian Government also made a commitment of \$50 million for the future owner of Arrium Whyalla 'for capital investment'.²¹ Media reports indicated that this commitment would include renewable energy projects and increased access to Arrium's port facility.²²

Australian Government measures

3.25 The Department of Industry, Innovation and Science (Department of Industry) stated in its submission that the Australian Government had undertaken a number of measures to support Arrium and its workers. For example, in March 2016:

...the Prime Minister, the Hon Malcolm 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.²³

3.26 The government also announced in May 2016 that it would provide \$1.1 million to assist workers who may lose their jobs at Arrium, 'in addition to a previously announced \$270,000 package of measures to support retrenched Arrium workers.'²⁴

3.27 The Department of Industry outlined in its submission that in accordance with a Coalition election promise, the government had provided Arrium with a \$49.2 million loan to purchase beneficiation equipment that would enable Arrium 'to process iron ore to export quality.'²⁵

3.28 In April 2016, the Opposition Leader, the Hon. Bill Shorten MP, announced a Plan for Australian Metals Manufacturing and Jobs, which included six policies aimed at supporting the Australian steel industry.²⁶ The Opposition Leader further announced in June 2016 that a Labor government would establish a joint Steel Reserve with the South Australian Government to support Arrium, including \$100 million from a Labor Government to support this Steel Reserve.²⁷ In September 2016, the Opposition Leader repeated his commitment to support Arrium and called on the Government to match the Opposition's commitment.²⁸

21 Government of South Australia, *Submission 44*, p. 5.

22 *SBS News Online*, 'SA looks to leverage Arrium cash', 10 July 2017, <http://www.sbs.com.au/news/article/2017/07/10/sa-looks-leverage-arrium-cash> (accessed 14 September 2017).

23 Department of Industry, Innovation and Science, *Submission 41*, p. 2.

24 Department of Industry, Innovation and Science, *Submission 41*, p. 3.

25 Department of Industry, Innovation and Science, *Submission 41*, p. 3.

26 The Hon. Bill Shorten MP, 'Labor's positive plan to secure Australian metals, manufacturing and jobs', *Media Release*, 14 April 2016.

27 The Hon. Bill Shorten MP, 'Backing Australian steel, backing Australian jobs', *Media release*, 16 June 2016.

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

The sale of Arrium

3.29 On 4 November 2016, KordaMentha announced the sale of Moly-Cop to American Industrial Partners.²⁹ The acquisition was completed in January 2017.³⁰

3.30 On 15 June 2017, KordaMentha announced that a Korean consortium led by Newlake Alliance Management and JB Asset Management was the preferred bidder for Arrium, while UK-based Liberty House was short-listed.³¹

3.31 However, after financing issues emerged and a deal was not brokered within the exclusivity period, Liberty House under the umbrella of GFG Alliance emerged as the preferred bidder.³²

3.32 The sale of Arrium Mining and Arrium Steel was announced in July 2017. GFG Alliance formally acquired both businesses on 1 September 2017, announcing that Arrium Mining would be renamed SIMEC Mining and Arrium Steel would be re-branded as Liberty OneSteel.³³

Immediate effects of the sale

In the month after the announcement of the purchase of Arrium by Liberty House, news reports indicated that the Whyalla property market experienced a 'mini boom'. One local real estate manager reporting double the average monthly sales from previous months when Arrium's future had been unclear.³⁴ Local businesses also experienced an upturn in trade.³⁵

29 KordaMentha, 'Arrium announces sale of Moly-Cop', 4 November 2016, <http://www.kordamentha.com/News-and-Insights/Arrium-announces-sale-of-Moly-Cop> (accessed 12 September 2017).

30 Department of Industry, Innovation and Science, *Submission 41*, p. 2.

31 KordaMentha, 'Korean group is preferred bidder for Arrium', 15 June 2017, <http://www.kordamentha.com/News-and-Insights/Korean-group-is-preferred-bidder-for-Arrium> (accessed 12 September 2017).

32 Luke Griffiths, 'Inside the Arrium sale: How steely nerves overcame catastrophe', *The Advertiser*, 1 September 2017, <http://www.adelaidenow.com.au/business/inside-the-arrium-sale-how-steely-nerve-overcame-catastrophe/news-story/e6abe8e44e897b3b66faeb6d316f4362> (accessed 12 September 2017).

33 Liberty OneSteel, 'GFG Alliance has completed the acquisition of the Arrium Mining and Steel businesses', <https://www.libertyonesteel.com/announcement/> (accessed 12 September 2017).

34 Simon Evans, 'Liberty House triggers real estate flurry in Whyalla', *Australian Financial Review*, 31 July 2017, <http://www.afr.com/business/mining/iron-ore/liberty-house-triggers-real-estate-flurry-in-whyalla-20170730-gxlxyj> (accessed 1 August 2017).

35 Luke Griffiths, 'GFG Alliance takes ownership of Whyalla's steelworks, plans huge increase in production', *The Advertiser*, 1 September 2017, <http://www.adelaidenow.com.au/business/gfg-alliance-takes-ownership-of-whyallas-steelworks-plans-huge-increase-in-production/news-story/fb7e04fe01916b8cf9ed35a22eec70b3> (accessed 14 September 2017); Khama Reid and Annabelle Regan, 'Whyalla steelworks purchase completed by GFG Alliance, with big investment promised', *ABC Online*, 1 September 2017, <http://www.abc.net.au/news/2017-08-31/whyalla-prepares-to-celebrate-arrium-steelworks-sale/8860998> (accessed 14 September 2017).

3.33 On 8 September 2017, KordaMentha reported that former Arrium employees who had been let go had been paid their accrued leave, superannuation and other entitlements, totalling over \$7.1 million.³⁶

3.34 GFG Alliance's Executive Chairman Sanjeev Gupta outlined in August 2017 that GFG Alliance intended to invest up to US\$1 billion in the former Arrium steelworks and mining division. This would involve modernising the steel plant, increasing its steel-making capacity and improving its energy generation to reduce high energy costs, such as generating power through the use of waste gases and using pumped hydro-electricity. GFG Alliance also indicated that it was considering investing in solar energy, as part of what it terms its 'Greensteel' strategy.³⁷

3.35 Media reports in late September 2017 indicated that Mr Gupta had bought a 50.1 per cent stake in renewable energy company Zen Energy to set up renewable energy to power Liberty OneSteel's mills.³⁸

Committee view

3.36 The committee considers the sale of Arrium to Liberty House to be a favourable outcome and an important step towards securing the future of the steel industry as a whole in Australia. While the sale took place privately, the South Australian and Australian governments had a key role in securing the future of Arrium and the South Australian steel industry through their financial support.

3.37 However, the deeper structural issues that led to Arrium's collapse have not disappeared. High energy prices remain, as do inconsistent standards, problems in Commonwealth procurement policies, and unfair import competition. Although pleased with this outcome, the committee is of the opinion that a similar crisis could arise again, leading to negative impacts on the Australian and local economies, job losses and the end of a crucial component of Australian industry.

3.38 Given that these broader issues have not resolved, the committee has devoted the remainder of this report to outlining proposed solutions to the problems still facing the steel industry in Australia. Without timely and considered action and leadership on the part of governments, the future of the Australian steel industry remains uncertain.

36 KordaMentha, 'Arrium sale proceeds start to flow', 8 September 2017, <http://www.kordamentha.com/News-and-Insights/Arrium-sale-proceeds-start-to-flow> (accessed 12 September 2017).

37 Michael Owen-Brown, Lauren Novak and Sheradyn Holderhead, 'Arrium steelworks to be sold to GFG Alliance, saving thousands of jobs in Whyalla', *The Advertiser*, 5 July 2017, <http://www.adelaidenow.com.au/news/south-australia/state-government-announces-official-sale-of-the-arrium-steelworks/news-story/3e049ffb3ad49a0266a2896256e3511f> (accessed 14 September 2017); GFG Alliance, 'GFG Alliance completes landmark acquisition of Arrium', 31 August 2017, <http://www.gfgalliance.com/media/gfg-alliance-completes-landmark-acquisition-arrium/> (accessed 14 September 2017).

38 David Lipson, 'Steelmaker Sanjeev Gupta teams with Ross Garnaut to run factories using renewable energy', *ABC Online*, 21 September 2017, <http://www.abc.net.au/news/2017-09-20/steel-maker-teams-with-ross-garnaut-to-run-factories-using-rene/8965240> (accessed 21 September 2017).