



Payroll Tax Deferral (BlueScope Steel) Bill 2015 (Proof)

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Extract from NSW Legislative Council Hansard and Papers Wednesday 18 November 2015 (Proof).

Second Reading

The Hon. RICK COLLESS (Parliamentary Secretary) [5.20 p.m.], on behalf of the Hon. Duncan Gay: I move:
That this bill be now read a second time.

The Government, in conjunction with BlueScope Steel management, workers and unions, has worked hard to assist the nearly 4,500 employees who were vulnerable to losing their jobs and to address a scenario that would have been devastating for the Illawarra region. The bill provides for a new Act to implement the Government's announcement that BlueScope Steel will be provided with a structured deferral of payroll tax of up to \$60 million over three years through a defined payment schedule. This targeted payroll tax deferral arrangement will assist BlueScope Steel to secure its Port Kembla operations.

Payroll tax payments will be deferred over three years, commencing from 1 January 2016 on a calendar-year basis. For the period 1 January 2016 to 31 December 2018, the payroll tax deferral will be as follows: 1 January 2016—deferral of up to \$25 million; 1 January 2017—deferral of up to \$20 million; and 1 January 2018—deferral of up to \$15 million. For each of these calendar years, where the payroll tax liability exceeds the applicable threshold, BlueScope will be required to make monthly payroll tax payments. From 1 December 2018, BlueScope will be required to pay its payroll tax liability on a normal monthly basis. Following the three-year deferral period, BlueScope will be required to repay the deferred payroll tax, plus its normal payroll tax, over a period of 10 years from 2020 to 2029. The agreement between the Government and BlueScope Steel is subject to a number of terms and conditions.

We have seen management, the workers and the unions all doing their bit in working to maintain the steelworks at Port Kembla, and this payroll tax deferral represents the Government doing what it can to assist. This one-off unique form of assistance is designed to help the Port Kembla workers move forward in the current tough global business conditions and reflects the unique situation faced by BlueScope in the Illawarra. Employment in the region is diversifying and it is very promising. Since the Government came to office in April 2011, 12 month employment in the Illawarra region has risen by approximately 14,400. This targeted assistance highlights what can be achieved when we have a strong budget and a government willing to work alongside stakeholders for a positive result for the wider community. I commend the bill to the House.

The Hon. SOPHIE COTSIS [5.23 p.m.]: I lead for the Opposition in debate on the Payroll Tax Deferral (BlueScope Steel) Bill 2015. The Opposition strongly supports this bill. I acknowledge my hardworking colleagues in the other place from the Illawarra: the member for Keira, the member for Wollongong, and the member for Shellharbour. I also acknowledge Sharon Bird, the Federal member for Cunningham, and Stephen Jones, the Federal member for Throsby.

The Hon. John Ajaka: And Gareth Ward, the Parliamentary Secretary.

The Hon. SOPHIE COTSIS: The Minister should hold his horses; I am talking about Labor members. They have been working tirelessly to support workers in the Illawarra and fighting for the best possible outcome during this difficult time. I also acknowledge the Parliamentary Secretary for the Illawarra, Mr Gareth Ward. I strongly acknowledge the role played by the unions that represented workers at BlueScope Steel: the Australian Workers Union, the Australian Manufacturing Workers Union, and the Electrical Trades Union. This arrangement involves a massive sacrifice on the part of workers. Members from the Illawarra, Federal members, the Treasurer and the Premier have acknowledged the sacrifice that the workers are making.

I understand that during the negotiations the unions worked very closely with management and also with the workers, the community, the chamber of commerce and local industry. They were determined to get the best outcome for the workers. There was a willingness to exercise responsibility and to accept a painful sacrifice to achieve this goal. Union members agreed last month to a plan that will see 500 of their number lose their jobs so that thousands of others can keep theirs. Put simply, the workers have come to the table on this issue having accepted major sacrifices. As such, it is only fitting that the State Government make sacrifices to support jobs in the steel industry. BlueScope Steel is one of the largest employers in our State, and it is a fundamental component of the Illawarra economy because it provides the jobs that support economic activity throughout the

region.

In debating this legislation in the other place, members spoke about the impact that these difficult times have had on their relatives. The Parliamentary Secretary for the Illawarra spoke about his parents having met at the steelworks. My colleague the member for Wollongong spoke about the many non-English speaking migrant workers that she represented as a union official. Many migrants coming to Australia in the 1950s and 1960s went to the steelworks at Port Kembla and Newcastle because they knew they would get a job. Many of those migrant steelworkers spent years working and building the community. Their successors, the current steelworkers, are now making a sacrifice to ensure that BlueScope Steel continues its operations. They are securing the economic future of the Illawarra.

BlueScope Steel is facing major challenges, particularly given the dumping of cheap steel on the international market. This bill will help it through this difficult time by allowing the company to defer up to \$60 million of its payroll tax bill over the next three years. This is a sensible and necessary initiative that should provide certainty and confidence about the New South Wales Government's commitment to support the steel industry and jobs in the Illawarra. My colleague the member for Keira acknowledged what the Treasurer has done and the work that has been done behind the scenes. There are difficulties with regard to the bill setting a precedent and ensuring that these industries can confidently operate within the Government's framework. However, we all understand what has happened behind the scenes to arrive at this point.

My colleagues in the other place also talked about procurement policy. Of course, this bill will not fix the problem, but it will be a starting point for more comprehensive action to support the manufacturing industry in the Illawarra and across New South Wales. I also acknowledge that the shadow Treasurer and the Leader of the Opposition went to the Illawarra a few months ago to hold a forum involving workers. Government members have also been consulting. I acknowledge all those who participated in the vigorous campaign that was mounted, particularly the workers and the community. Wayne Phillips from the Australian Workers Union said that because of his heavy heart he had not been able to sleep for a couple of months. He has had the onerous responsibility of talking to members and about the 500 of their number who would lose their jobs to safeguard the future of the industry. We will continue to support the steel industry. We wish them success; we want them to do well. I hope that the Government will treat the bill as a starting point and not forget the need to continue supporting jobs in the Illawarra and the manufacturing industry across New South Wales. I commend the bill to the House.

The Hon. PAUL GREEN [5.33 p.m.]: On behalf of the Christian Democratic Party I speak in debate on the Payroll Tax Deferral (BlueScope Steel) Bill 2015. The bill provides for a new Act to implement the structured deferral of payroll tax up to \$60 million over three years for BlueScope Steel and its other taxpayer entities, to be effective from 1 January 2016. Payroll tax payments due and payable during a calendar year will be deferred over three years commencing on 1 January 2016. For the period of 1 January 2016 to 31 December 2018, the payroll tax deferral will be as follows: 1 January 2016, deferral of up to \$25 million; 1 January 2017, deferral of up to \$20 million; and 1 January 2018, deferral of up to \$15 million. For each of the above calendar years where BlueScope Steel's liability to pay payroll tax exceeds the applicable threshold, BlueScope Steel will be required to make monthly payroll tax payments.

From 1 December 2018 BlueScope Steel will be required to pay its payroll tax liability on a normal monthly basis. It will be required to pay its deferred payroll tax as well as its normal payroll tax over a period of 10 years from 2020 to 2029. The Government has reiterated that this is a unique one-off solution given the scale of jobs at risk and BlueScope Steel's particular situation. BlueScope Steel is located in the Illawarra and employs 5,000 people in Port Kembla. The unions agreed to give up 500 jobs, as the Hon. Sophie Cotsis mentioned, and management undertook to reduce costs by up to \$200 million. Last week I had the privilege to visit and tour the BlueScope Steel facility in Port Kembla. It is an amazing piece of infrastructure that must not be lost. New South Wales has experienced a decline in manufacturing across rural and regional areas. Regional development is one of my portfolios and I have always said that it is much easier to keep a job than to create a job. The Government and stakeholders have done well. I note that the Hon. Sophie Cotsis left out the Christian Democratic Party and the Shooters and Fishers Party.

The Hon. Sophie Cotsis: Sorry.

The Hon. PAUL GREEN: Even though we played a small part, we did play a part. I am hoping that we will play an even bigger part.

The Hon. Sophie Cotsis: I acknowledge what you guys did.

The Hon. PAUL GREEN: I acknowledge your acknowledgement. In the recent TAFE inquiry I was privy to some input from representatives in the Illawarra area. The inquiry was told that there was a time—probably when BlueScope Steel was BHP—when BlueScope Steel had a massive package to embrace quite a few job losses. I have made representations to the Minister for Small Business, and Minister for Skills to put a package together for the regional job losses. It is not only BlueScope Steel that is affected. In Nowra the paper mill lost its battle

against the global market and recently Pentair lost its battle, which will result in a total of 80 job losses in April. A lot of middle-aged people will find it hard to find a new job if they are not given an opportunity to retrain. I am pleased that the Minister has taken my request on notice and hopefully there will be some good news that will enable those people to retrain. Many people will call it a day and cash in their redundancies, but others who wish to continue working should be able to use their skills in another career.

There is no doubt that if Australia wants to get ahead in global markets, it must get rid of payroll tax. We are not competitive in the global market and we must address that issue. A wider debate is taking place across Australia about the need for tax reform. I welcome that debate. It must be had if we are to be more competitive in the global markets and boost employment. The Christian Democratic Party has always held the position that payroll tax should be abolished. No doubt it would be attractive to global markets to operate in Australia if New South Wales were to take the opportunity to abolish payroll tax. Payroll tax has been reduced slowly but we cannot throw the baby out with the bathwater. A reduction in payroll tax is good for New South Wales, so I encourage the Government to continue lowering it. According to a report in the *Sydney Morning Herald*, steel is now cheaper than cabbage in China.

Dr John Kaye: Not as tasty.

The Hon. PAUL GREEN: Cabbage does not produce good by-products in the belly. A weak demand for and an overproduction of steel continues to undermine the end market for Australian iron ore and coking coal. The article stated:

Despite having a water content of more than 90 per cent, respected commodity price index publisher Platts revealed that cabbages were pricier by the tonne than the most popular type of steel, known as hot-rolled coil steel, which is used to make industrial pipes and some vehicles.

One Chinese trader said:

[I would be] better off going home to plough the fields rather than try to make money selling steel.

This is the sort of market in which our steelmaking industry has to compete. A report by the Australian Workers' Union entitled "The Benefits of a Government Procurement Policy for Local Steel", stated:

The Australian steelmaking industry is under severe pressure from rising imports, in particular escalating imports of cheap steel from China. A significant proportion of this steel being exported to Australia is reputed to be 'dumped' at prices which are below the cost of production i.e. at a loss by the Chinese and other Asian producers. For the Australian steel industry to remain viable and profitable, it firstly needs to produce at (or near) capacity and secondly, sell as much of its product as possible into the domestic market, and sell less into the less profitable (or often unprofitable) export markets where global oversupply has pushed down prices and margins.

The construction sector is the key source of domestic demand for steel (over 80%), but demand from the private sector is expected to decline over the next 3 to 4 years due to a contraction in private sector construction and the shutdown of local motor vehicle manufacturing. Public sector demand, on the other hand, is set to increase as public infrastructure construction picks up and (later) as public non-dwelling building moves into an upswing.

However, domestic production now supplies less than half of the steel used in public sector construction, having lost over 5% of this share of the market since 2010. If overseas steel companies are allowed to continue to dump their steel product in local markets, domestic producers will continue to lose market share in both the public and private sector steel markets. Any further loss of market share will force even more domestic product into unprofitable export markets. Further financial losses could force one or both of Bluescope and Arrium to shut down their steel making operations – an option that is now actively being assessed by Bluescope.

The report goes on to state that:

One avenue which the government should investigate is legislating to have a procurement policy which aims to have at least 85% to 90% of local steel in all publicly funded projects. Such a policy may reinstate some advantage back to local producers, who are competing against overseas producers possessing an unfair advantage. In any case, local procurement policies exist in other countries such as the USA and Canada, while Victoria has also enacted its own local procurement policy. Victoria's policy has been successful, with the local content proportion averaging 86% over the decade to 2013/14, which has led to an estimated \$7 billion of import replacement.

BIS Shrapnel estimates that a local content policy achieving a 90% local steel content:

- Will cost an average of \$61 to \$80 million annually in extra costs to the public sector (government and government business enterprises), which represents only an extra 0.2% of total construction costs for

public projects. This extra cost is based on the assumption that the price of locally sourced steel is 10 per cent higher than the equivalent imported product (and based on projected import steel prices for the next five years).

- Add a cumulative \$1.3 billion to real GDP over the next five years (which is equivalent to around 0.3% of 2014/15 GDP), if the extra tonnages—which average 690 kt annually—were supplied by extra production from the steelmakers, while leaving export tonnages constant at 850 kt (rather than switching to sales for public sector construction).

- Prove a substantial net benefit to the economy, after accounting for only marginally higher public construction costs

... the loss of market share in public sector construction and lower sales to the private sector increase the chances of a shutdown of one or both steelmakers. Under a complete shutdown scenario, the Australia economy would lose production of 5 million tonnes of steel production and up to 10,000 jobs. This would subtract \$10 billion per annum from real GDP and significantly reduce taxation revenue to state and Federal governments. In addition, the severe regional impacts in Wollongong/Illawarra and Whyalla would probably necessitate substantial extra government expenditure on large bailout packages for these affected regions.

The bottom line is that the small extra cost to government from a local procurement policy is far less than the cost of inaction, which could ultimately lead to severe costs to jobs and the economy if one or both steelmakers shut down.

As I have said in the past, taking no action on an issue is still making a choice. Inaction is a choice. Unemployment not only has effects in the financial sphere; it also results in increased pressure on families and can fracture them. In this situation, I am glad the Government has decided to act. This bill is a step towards helping protect our State's steelmaking industry. I further encourage the Government to take on board the sentiments in the BIS Shrapnel report I mentioned. I encourage the Government to have a look at the feasibility of providing a quota on the minimum amount of Australian steel to be used in New South Wales infrastructure projects, especially given recent reports of inferior Chinese steel containing boron and not meeting Australian standards being used in some projects.

This Government with the help of our crossbench team was able to secure the long-term leasing of the poles and wires. That will inject something like \$20 billion-plus into our economy in the coming years with an uplift of \$300 billion up to 2050. Maybe a smart bit of accountancy would be to bring forward about \$60-\$80 million to secure the steel that representatives from BlueScope have talked to us about. Securing that type of commitment to steel projects in New South Wales and across Australia would ensure that those jobs in regional areas like Whyalla and the Illawarra are secure for the long term. It makes a lot of sense.

As I said before, we would like to see payroll tax totally done away with. All in all this was a really nervous time for a lot of people on the South Coast and in the Illawarra with BlueScope. We thank all parties that came to the table to approach this with some common sense. At the end of the day, companies are no good if they are not making money. They have got to do that. And of course jobs do not exist if companies do not exist. This bill is a good example of how when things get a bit tight all the stakeholders can come to the table and get a solution that protects at least a large portion of those jobs.

We do think of those people who are forgoing those 500 jobs and we note that the Government is not leaving them high and dry. There is a way forward for them to continue being fruitful in their lives and maybe pick up some new career or learning pathway. We applaud the Government for not only dealing with the payroll tax issue and looking into the initiative of the BIS Shrapnel report but also for coming to the table on the issue of retraining, reskilling, upskilling and providing a way forward for many of the people who are going to lose their job. We commend the bill to the House.