Submission No 25

PROCUREMENT OF GOVERNMENT INFRASTRUCTURE PROJECTS

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THE AUSTRALIAN WORKERS' UNION

STRONGER TOGETHER

AWU Submission

NSW Parliament - Procurement of government infrastructure projects (Inquiry)

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OVERVIEW

Australian manufacturers are being harmed by low prices for manufactured commodities caused by global oversupply, resulting illegal dumping and a lack of fair market access for domestic producers to public and private major projects.

The Australian Workers Union ('AWU') represents thousands of steelworkers and their families across the country, with a large membership in NSW.

The AWU has been actively campaigning across the country to ensure that Australia retains its vital steel making capacity, and this report will largely focus on the acute issues that are currently impacting on the industry. Notwithstanding the steel focus of this report, the AWU considers these procurement principles broadly applicable to deal domestic manufacturing industries.

The AWU was heavily involved in the recent landmark deal between workers and Bluescope Steel, with worker sacrifices credited with saving the Port Kembla steelworks and protecting the entire Illawarra region from economic disaster.

Australia's steel industry is in a state of urgent crisis that requires immediate government action. The well-documented struggles of Bluescope have now been compounded by recent market announcements of Australia's other major steel player Arrium, with the company actively contemplating the shut down of the Whaylla steel works while questions remain about its debt load. Put simply, the government must act now or risk Australia losing its steel making capacity forever.

The AWU has held discussions with industry groups and their representatives, and broadly supports all industry efforts to enhance and improve the procurement model currently in place in the NSW jurisdiction.

The AWU notes that there is significant action occurring in other jurisdictions and urges this inquiry to coordinate its activities with governments of all levels.

This submission will focus on:

1. The economic case for a domestic steel industry and the costs of inaction;
2. The economic case for procurement.
3. Examples from other jurisdictions of government action to support the steel industry and steel jobs.

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This submission will relies on three major reports that are attached as appendixes to this report. Those reports are:

1. Regional Economic Impacts of a Closure of BlueScope Steel Operations in Port Kembla, University of Wollongong 2015;
2. The State of Steel, A Report into the Future of the Victorian Steel Industry and the impact of government procurement, Victorian Branch AWU, 2014;
3. The Benefits of a Local Procurement Policy for Local Steel in Government Construction, BIS Shrapnel, 2015.

While this submission will collate and attempt to summarise the work in the above reports, it is requested that the inquiry take note of all 3 reports in their entirety, and that these reports are reviewed for the purposes of challenging any of the policy assertions made in this submission and any underlying assumptions relied upon.

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1. THE ECONOMIC CASE FOR AN AUSTRALIAN STEEL INDUSTRY

Steel generates significant macroeconomic benefits, including over $29 billion in economic activity nationally, and employs over 106,000 along the entire steel industry supply chain. Some 33,000 people work in steel in NSW alone.

Steel's economic footprint is heavily skewed to New South Wales, South Australia and Victoria.

The direct benefits of the steel industry to the local economy are immense, with direct and indirect multiplier effects of $1.0 million in increased or retained business output calculated in the following way:

Type I multipliers

- $713,400 worth of gross value added in terms of industrial support activity (i.e., type I effects)
- Six full time equivalent (FTE) jobs
- $64,900 in avoided welfare expenditure
- $225,300 in tax revenue. [1]

Type II multipliers

- $1,156,000 worth of gross value added in terms of industrial support activity (i.e., type II effects)
- Ten full time equivalent (FTE) jobs
- $101,800 in avoided welfare expenditure • $365,000 in tax revenue. [2]

These figures show the vast economic benefits of the steel industry; not just to the overall steel supply chain but also to the broader economy.

Previous reports commissioned by the Victorian Branch of the AWU have calculated that the overall net economic loss to the economy from every $1 million in lost steel production or import substitution as approximately:

- $939,800 of gross value added
- 6 FTE jobs

1. ICN – Compiled by AECgroup, 2012: Impacts of new and retained business in the Australian Manufacturing Sector
[2] Ibid

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- $62,525 in avoided welfare expenditure
- $296,950 in tax revenue.

In metal fabrication (inclusive of local milled steel) the figures are even larger:

- $1,007,250 of gross value added
- 7 FTE jobs
- $78,100 in avoided welfare expenditure
- $318,350 in tax revenue. [3]

BIS Shrapnel has estimated that for every $1 spent on buying domestic steel (final demand), a total of $2.30 of gross output (sales) is generated by domestic industries.

This gross multiplier of $2.30 can be broken down into three components as follows:

- **The initial effect**: $1 of gross output from steel making is required to meet the $1 of final demand (expenditure on steel).
- **The first round effect:** $0.78 of intermediate inputs required from all industries in order to produce the $1 of gross output.
- **The industrial support effect**: the extra output induced as a result of all industries having to produce the first round of intermediate inputs. This equates to $0.58 (ie gross multiplier less the initial and first round effect).

The overall impact is that to produce $1 of steel domestically generates additional gross output (sales) of $2.30 across the wider economy.

The overall GDP and spill over impacts from domestically sourced steel are calculated as follows, that for every $1 spent on buying domestic steel in 2012/13:

- The steel manufacturing sector contributed $0.20 of value added (GDP) The iron ore mining contributed $0.40 of value added;
- The non-ferrous metal ore mining, Finance and Professional, Scientific & Technical Services contributed around $0.02 - $0.04 of value added; and
- The remaining $0.29 was contributed by other industries including transport and utilities.

[3] 'State of Steel' report, Victorian Branch AWU, 2014.

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These estimates suggest that there are non-trivial spill over effects from demand for local steel to activity in domestic industries outside the steel manufacturing industry.[4]

2. THE ECONOMIC CASE FOR PROCUREMENT

In the past various federal and state government schemes have been implemented to increase the amount of local content used in public and private projects.

Unfortunately these schemes, while well intentioned, have had insufficient scrutiny, enforceability and impact, and have therefore amounted to little more than public relations exercises that have done little to assist domestic producers.

Broadly procurement must take into account:

- The unfair economic advantage to overseas competitors that benefit from dumping product into the Australian economy;
- The short-term nature of current global oversupply and the fact that once domestic industry closes it is closed for good;
- The outsized economic impact of closures versus costs to government budgets in providing access for domestic producers to public projects;
- The impact of substandard steel on budgets with hidden costs resulting from poor quality imported steel.

AWU-commissioned research has shown that lifting the share of publicly funded steel consumption from the present 49 per cent to 80-90 per cent would allow Australia's steel industry to remain viable.

Such metrics could easily be applied to other heavy manufacturing industries.

The impact of import substitution and dumping

The steel industry has come under intense pressure through the falling share of domestic steel in private and public consumption.

These pressures have been building over the last decade, however the downturn in global steel demand coupled with oversupply emanating from China has increased

[4] The Benefits of a Local Procurement Policy for Local Steel in Government Construction, BIS Shrapnel, 2015.

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the impact of dumping into the Australian market. China is estimated to be exporting 100-150m/t of excess steel production into the global market, with much of it sold below the cost of production.

The impact of dumping has compressed steel margins and undercut domestic producers to the point where their viability is now under threat.

Considering whole of life costs

Much of the business case considered by governments when purchasing steel from overseas suppliers, notably Chinese made steel, refers to the upfront cost only. With low quality, dumped Chinese steel carrying a low price tag and with government budgets under pressure the temptation to cut corners in procurement practices is obvious.

Such considerations pass over the whole of life cost benefits that derive from using Australian made steel that is made to Australian specifications and standards.

Industry reports have shown that roughly half of all imported steel does not comply with Australian standards. This is alarming from both a safety and a quality standpoint. From the perspective of governments, sub-standard steel is known to have a shorter life span and is likely to need replacement more quickly, significant repairs or retrofitting. These costs are hidden from government budgets in the first instance, but emerge in capital works costs far earlier than otherwise would be the case if high quality steel had been used in the first instance.

Industry, through various submissions at all levels, has provided strident commentary on the need for vigorous standards that are enforceable. The AWU supports industry submissions that call for compliance in the area of standards and it is clear that this is an area strongly in need of reform.

Falling share of the Australian steel market for domestic producers

The domestic share for Australian steel in both public and private projects has been falling significantly since 2010.

Although total steel consumption has been fairly stable over the past seven years, local steel makers have lost a significant share of the total Australian steel market to imports, falling from a peak of over 62% in 2009/10 to below 56% in 2014/15. This

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6.7% loss of market share over the past 5 years equates to lower domestic sales by local steelmakers of around 467 kt of steel (see table below).

Total demand for steel in Australia

Year Ended June	Domestic			Imports			Total Construction			Other Private
	Public	Private	Total	Public	Private	Total	Public	Private	Total	Imports
2010	1087	1962	3049	906	1118	2024	1993	3080	5073	298
2011	1025	1887	2913	983	1271	2254	2008	3159	5167	285
2012	874	2062	2936	837	1421	2257	1711	3482	5193	271
2013	721	2032	2753	757	1435	2192	1477	3467	4944	256
2014	709	2072	2781	727	1333	2060	1436	3405	4841	222
2015	633	2287	2919	653	1324	1977	1286	3611	4897	208

Source: BIS Shrapnel, Bluescope, ABS

Falling share of publicly funded steel demand

In 2014/15, BIS Shrapnel estimates there was 653 kt of steel imports used in publically funded projects (i.e. funded by both governments and governments business enterprises – GBEs), compared to 633 kt of steel supplied by local steelmakers. This represents a domestic market share of only 49% for publically funded projects with the overall share enjoyed by domestic producers projected to continue to fall.

Note that these figures are national and not specific to NSW.

Domestic producer Australian steel market share

Year Ended June	Residential Building		Non Residential Building		Civil Engineering		Total			Domestic Share
	Domestic	Import	Domestic	Import	Domestic	Import	Domestic	Import	Total	
2010	44	18	449	183	594	705	1,087	906	1,993	54.5%
2011	55	26	411	171	559	785	1,025	983	2,008	51.0%
2012	29	16	336	126	510	694	874	837	1,711	51.1%
2013	16	9	273	96	432	652	721	757	1,477	48.8%
2014	17	7	288	85	404	635	709	727	1,436	49.4%
2015	17	7	237	77	379	569	633	653	1,286	49.2%
2016	16	7	220	68	384	606	621	681	1,302	47.7%
2017	14	6	212	62	430	712	657	781	1,437	45.7%
2018	12	5	221	62	458	797	691	864	1,556	44.5%
2019	13	6	243	64	479	877	735	947	1,682	43.7%
2020	14	6	254	63	454	874	723	944	1,666	43.4%

Source: BIS Shrapnel, Bluescope, ABS

The above table shows that more than 50 cents in every dollar of public money currently goes to overseas steel makers, rather than being invested into the

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Australian steel supply chain.

This figure will rise to nearly 58 cents by 2020. When considering the impact of steel closures on the overall economy as well as regional centres, the virtuous flow-on benefits of domestic steel demand and construction, and the fact that public money is involved in these outlays, such an approach to procurement is clearly unacceptable and an abrogation of responsibility from government in Australian supporting jobs and industry.

Problems with current procurement policies

The AWU is committed to improving the competiveness of the Australian steel industry, which must compete globally, and does not seek to add to 'red tape' that will burden the industry further or reduce productivity.

Many programs administered by the government in respect to procurement standards lack oversight or enforceability and require a level of 'good will' from major project proponents that simply is not evident. The extremely low levels of market share that domestic producers received from major resource projects during the recent mining boom highlights the need for more stringent adherence to procurement levels and standards.

When one considers the tumbling market share of domestic steel in both private and public major projects there is a clear case for improvements. Government must lead the way in this space.

Some state programs have attempted to address the problem of low access to public steel consumption for Australian producers (discussed later in depth) with the program adopted in Victoria and South Australia of particular value.

It should also noted that the costs associated with improved systems around procurement programs are largely immaterial.

Feedback from ASI in consultation on the Australian Jobs Bill indicates that the Australian Industry Participation Plan (AIPP) process similar to VIPP proposals cost project 3 cents in every $1000 spent of 0.00003%.

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The AWU is aware of past industry reports and submissions that seek to tackle the issue of procurement. The AWU relies on industry to provide feedback on the types of issues that they seek to have addressed in this policy space and does not seek to replicate previous efforts.

The AWU shares the concerns from industry in the following areas:

THE ISSUE

The ASI and its members are extremely concerned about the amount of imported fabricated steel on major resource and infrastructure projects. The Australian steel industry is not opposed to mixed local and imported input, but rightly rejects the notion that Australian steel be effectively shut out of meaningful involvement on major projects developed here.

LOSS OF VITAL SKILLS

The trend towards imported modular construction for key components of resource projects has meant that local industry has been excluded from significant participation. Many ASI member manufacturers and fabricators are running their companies at substantially lower production and employment levels compared to recent years with employment levels the lowest seen in 18 years. For instance, figures sourced and compiled by an independent consultant show that WA companies have undertaken less than 10 percent of the potential work available. If this trend continues, there is the danger of essential skills in the steel fabrication and heavy engineering sector being lost forever. These are important skills that will be required for ongoing maintenance and extensions to existing and new plant. This is not only in resources, but essential services areas like power, water, and basic infrastructure - thereby being in the nation's interest that this skill base is kept viable.

COMPLIANCE TO STANDARDS

There is a growing trend for major development projects driven largely by multinational proponents to be designed and engineered overseas to foreign standards. The ASI regards that specifying steel sections to foreign standards for major projects in Australia does not represent fair opportunity for local industry. This practice would not be accepted for projects in the countries of our major trading partners so it is unreasonable to expect Australia to do so. Australian standards provide high quality assurance

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framed with the country's specific conditions in mind. Chances of misinformation and mistakes in interpreting site plans, local regulations and environmental matters can be minimised. By meeting certified standards, exacting specifications and having a 'right first time' culture, Australian suppliers further eliminate the need for costly re-work. Additionally, the systems rigour and traceability requirements that adherence to these quality standards demand facilitate seamless inputs. Inspection costs can be significantly reduced compared to alternate supply of fabricated steel that may require many overseas visits.

SKEWED PLAYING FIELDS

It has become more obvious that there is confusion in the market about what constitutes 'open' compared to a 'level' playing field – they are not the same thing. Australia has one of the most open economies in the world with low barriers to trade, and a business environment the ASI has long supported. But the field would only be level if our trading partners each had similarly open economies and played by the same rules, but that is simply not the case. Many of the Australian industry's main competitors in steel construction have Government export incentives and major competitor China has a well documented subsidised steel industry and under-valued currency, perhaps to the value of 30 percent. This is NOT a level playing field. Australian Government action is urgently required to level market conditions. Such measures that may include stipulating a proportion of fabricated steel that developers or EPCM contractors must procure within Australia, doubling the depreciation time against any imported item or discounting royalty payments to major project proponents for increased percentage of 'contestable' local content used.

POLICY PARITY NEEDED

There are various State government local content policies in Australia that vary considerably and some haven't been revised for five or six years and are loosely monitored for compliance. All state and federal governments need consistent and stronger policies with appropriate levels of monitoring. The ASI advocates stricter local content policies be applied to a variety of Government and private projects including, Public Private Partnerships (PPPs), major road, rail and port development, desalination and power plants, wind towers, and projects where Government has financial involvement, such as currently in Victoria where the 25 percent local

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content (for 'contestable' manufacturing) is mandated on publicly funded projects and those deemed of strategic importance.

IMPORT CONCESSIONS

The Australian Government's Enhanced Project By-law Scheme (EPBS) provides tax concessions to project proponents for importing materials not available locally, provided they commit to undertaking a Local Industry Participation Plan (AIPP). But tariff concessions should not be awarded to major project proponents unless their undertaking to maximise local participation is fully honoured, not just for token efforts such as pooling non-contestable with contestable steel sections. Any package for steel fabrication must not be eligible for tariff concession if the capability exists in Australia. AIPPs should be made public and fully transparent, including the various components required and the proponents' procurement intentions. The ASI has contributed to the current EPBS Policy and Administrative guidelines review by Access Economics.

Government needs to view the substantial Australian steel industry as a strategic national requirement and seriously bring to bear effective measures to maintain it.[5]

Boosting government demand for domestic steel

Table 2 shows that overall steel demand in public projects will continue to rise to 2020 as large scale construction projects come online. This will be particularly evident in NSW as the government looks to ramp up its $68.6 billion expenditure on capital works and infrastructure.

Much of the new infrastructure spend in NSW is being financed by the privatisation of the publicly owned electricity grid. Furthermore, much of the construction that has been planned is to occur in the Sydney metropolitan area – well outside the areas of NSW that will be most acutely impacted by the curtailment of domestic steel production. The government can correct this inequity by using steel produced in these areas within the construction of these projects. A failure to use domestically sourced steel would be a double blow to workers and families in these regional economies who will see no benefit from the sale of their assets, a sale that could help

[5] http://steel.org.au/key-issues/local-content/the-issue/

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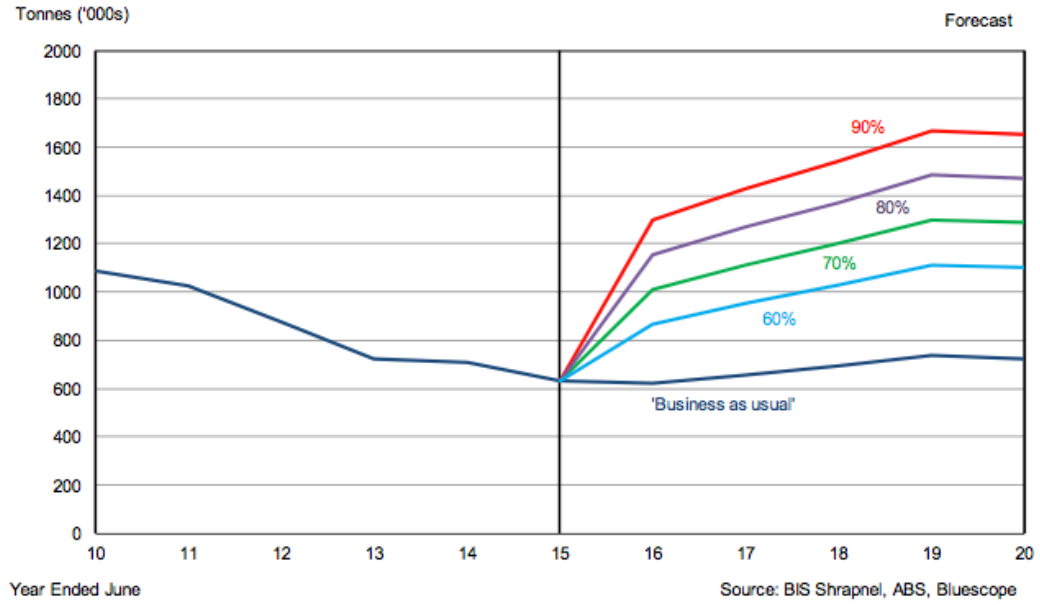
rescue their livelihoods.

A change in policy v the status quo



The above table highlights the loss of market share that domestic producers will continue to endure.

In order to overcome to the gap between domestic steel demand and production BIS Shrapnel has recommended government procurement levels in the range of 80-90%. This will require cooperation between governments at a federal and state level.

90 per cent levels of domestic use – the business case

BIS Shrapnel estimates that if domestic steel markers could achieve a 90% share in publically funded projects, then domestic steel used in publically funded projects would rise from 633kt now (annual volume in 2014/15) to 1514 kt by 2018/19 when public construction activity is forecast to peak. Compared to a 'business-as-usual' case, this represents an extra 778kt of domestic steel sales, which represents over 90 % of the 850kt currently exported at a loss.

However, these extra sales for public sector construction are somewhat offset by

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lower expected sales for private sector construction and car production, which could be up to 200kt lower by 2018/19, under a business-as-usual case. Nevertheless a net 578kt displacement of less profitable exports for more profitable domestic sales would go a long way to ensuring the survival of the local steel industry. Given Bluescope's and Arrium's domestic sales are roughly equal (i.e. 50% share), then each would benefit by almost 290kt by 2018/19.

In value terms, an extra 778kt of domestic steel sales is worth an estimated $989m, while 578kt of sales is worth $734m – or $367m to each steelmaker (all based on a price 10% higher than projected import prices). But these are gross benefits. If the tonnages going to the public sector displace lower priced exports – which are projected to be $277/t lower than domestic steel sold to the public sector - then the net benefit is between $227m to $305m (i.e. for 578kt to 778kt).

80% levels of domestic use – the business case

According to BIS Shrapnel, if the government introduced a policy of 80 per cent local steel, domestic steel used in public projects would grow from 633,000 currently to1.3 million tonnes in 2019/20, adding 537,000 tonnes per year on average compared to the 'business as usual' scenario. This increase will add an estimated $3.4 billion cumulatively over the next five years, based on an average domestic price of $1270 per tonne.

Costs to government budgets of 80-90% procurement policy

If governments were to source 80 per cent of steel used in public projects domestically, BIS Shrapnel estimate the additional cost to be between $47.9 and $62.4 million per annum.

If a policy of 90% were undertaken, the additional cost would fall between $61.4 and $80.2 million per annum.

These direct fiscal costs would need to be balanced against the economic, employment, value and taxation losses that would flow from the closure of steel facilities in Australia.

It is worth noting that these costs would be far lower to the NSW Government, given they are nationally calculated figures.

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This paper deals with the procurement practices and total consumption of steel nationally, and therefore it is conceded that the scope for NSW alone is not on this scale – hence why the AWU is calling on the NSW Government to work with all governments to solve this issue.

Notwithstanding this as the largest economy in the country with the biggest capital works program NSW can provide the heavy lifting and lead the way to solve the problem.

3. ECONOMIC IMPACTS OF CLOSURES

The footprint of steel in Australia is largely regional and located in areas that are already underperforming the national economy in terms of growth rates and levels of total employment and jobs growth. Unemployment, particularly youth unemployment is well above national and state averages in these areas.

Thus, any closures of the steel industry, notwithstanding their overall economic impacts on Australia's macroeconomic performance, would be disproportionately felt by regional economies reliant on steel making facilities.

Regional impacts

The recent high profile troubles of Bluescope's operation in Port Kembla have produced a significant level of analysis of the impacts on Illawarra.

NSW has already seen the impact economically and fiscally of major steel closures through the Newcastle BHP closure in the late 1990s and the impact of these closures is readily available to the government.

The University of Wollongong has produced a significant piece of research that warrants discussion, given the devastating impact a closure of the Port Kembla site would have on overall economic activity and employment.

"Based on the reported $2b contribution of BlueScope Steel, the total monetary impacts of the steel manufacturing activities are computed to affect the regional economy by $3.36 billion. Of this total impact, 16.5% is the direct impact on mining; followed by more than 15% direct impact on the employee compensations of the

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steel manufacturing expenditures (purchases). This would also impact the net regional exports (imports subtracted from exports) by nearly 48%."[6]

Job losses in the Illawarra

It is worth noting that the Port Kembla steelworks has declined significantly as an employer both in actual and relative terms in the Illawarra. The overall unemployment rate in the region has trended upward, with significant layoffs in the early 1980's leading to a 33 per cent increase in the rate of unemployment[7]. The rate of local employment in the steel industry has fallen from 20,350 in May 1981 with BHP accounting for 71.6 per cent of over all employment (27.6 percent of direct and 44 per cent indirect). This number had fallen to 3,500 by 2012 and is expected to fall further after significant restructures announced in 2015.

As the Illawarra moved from being a steel town, the economy and employment rate have suffered. The rate of unemployment remains well above the state and national averages to this day.

Despite the relative decline of the Port Kembla steel works, it remains at the very heart of the Illawarra economy. A total closure would be devastating on the regional economy which relies on the economic flow-on that is generated by the Pork Kembla steel operations.

The broader Illawarra labour force would be severely impacted by any job losses that flow from the closure of the Port Kembla facility. If a directly dependent job loss of 10,000 occurred there would be an effective doubling of the unemployment rate [in the Illawarra]. The current rate is 8.2% (ABS 2015).[8]

An overnight doubling of unemployment would do incalculable damage to the Illawarra community and would create depression-like conditions in the region and create a lost generation of youth.

Youth unemployment in the regional can already be described as being at crisis levels and would worsen in the event of a steelworks closure *"through indirect job*

[6] Regional Economic Impacts of a Closure of BlueScope Steel Operations in Port Kembla , University of Wollongong 2015.

[7] ibid

[8] Regional Economic Impacts of a Closure of BlueScope Steel Operations in Port Kembla , University of Wollongong 2015.

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losses arising from any downturn in aggregate spending in the economy. The main sector of employment for youth is located in the retail industry, and this will effect both full-time and part-time workers either through reduced hours or retrenchment."[9]

4. OTHER JURISDICTIONS

The inquiry would do well to consider the work of other states in Australia when it comes to a procurement program for Australian industries.

The AWU notes the comments from Minister Christopher Pyne regarding his endorsement of the South Australian model of procurement.

Victorian Industry Participation Plans (VIPP)

The Victorian Industry Participation Policy (VIPP) strategic projects concept supporting local content policies introduced by the Brumby Government on 1 July 2009 was actively supported by the AWU. It has been instrumental in revitalising the local tram and train manufacturing sector through the efficient delivery of E-Class trams and X'Trapolis trains by Bombardier and Alstom respectively.

VIPP involve strategic projects that are subjected to additional local content requirements to help drive additional economic activity and jobs.

A project can be declared by the Victorian Government to be a Strategic Project where it exceeds $100 million in capital expenditure or $250 million in whole-of-life cost, and where it meets any or all of the following criteria:

• *Contributes to the productive capability of Victoria and make a strategic economic contribution to the State's potential to generate significant local industry participation, employment or skills and training/technology transfer opportunity to build ongoing industry capability, skills and employment benefits contains significant contestable items.*

Bidders for projects of state significance will be required to produce Local Industry Development Plans (LIDPs) in consultation with ICN that will be used to assess competing bids. In addition, bidders must meet a minimum local content commitment determined on a case-by-case basis for each Project.

[9] Regional Economic Impacts of a Closure of BlueScope Steel Operations in Port Kembla , University of Wollongong 2015.

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NSW should give strong consideration to adopting the highly successful Victorian model in its procurement schemes.

Steel specific projects in Victoria

The Victorian Government recently mandated the use of 100 per cent steel in its 50 level crossing replacement projects.

This project is expected to provide a pipeline of certainty for 10,000 Victorian steel workers.

The VIPP has been very successful in encouraging the use of domestic suppliers. Since its inception in 2001, the VIPP has led to an estimated $7 billion of import replacement. The program has been highly successful in keeping local content in Victorian projects in the 80-90 per cent range - the level recommend by BIS Shrapnel (see below table)

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Table 5: Victorian Industry Participation Policy contracts by year

Year Ended June	No of Projects	Value ($ billion)	Avg. Local Content (%)
2004	99	2.95	86
2005	164	4.94	90
2006	176	2.45	87
2007	224	2.82	90
2008	229	5.75	80
2009	386	6.58	82
2010	1908	11.96	87
2011	325	6.26	89
2012	356	5.61	87
2013	216	3.36	88
2014	163	1.68	84

Source: Victorian Department of State Development,Business and Innovation

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South Australia

South Australia recently held a steel summit to discuss the high profile issues afflicting Arrium, the major steel producer in the state.

The SA Government has recently announced a strengthening of its Industry Participation Policy through pricing in tendering as well as standard enforcement.

Price competitiveness has been harnessed by increasing the weighting domestic bidders received from 15 per cent to 20 per cent.

This will provide domestic producers with a significant boost when tendering against cheap, poor quality domestic steel.

[10] BIS Shrapnel

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The AWU welcomes the recent announcements (see below) and will watch how they are implanted closely

"South Australian Government projects will now be required to use steel that meets Australian Standards and certification requirements, giving the local industry a competitive advantage against lower quality imports. Contract conditions for Government projects will be developed shortly that specify steel is to be sourced from mills with Australasian Certification Authority for Reinforcing and Structural Steel (ACRS) third party certification. Steelwork will be required to come from steel fabricators independently certified to the recently created National Structural Steelwork Compliance Scheme (SCA)."[11]

Notwithstanding the excellent work that is occurring in other states, the AWU believes that this issue must be addressed jointly at a COAG level to ensure a coordinated approach.

International examples

Pro-market economies such as Canada and the United States are well in advance of Australia's coordinated national approach to procurement.

It is clear that there is no legal impediment to strong procurement policies for governments and thus arguments presented in such a manner should be discounted.

United States

The major Acts that have provisions relating to steel procurement are the Buy American Act and the Recovery Act Buy American Provision. The Recovery Act followed the GFC, and applies to construction, alteration, maintenance or repair contracts funded with Recovery Act money.

The Buy American Act has been in place since 1933, and has only been substantially amended four times since then. The Act applies to purchases directly made by the Federal government of more than $3000 as long as it is consistent with public interest, reasonable in cost and the item is for use in the United States.

[11] Government of South Australia, Office of the Industry Advocate – Announcement re: Industry Participation Forum

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The Act has been interpreted to mean that at least 50 per cent of the purchase be attributable to American made components. There are other statutes that impose higher domestic content requirements on procurements not covered by Buy American, or apply to indirect purchases (that is, not by Federal government entities, but using federal funds).

In determining what constitutes American goods, the place of mining, manufacturing or production is controlling. The nationality of the contractor is not considered when determining the origin of a product. To illustrate, for manufactured articles, regulations have interpreted the act as meaning that the cost of foreign components does not exceed 50% of the cost of all components. In terms of steel, for it to be deemed as 'produced in the US', all manufacturing processes must be performed in the United States. Exceptions apply for the metallurgical processes for steel additives. The federal government also have exceptions due to the World Trade Organisation Government Procurement Agreement (GPA). For projects/purchases that fall under the GPA, substantial transformation must occur in a signatory to the GPA.

Department of Defence purchases have more stringent requirements, with the Berry Amendment requiring certain purchases to be 100% American in origin.

Canada

Canada has the Agreement on Internal Trade (AIT), an agreement on trade between different provinces. The AIT explicitly allows preferences for Canadian content through the use of weighting criteria that favour 'Canadian value-added', or through limiting the tender entirely to Canadian suppliers or goods.

There are exceptions in Ontario and Quebec, the two largest provinces. These exceptions are generally in line with exceptions used in most US states. Ontario has a Procurement Directive that give a price preference of 10% for Canadian steel products identified in vendor proposals.[12]

4. CONCLUSION

[12] BIS Shrapnel

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The Australian steel industry, particularly within NSW, is at a crossroads and requires assistance to ensure its viability.

Fortunately it is within the capacity of government to assist without directly or substantially increasing the burden on the budget.

The scope of publicly funded projects to be rolled out in the coming years provides an excellent opportunity for the government to secure the future of 34,000 jobs in the state, as well as a key structural industry that underpins the overall manufacturing supply chain.

The government must act immediately to improve access to publicly funded construction – thousands of jobs and the economic future of entire regional communities depends on it.

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The Benefits of a Local Procurement Policy for Local Steel in Government Construction

> FINAL REPORT • SEPTEMBER 2015

The Australian Workers' Union

www.bis.com.au

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BUSINESS RESEARCH AND FORECASTING

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EXECUTIVE SUMMARY

Key Points

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.

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 publically 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 prices 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 above local content policy scenario represents a comparatively static analysis, whereby export and other tonnages are held constant, and extra local production supplies the larger government funded steel demand. However, the more likely outcome is that domestic producers will divert product from the less profitable export market to the more profitable domestic market, and leave production more or less the same. But this would lead to a rise in overall profitability and help the domestic steel producers remain in business – which is actually the desired outcome from a local content policy.

BIS Shrapnel estimates that if the local content policy could achieve a 90% share in publically funded projects, then domestic steel used in publically funded projects would rise from 633kt now (annual volume in 2014/15) to 1514 kt by 2018/19 when public construction activity is forecast to peak. Compared to a 'business-as-usual' case, this represents an **extra 778kt** of domestic steel sales, which represents over 90 % of the 850kt currently exported. However, these extra sales for public sector construction are somewhat offset by lower expected sales for private sector construction and car production, which could be up to 200kt lower by 2018/19, under a business-as-usual case. Nevertheless a **net 578kt** displacement of less profitable exports for more profitable domestic sales would go a long way to ensuring the survival of the local steel industry. Given Bluescope's and Arrium's domestic sales are roughly equal (i.e. 50% share), then **each would benefit by almost 290kt by 2018/19**.

In value terms, an extra 778kt of domestic steel sales is worth an estimated **$989m,** while 578kt of sales is worth **$734m** – or $367m to each steelmaker (all based on a price 10% higher than projected import prices). But these are gross benefits. If the tonnages going to the public sector displace lower priced exports – which are projected to be $277/t lower than domestic steel sold to the public sector - then the **net benefit** is between **$227m to $305m** (i.e. for 578kt to 778kt).

More importantly, the extra tonnages going to public sector construction would, in all probability, keep both local steelmakers in production. This contrasts to the **business-as-usual scenario**, where further loss of market share (and no local content policy) leads to a cumulative reduction in real GDP of $381 million over the next five years.

But 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/IIlawarra 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.

Background – Local Steelmakers Need to Produce at Capacity but are Losing share to Imports

The problem is that there is considerable excess capacity in global steelmaking production capacity, which is being exacerbated by the current slowdown in steel demand in China. A substantial amount of the excess capacity is in China and a considerable portion of this excess, marginally profitable (or unprofitable) production is concentrated in state owned enterprises (SOEs). Many of the SOEs producing steel are relatively inefficient, have high costs and are operating at a loss. With local Chinese steel demand slowing, they have switched to export

markets and are effectively 'dumping' their product in export markets at prices which are reportedly below the cost of production. The SOEs are reported as being heavily subsidised by governments in China. A key issue here is that many of these SOEs are heavily indebted and a large-scale, concurrent closure of these plants may put pressure on the Chinese financial system - a situation that the Chinese government is keen to avoid.

In the Australian steel industry, Bluescope and Arrium (formerly One Steel) have suffered several years of financial losses, due to both loss of market share to imports and – prior to early 2015 – from an Australian dollar that was too high (i.e. over US80 cents). The fall in the exchange rate has helped Bluescope boost their profits in the first half of 2015, but Bluescope is reported to be suffering losses on the 700kt (kilo tonnes) of steel it sells in export markets (average export tonnages past three years) because of the collapse in global steel prices over the past year. To be viable, Bluescope meeds to run its operations at, or close to its 2,500 kt capacity, particularly its integrated iron and steel works at Port Kembla, which supplies its downstream galvanising and coating operations. However, to be viable and financially sustainable over the medium-to-long term, it needs to export less and sell more in the profitable domestic markets. Arrium too, also needs to run its steelmaking operations at close to capacity and sell its products predominately in local markets.

Steel Used in Public Sector Construction

In 2014/15, BIS Shrapnel estimates there was 653 kt of steel imports used in publically funded projects (i.e. funded by both governments and governments business enterprises – GBEs), compared to 633 kt of steel supplied by local steelmakers, equivalent to a share of only 49%. Steel tonnages in government projects are forecast to increase from 1.29 million tonnes in 2014/15 to a peak of 1.68 million tonnes in 2018/19 before falling slightly in 2019/20 – an increase of almost 400 kt over that period. However, if recent experience is repeated into the future then most of this steel will be sourced from overseas.

Over the past five years, the share of imported steel in publicly funded projects has increased steadily from 45 per cent in 2009/10 to 51 per cent in 2014/15, an average increase of 1 per cent per annum. If this trend continues, then the share of imports will increase to 57 per cent by 2019/20 meaning that the proportion of domestically sourced steel will fall to 43 per cent.

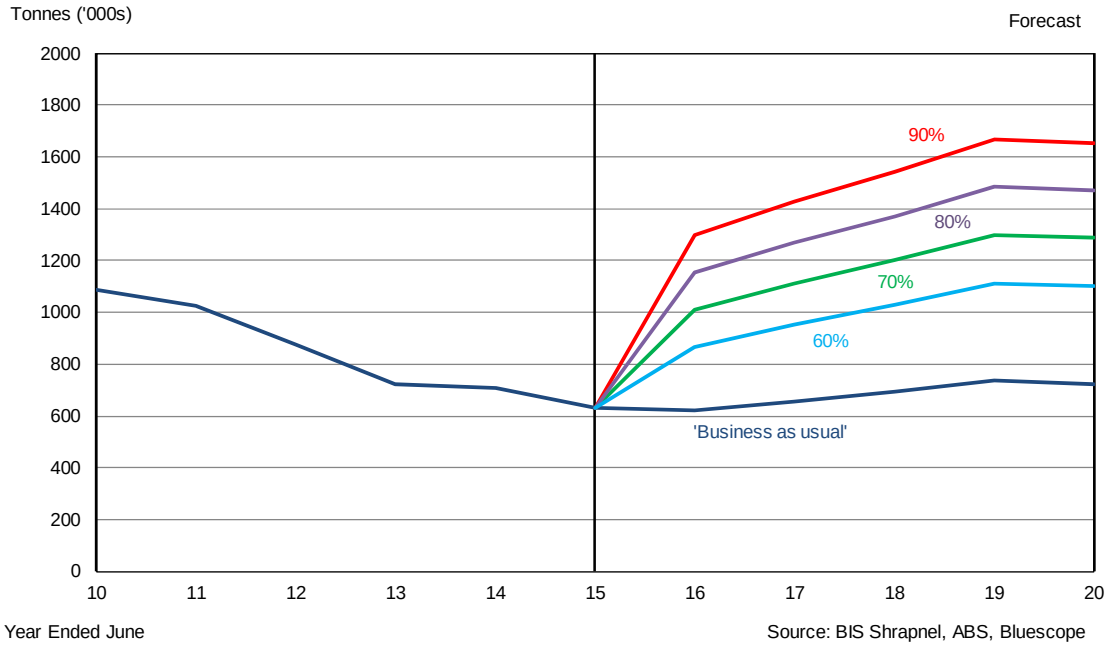
The shrinking size of the domestic steel market for government projects will be a significant negative for the economy. Steel manufacturing industry punches well above its weight as it has amongst the highest multipliers of all industries as it sources inputs from a range of industries including iron ore mining, transport, utilities, retail and wholesale, finance and business services.

Under a business as usual scenario (i.e. assuming the current trend of sourcing more steel from overseas continue), we estimate that the domestic market will lose a cumulative 330 kt from the government market over the next five years. Assuming an average price of $1155 per tonne, lower steel production would translate into reduced real GDP of $381million cumulatively over the next five years.

A Local Content Policy Will Keep Local Producers Viable

Naturally, reduced size of the government market combined with ongoing competitive pressures will put the future viability of the local steel industry at serious risk. However, a strengthening of government procurement policy in favour of local more local content will help mitigate some of these risks. Domestic steel tonnages purchased under alternative local procurement policies are presented in the accompanying chart.

Chart 1: Domestic steel usage in government projects under alternative scenarios



For example, a shift towards 90% local supply would grow the size of the market from 633kt tonnes currently to a peak of around 1.5 million tonnes in 2018/19 and 2019/20. Altogether, we estimate a ruling to 90% domestic content will add accumulative 3.4 million tonnes over the next five years, an average of 690,000 tonnes per annum to the government market. Production of an additional 3.4 million tonnes will add $4.3 billion to real GDP over the next five years, assuming an average steel price of $1,270/tonne. This price is 10 per cent higher than projected average import price. A 10 per cent higher price is in line with the Canadian local content policy.

Some of this will be offset by additional cost to government budgets. We believe a shift to 90% local content will absorb the excess domestic capacity, which, in turn will be sufficient to support the ongoing viability of the local steel industry. Such a shift in policy would add up to $80 million dollars per annum to government budgets, assuming that domestic prices are at least 10 per cent higher than import prices. If we assume that domestic prices are 20% more, then the additional cost rises to as much as $160 million per annum.

The above extra tonnages from a local content policy only apply to public sector construction projects. Another area of significant steel consumption in the public arena is **defence**. Recently, the Commonwealth government announced $89 billion of defence contracts (spread over a number of years). If these projects were also subject to a local steel content policy, then there is upside to the above tonnages from the construction sector. It should be noted that under the US 'Buy American Act', the Berry Amendment requires certain purchases to be 100% American in origin. If the Commonwealth aimed for a high level content for Australian defence expenditure, it would have significant benefits, to not only the steel sector, but other suppliers. If the next round of submarines are built in Australia, and further major defence projects are undertaken, then a local content policy would realise further tonnages for domestic steelmakers. Unfortunately, the tonnages are unable to be quantified at present.

1. INTRODUCTION, BACKGROUND AND APPROACH

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.

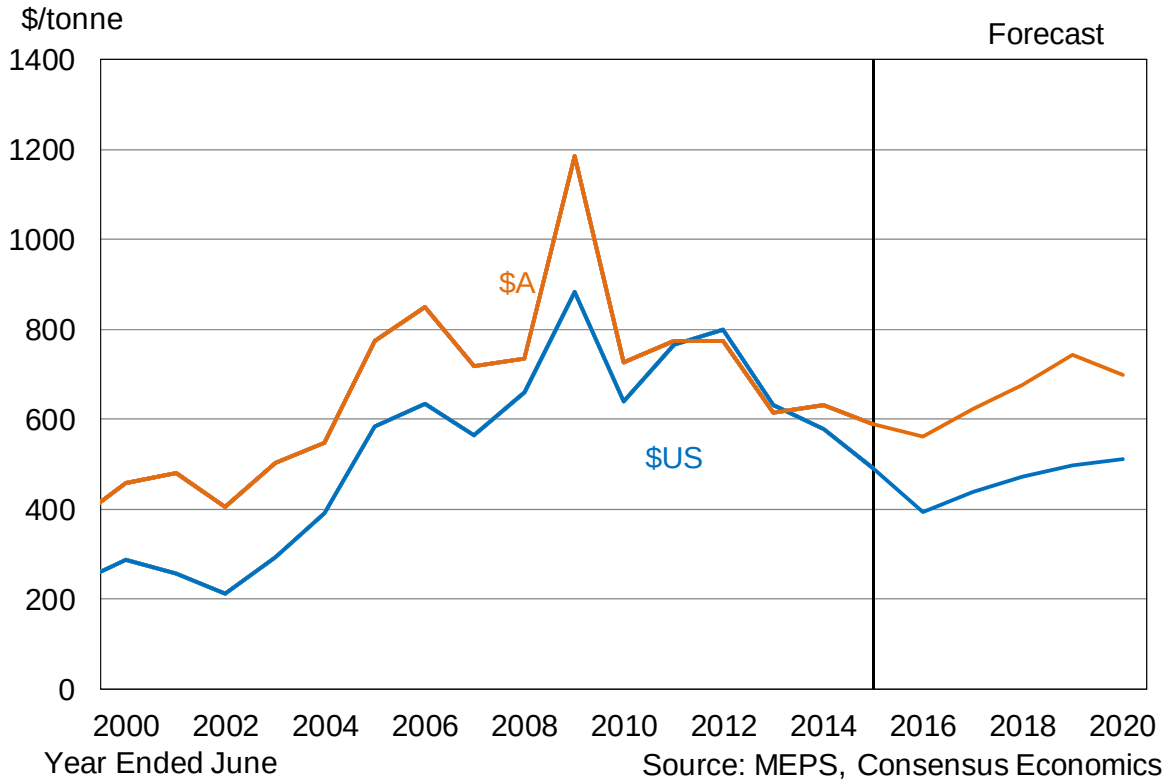
The problem is that there is considerable excess capacity in global steelmaking production capacity, which is being exacerbated by the current slowdown in steel demand in China. A substantial amount of the excess capacity is in China and a considerable portion of this excess, marginally profitable (or unprofitable) production is concentrated in state owned enterprises (SOEs). Many of the SOEs producing steel are relatively inefficient, have high costs and are operating at a loss. With local Chinese steel demand slowing, they have switched to export markets and are effectively 'dumping' their product in export markets at prices which are reportedly below the cost of production. The SOEs are reported as being heavily subsidised by governments in China. A key issue here is that many of these SOEs are heavily indebted and a large-scale, concurrent closure of these plants may put pressure on the Chinese financial system – a situation the Chinese Government are keen to avoid.

In the Australian steel industry, Bluescope and Arrium (formerly One Steel) have suffered several years of financial losses, due to both loss of market share to imports and – prior to early 2015 – from an Australian dollar that was too high (i.e. over US80 cents). The fall in the exchange rate has helped Bluescope boost their profits in the first half of 2015 (to its highest annualised level since 2007/08), but Bluescope is reported to be suffering losses on the 700,000 tonnes of steel it sells in export markets (average export tonnages past three years) because of the collapse in global steel prices over the past year, and also from much lower margins (or 'spread') over raw material costs since 2011 (see chart 2 and Appendix B, last slide). Of the 2,500 kt of annual steel production by Bluescope, exports are around 700 kt and domestic sales 1,800 kt. To be viable, Bluescope meeds to run its operations at, or close to, the 2,500 kt capacity, particularly its integrated iron and steel works at Port Kembla, which supplies its downstream galvanising and coating operations. However, to be viable and financially sustainable over the medium-to-long term, it needs to export less and sell more in the profitable domestic markets. Arrium too, also needs to run its steelmaking operations at close to capacity and sell its products predominantly in local markets.

In 2014/15, BIS Shrapnel estimates there was 653 kt of steel imports used in publically funded projects (i.e. funded by both governments and governments business enterprises – GBEs), compared to 633 kt of steel supplied by local steelmakers. This represents a domestic market share of only 49% for publically funded projects. If most, or a significant proportion of these steel imports used in public sector projects were instead sources from domestic producers, it would substantially enhance the viability and sustainability of the local steel industry.

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 publically 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, 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.

Chart 2: East Asia Hot Rolled Coil Price



The alternative is for one or both local steel producers to shut down their steel production capacity, and switch to imports (both producers have extensive sales and distribution networks). Such an option was presented at BlueScope FY2015 Financial Results Presentation on 24th August 2015 (see Appendix B). This would have significant negative impacts on GDP, taxation revenue and employment, with particularly heavy impacts on the regional economies of Wollongong and the Illawarra and/or Whyalla and South Australia.

1.1 Scope

In light of this background and in response to the threat of closure of the Port Kembla steelworks, BIS Shrapnel was commissioned by the Australian Workers' Union to provide a paper to investigate the impact and potential net benefits of the Australian Commonwealth and state governments enacting a policy of having a majority local steel content in government-funded infrastructure, building and other investment projects. This investigation and analysis involves the following research tasks:

- Estimate steel tonnages in government building and civil engineering construction projects the latter is (mainly infrastructure) over the past five years.
- Decompose total tonnes of steel used in publicly funded projects into steel sourced domestically and via imports, to determine the domestic share of steel.
- Provide forecasts of publically-funded building and construction activity, the expected consumption of steel to be used in that activity and the likely share of domestic and imported steel in the projected steel consumption under different scenarios of local steel content procurement rules, including a 'business-as-usual' (or current no local content policy stance) scenario.

- In the event of declining share of local content, trace the likely economic impact of reduced share of local steel procurement in government projects in terms of lost steel production and GDP. BIS Shrapnel was also asked to investigate the economic impact of increasing the share of local steel procurement in government projects and to discuss some economic implications of a complete shutdown of steel industry in Australia.

This report provides answers to the above research agenda.

1.2 Data, assumptions and approach

Steel is defined as raw steel and includes flat-rolled products, iron and steel bars, rods, pig-iron, wire of iron or steel, and tubes & pipes of iron or steel. A complete list of steel products is provided in Appendix A, which is based on the standard trade and import definitions.

To the best of our knowledge, there isn't any published or readily available data on steel tonnages used in the vast range of public sector funded (including both government and government business enterprises) building and civil engineering construction projects.

The first task therefore was to gather data on total steel consumption in Australia. We built this data from ground up by summing domestic production for domestic consumption and all imports of steel. The total tonnages were then distributed to the main end-use sectors using proportions estimated through desk research, company interviews and literature search. The main end-use sectors were identified as residential building, non-dwellings building, engineering construction, mining, agriculture, manufacturing and transport.

We then deduced the steel tonnages used in public sector projects based on the share of public construction in total construction as well as reasonable assumptions on the steel intensity of publicly funded building and civil construction. The size of the government market was then decomposed into domestic share (estimated from desk research and company interviews) and imports (calculated as the residual i.e. total less domestically procured tonnages). Forecasts of government steel tonnages are based on our project list of upcoming projects along with our macroeconomic assessment of public construction over the next five years.

There are three strands to our economic impact analysis.

- We first quantify the economic contribution of the domestic steel manufacturing industry using the inter-industry linkages embedded in input-output tables, sources from the Australian Bureau of Statistics.

- The second economic impact analysis relates to a 'business-as-usual' scenario where we project the declining share of local steel observed over the past five years into the next five years and calculate the shrinkage of domestic sales to government projects and the associated broader economic costs. We also estimate the volume of tonnages under different local content percentages, i.e. 60%, 70%, 80% and 90%. An overall 100% local content was not considered feasible, mostly for technical reasons such as a lack of capacity in Australian manufacturing for some 'specialty' steels used in certain applications.

- The third scenario relates to the economic impact of a complete shutdown in local steel manufacturing in terms of lost GDP, employment and tax revenue.

The reality is that under the second and third scenarios the impact goes well beyond the potential savings derived from imports, to a multitude of unintended consequences.

Chart 3: Domestic Production & Sales vs Imports (kt)

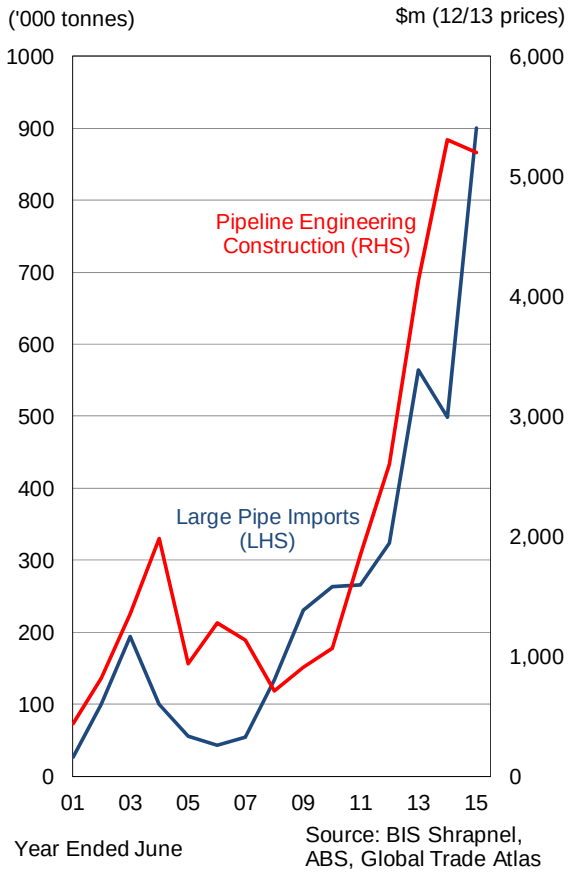


Chart 4: Pipeline Construction and Pipe Imports

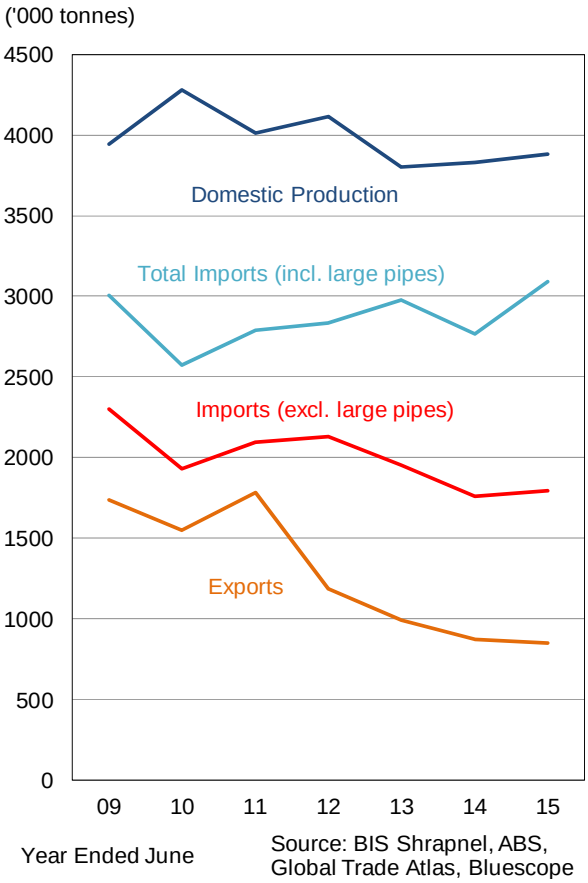
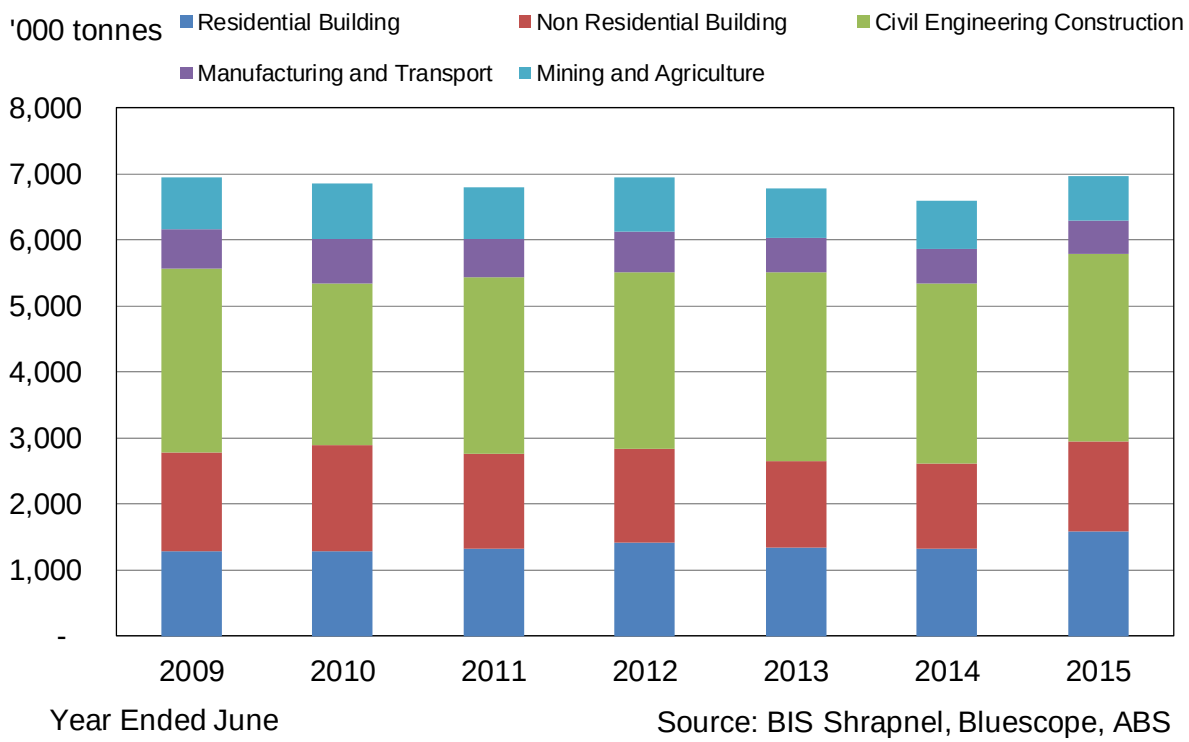


Chart 5: Steel consumption by main end-use sectors ('000 tonnes)



2. STEEL USAGE AND DOMESTIC STEEL SHARES IN KEY END USE SECTORS IN AUSTRALIA

Using desk research, company interviews and literature review, we distributed total steel tonnages into five main end use sectors described below:

- Non-dwelling building.
- Dwelling building, including major alterations and additions activity.
- Civil engineering construction, which is mainly infrastructure, including roads, railways, harbours, water, sewerage, electricity, pipelines and telecommunications, but excluding construction on 'direct' mining, oil and gas and other heavy industry production facilities.
- Mining and Agriculture, where mining includes 'consumables' (such as steel ball bearings) used in production (operations) and engineering construction on mines and oil and gas facilities (i.e. investment).
- Manufacturing and Transport, the latter includes steel used in motor vehicles, railway rolling stock and ships.

The three construction sectors (ie residential building, non-dwelling building and civil engineering construction) comprise the majority of the steel market constituting over eighty percent of steel consumption in Australia (see chart 5).

Although total steel consumption has been fairly stable over the past seven years, local steel makers have lost a significant share of the total Australian steel market to imports, falling from a peak of over 62% in 2009/10 to below 56% in 2014/15. This 6.7% loss of market share over the past 5 years equates to lower domestic sales by local steelmakers of around 467 kt (i.e. if local producers had maintained their 62.4% market share in the 2014/15 local market).

The market share of domestic producers' vis-à-vis imported steel varies across the different end-use sectors, with the lowest domestic share attributed to the civil engineering construction sector. Pipelines construction can have a distorting influence here, as large diameter steel pipes are now mostly imported, following the shutdown of OneSteels' steel pipe manufacturing facility (Tubemakers) at Kembla Grange (Wollongong) in early 2012. The local steel producers previously supplied this pipe-making plant. However, we estimate steel pipe imports related to pipeline construction in 2014/15 was 901 kt. Table A1 in Appendix A shows import tonnage data, with category 'HSC 7305' (to which we refer as 'large diameter pipes') being the most relevant here. Chart 4 shows a close relationship between these large diameter pipes used in pipeline engineering in Australia, with both climbing over recent years in line with the oil and gas investment boom. Virtually all gas pipeline related construction is undertaken by the private sector. Excluding these pipe imports (from both the numerator and denominator) gives an import share of 40% in 2014/15 for civil engineering construction.

Chart 6: Domestic Share by end-use sectors ('000 tonnes)

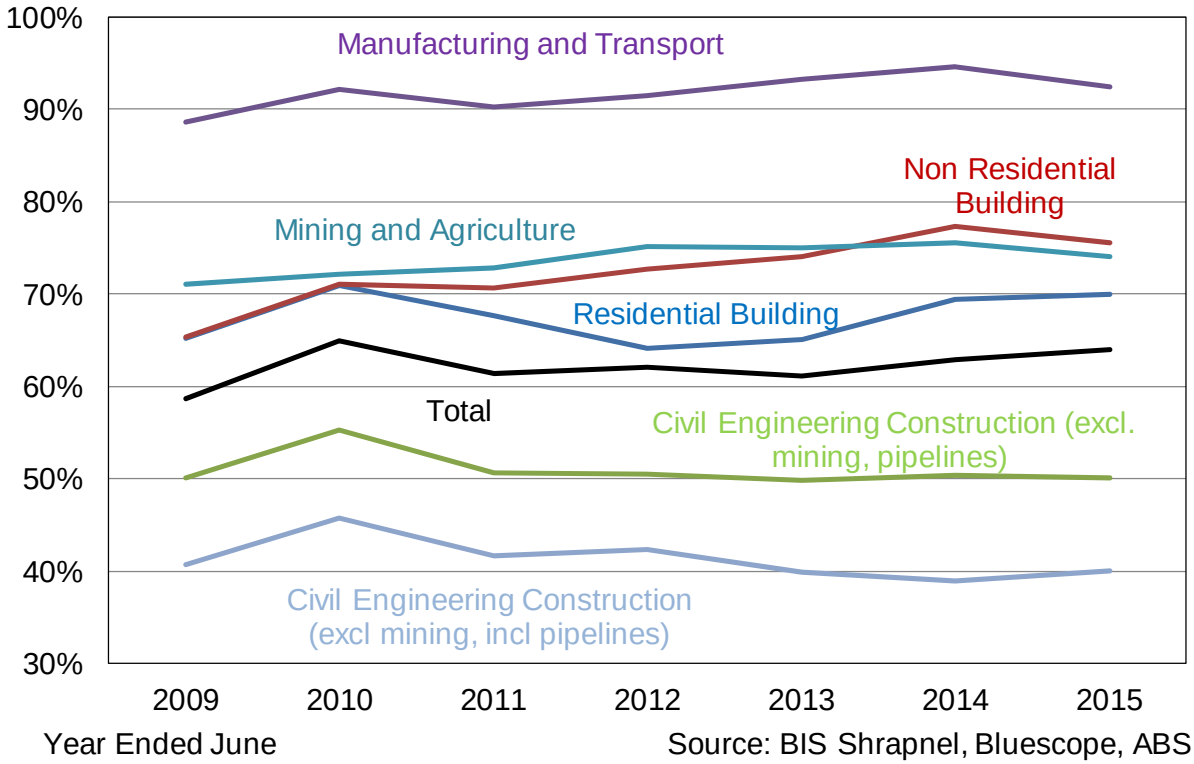
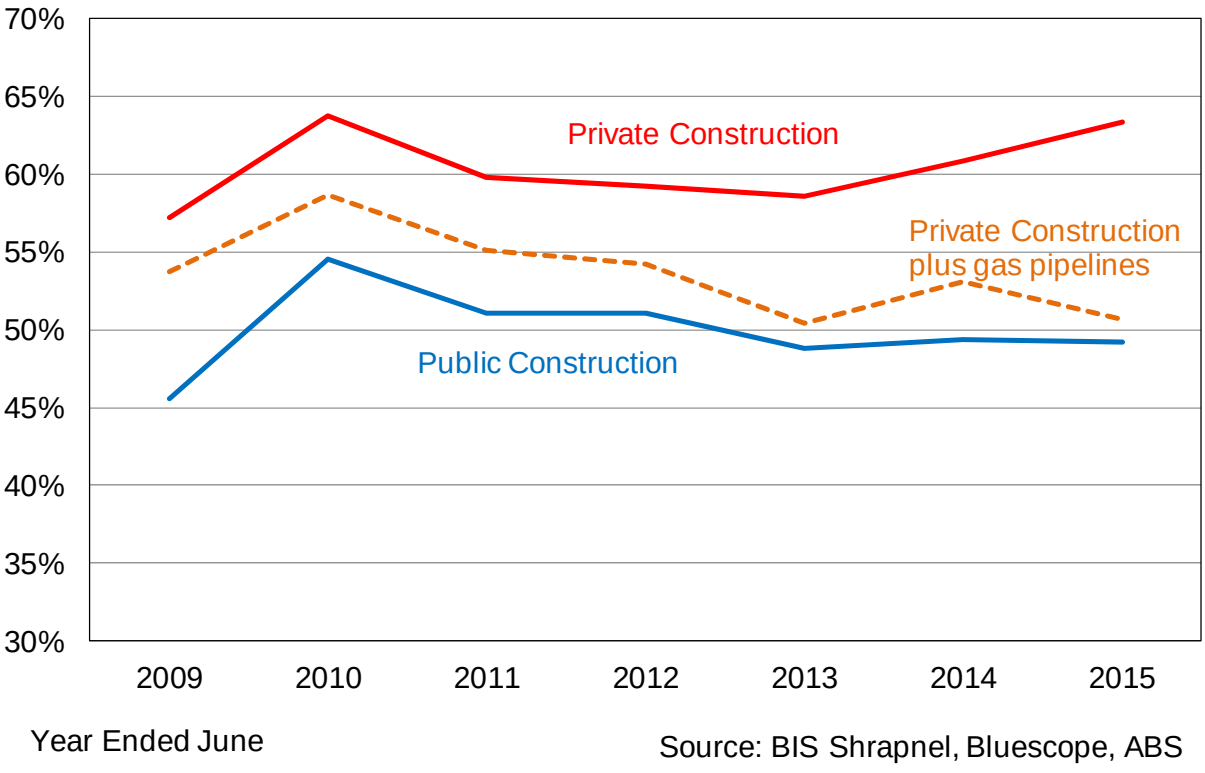


Chart 7: Domestic Share of Building and Construction, Public v Private



3. ESTIMATING STEEL TONNAGES IN PUBLICLY FUNDED PROJECTS – AUSTRALIA

To estimate steel tonnages used in publicly funded projects at the Australian level, data on the public and private splits of construction are used for residential and non residential construction. Adjustments are then made to reflect varying steel intensities between public and private construction in each sector.

For engineering construction, we utilise BIS Shrapnel's in-house estimates and forecasts of engineering construction. While the ABS produces public and private engineering construction figures, our estimates allow us to remove mining related construction. Given the large amount of mining construction that has occurred over the past six years, not excluding it would have distorted the true split between public and private engineering construction.

Historical estimates and forecasts of building and construction activity for the public and private sectors and for total construction are shown in charts 8, 9 and 10.

Overall, the public sector has a relatively low domestic share of steel in its total construction activity, because of the dominance of civil engineering construction in the overall mix, compared to the private sector. However, it should be noted that the steel attributed to the mining sector is understated. It does not include the considerable volume of steel in imported 'modules' used in the construction of LNG plants, oil and gas production facilities and at mines. The value of these modules, while included in the value of 'Mining and Heavy Industry' engineering construction, are not included in steel tonnages data, but elsewhere in the import data.

Our estimates of steel tonnage for publicly funded residential, non residential and engineering construction are shown in the accompanying table. We have disaggregated each sector into estimates of domestically supplied and imported steel, based on the estimated domestic/import shares for each end-se sector (see chart). We have not included steel use in non-construction sectors where public-sector funded projects may have involved significant steel volumes, such as those relating to defence (e.g. in warships) or railway rolling stock.

Table 1: Steel tonnages in Building and Civil Engineering Construction, Public/Private and Domestic v. Imports

Year Ended	Domestic			Imports			Total Construction			Other Private
June	Public	Private	Total	Public	Private	Total	Public	Private	Total	Imports
2010	1087	1962	3049	906	1118	2024	1993	3080	5073	298
2011	1025	1887	2913	983	1271	2254	2008	3159	5167	285
2012	874	2062	2936	837	1421	2257	1711	3482	5193	271
2013	721	2032	2753	757	1435	2192	1477	3467	4944	256
2014	709	2072	2781	727	1333	2060	1436	3405	4841	222
2015	633	2287	2919	653	1324	1977	1286	3611	4897	208

Source: BIS Shrapnel, Bluescope, ABS

Chart 8: Public Construction Work Done

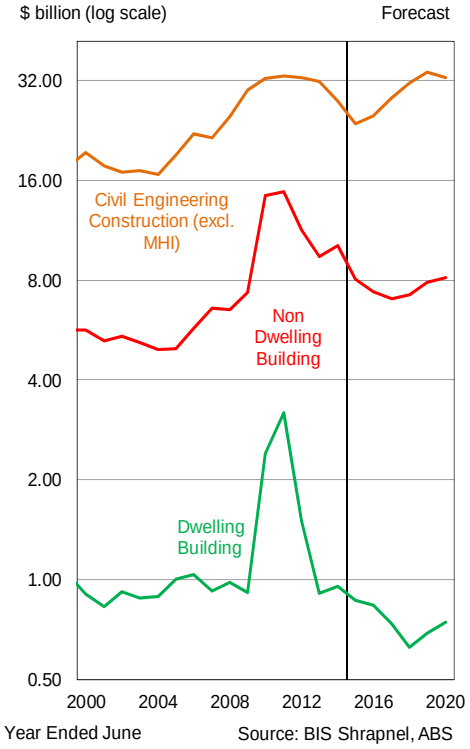


Chart 9: Private Construction Work Done

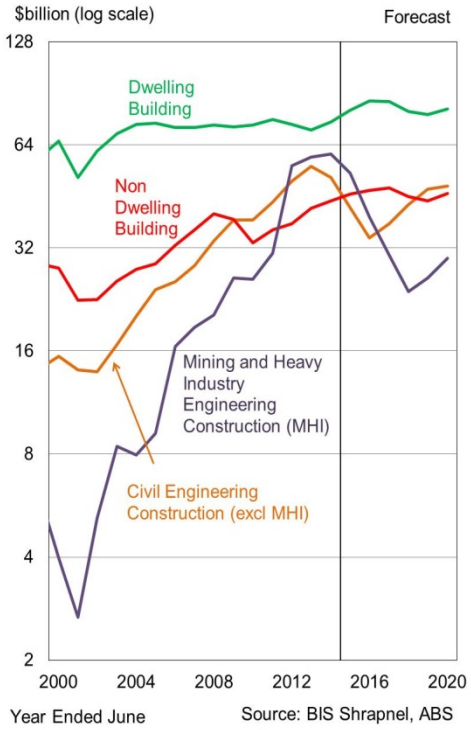
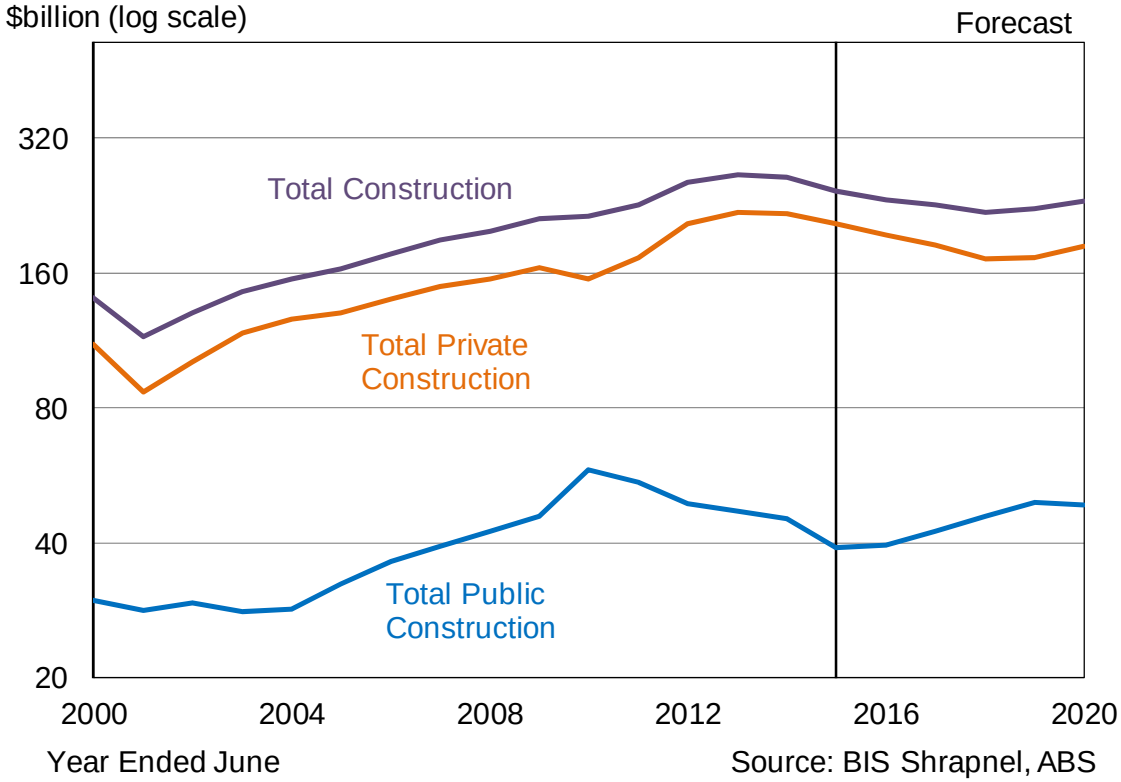


Chart 10: Total Construction by Sector, 2012/13 Prices



4. FORECASTING STEEL TONNAGES IN GOVERNMENT FUNDED PROJECTS – AUSTRALIA

To forecast steel tonnages used in government funded projects, we utilise BIS Shrapnel's in-house forecasts of construction levels for residential, non residential building and engineering construction, split between the public and private sectors according to funding.

Publicly funded non-dwelling building experienced abnormally high levels (reaching a peak of $14.8 billion in 2010/11) following the GFC, as stimulus packages like the 'Building the Education Revolution' were rolled out across the country. Since then, public non-dwelling building activity has fallen back to around $8 billion per year. Education was the first to fall off, as post GFC stimulus funding disappeared. Health is currently experiencing a similar situation, with a number of significant projects nearing completion. Public dwelling building experienced a similar spike post GFC, but has now fallen back below pre-GFC levels.

Publicly funded civil engineering construction activity has also lined over the past four years. The pick up in telecommunications construction due to the National Broadband network has been outweighed by declines in other engineering construction sectors such as roads, rail, electricity and water supply, all of which have fallen sharply over the past two years.

Public dwelling construction historically has historically comprised a very small proportion of total dwelling construction, and we expect this to continue into the future, with less than 2 per cent of total dwelling construction. In comparison, publicly funded non-dwelling building has historically made up around 25 per cent of the total market, and we expect this to persist into the future.

Civil engineering construction (excluding mining-related engineering construction) has an even higher proportion of publicly funded work than non-dwelling building, accounting for between 25 and upwards of 50 per cent. With the large amount of public infrastructure coming through in New South Wales – largely due to the partial privatisation of the electricity poles and wire network (providing an estimated $20 billion) - we anticipate this proportion will rise from the current level of 23 per cent to around 40 per cent.

Overall, public sector building and construction has declined by around one-third (in real value, or constant 2012/13 price, terms) since the post-GFC stimulus high of 2009/10. However, total public construction is forecast to gradually recover from the 2014/15 trough and increase over the next four years, before easing slightly in 2019/20 as major projects near completion.

Table 2: Steel Tonnages by End Use Sectors in Publicly Funded Projects, differentiated by imports and domestic content- 'Business as usual' scenario ('000 tonnes)

Year Ended	Residential Building		Non Residential Building		Civil Engineering		Total			Domestic
June	Domestic	Import	Domestic	Import	Domestic	Import	Domestic	Import	Total	Share
2010	44	18	449	183	594	705	1,087	906	1,993	54.5%
2011	55	26	411	171	559	785	1,025	983	2,008	51.0%
2012	29	16	336	126	510	694	874	837	1,711	51.1%
2013	16	9	273	96	432	652	721	757	1,477	48.8%
2014	17	7	288	85	404	635	709	727	1,436	49.4%
2015	17	7	237	77	379	569	633	653	1,286	49.2%
2016	16	7	220	68	384	606	621	681	1,302	47.7%
2017	14	6	212	62	430	712	657	781	1,437	45.7%
2018	12	5	221	62	458	797	691	864	1,556	44.5%
2019	13	6	243	64	479	877	735	947	1,682	43.7%
2020	14	6	254	63	454	874	723	944	1,666	43.4%

Source: BIS Shrapnel, Bluescope, ABS

These estimates of public construction are the primary driver for steel usage forecasts in each end use sector. Assuming total steel tonnages grow in line with the real value of public construction, then steel tonnages in government projects are forecast to increase from 1.29 million tonnes in 2014/15 to a peak of 1.68 million tonnes in 2018/19 before falling slightly in 2019/20 – an increase of almost 400 kt over that period.

If the domestic steel sector was to maintain the current market share in each of the current construction sectors, then this should lead to a rise in domestically-sourced steel volumes for publically funded projects of just under 190 kt over the next five years. However, if we use the current trend decline in the domestic share in the construction segments and apply the trend decline going forward under a 'business-as-usual' scenario, then domestic steel usage by the public sector only increases by 90 kt, compared to an increase of 291 kt from overseas-sourced steel (see table 2 and chart 11).

5. ECONOMIC IMPACT OF DECLINING SHARE OF LOCAL STEEL CONTENT IN GOVERNMENT PROJECTS

5.1 The economic contribution of local steel industry

The economic contribution of local steel manufacturing industry can be quantified by using structural relationships embedded in input-output tables. Essentially, input-output tables allows one to quantify the link between local steel production to activity in other related industries in terms of additional output produced across the whole economy as well as extra GVA (gross value added) generated in industry sectors connected to steel making industry in Australia. Put simply, input-output tables enable us to trace the effects of demand for local steel through to the value added (GDP) of the industries that provide inputs necessary for this demand to be met.

There are three stages to calculating the spill over effects.

Firstly, a direct requirements matrix is computed followed by derivation of a gross multiplier. Lastly, a GVA requirements matrix is generated that shows how additional demand for local steel flows through to extra GVA in related sectors.

The direct requirements matrix tells us the value of intermediate inputs required, on average, to produce $1 of industry output (steel sale) in a given year (see table below). For example, for the steel industry to produce $1 of output in 2012/13 (latest data available), it used, on average, $0.78 of domestic intermediate inputs with the majority of inputs sourced from the iron ore mining industry. However, industries that supply inputs to steel manufacturing also require inputs from other industries, which, in turn, require inputs from other industries and so on. To account for these second, third and additional rounds of production linkages, we calculate a gross multiplier for the steel industry.

We estimate the gross multiplier for the steel industry to be 2.30 (excluding imports). This means that for every $1 spent on buying domestic steel (final demand), a total of $2.30 of gross output (sales) is generated by domestic industries. This gross multiplier of $2.30 can be broken down into its three components as follows:

1. The initial effect: $1 of gross output from steel making is required to meet the $1 of final demand (expenditure on steel).
2. The first round effect: $0.78 of intermediate inputs required from all industries in order to produce the $1 of gross output.

3. The industrial support effect: the extra output induced as a result of all industries having to produce the first round of intermediate inputs. This equates to $0.58 (ie gross multiplier less the initial and first round effect).

The upshot is that to produce $1 of steel generates additional gross output (sales) of $2.30 across the wider economy.

Gross multiplier does not equate to additional GDP generated as intermediate inputs are counted multiple times in the derivation of the gross multiplier. Hence, we need to adjust the overall impact to calculate the GDP impact of steel production. To do this, we manipulate the direct requirements (Leontief inverse) matrix to generate a GVA requirements matrix (see accompanying table).

Table 3: Direct Requirements Matrix
Value of intermediate inputs required for every $1 of industry output – 2012/13

	Iron & steel manufacturing	Iron ore mining	Coal Mining	Non-Ferrous Metal Ore Mining	Transport	Utilities	Business Services
Iron & steel manufacturing	0.05	0.01	0.01	0.01	0.01	0.01	0.00
Iron ore mining	0.52	0.01	0.01	0.01	0.01	0.00	0.00
Coal Mining	0.05	0.02	0.04	0.03	0.01	0.02	0.01
Non-Ferrous Metal Ore Mining	0.04	0.01	0.00	0.01	0.00	0.00	0.00
Transport	0.06	0.02	0.05	0.03	0.02	0.01	0.00
Utilities	0.02	0.02	0.02	0.03	0.01	0.04	0.01
Business Services	0.01	0.01	0.06	0.08	0.02	0.02	0.06
Other Industries	0.03	0.15	0.31	0.38	0.41	0.33	0.34
Total (excl imports)	**0.78**	**0.25**	**0.50**	**0.58**	**0.49**	**0.43**	**0.42**

Source: ABS, BIS Shrapnel

Table 4: GVA Contribution Matrix
Value of GVA generated for every $1 of final demand for industry output – 2012/13

	Iron & steel manufacturing	Iron ore mining	Coal Mining	Non-Ferrous Metal Ore Mining	Finance	Professional, Scientific & Technical Services
Iron & steel manufacturing	0.20	0.00	0.01	0.01	0.00	0.00
Iron ore mining	0.40	0.72	0.01	0.01	0.00	0.00
Coal Mining	0.03	0.01	0.43	0.01	0.00	0.00
Non-Ferrous Metal Ore Mining	0.02	0.00	0.00	0.30	0.00	0.00
Finance	0.02	0.02	0.03	0.04	0.84	0.04
Professional, Scientific & Technical Services	0.04	0.03	0.07	0.08	0.01	0.63
Other Industries	0.29	0.21	0.45	0.54	0.13	0.31
Total (excl imports)	**0.99**	**1.00**	**0.99**	**0.98**	**0.98**	**0.99**

Source: ABS, BIS Shrapnel

The GVA requirements matrix shows the distribution of industry GVA generated for every $1 spent on a particular industry's output. Reading down the first column of the GVA contribution table, we see that, on average, for every $1 spent on buying domestic steel in 2012/13:

- The steel manufacturing sector contributed $0.20 of value added (GDP)
- The iron ore mining contributed $0.40 of value added
- The non-ferrous metal ore mining, Finance and Professional, Scientific & Technical Services contributed around $0.02 - $0.04 of value added, while the remaining $0.29 was contributed by other industries including transport and utilities.

The estimates suggest that there are non-trivial spill over effects from demand for local steel to activity in domestic industries outside the steel manufacturing industry.

5.2 Economic impact under alternative scenarios

5.2.1 'Business-as-usual scenario (i.e. declining share of domestic procurement in government projects) against maintenance of current share of local steel content

The following calculations are for scenarios where the lost/gained production through public procurement directly affects the output of Australia's steel industry. We acknowledge that this is not necessarily the case (with any differences possibly diverted to/from export markets), but we believe it illustrates the magnitude of the benefit to active domestic procurement for public projects.

If recent experience is repeated into the future – a 'business-as-usual' scenario - then domestic steel sales share will continue to decline while the share of imports will increase. We estimate that domestic sales to publicly funded projects will fall from an average of 51% over the six years 2014/15 (49% currently) to 43 % by 2019/20. This would subtract a cumulative 330 kt from the government market over the next five years, or on average, sales would be 67kt per annum lower than if domestic steelmakers maintained their current market share. Assuming an average price of $1155 per tonne (using the average import prices in the sub-total line as shown in Appendix A), lower steel production would translate into a cumulative reduction in real GDP of $381 million over the next five years.

Note that in terms of the prices assumed for our analysis, we were unable to obtain prices for domestic steel sold in the local market. We were able, however, to obtain 'landed' or cif prices (costs, insurance and freight) for some key types of steel imports, the average of which was only a bit lower than the average of the range of products listed in table A1 under the ABS-SITC classifications 671 to 678 (see 'sub-total' line in the table in Appendix A). These classifications appear to be the closest to the range of steel goods produced by the Australian steel industry, so in the absence of domestic prices we used these prices as a benchmark for local prices, assuming domestic suppliers would price their product to remain competitive against imports.

The largest negative contribution in gross value added will be from the iron ore mining (-$154 million over the five years) and iron and steel manufacturing which is forecast to contract by $74 million. Reduced output of steel manufacturing also means a lower contribution to value-added by sectors which service or supply inputs to the steel manufacturing industry. We estimate the cumulative negative contribution to gross value added in these related industries as follows:

- Professional, Scientific and Technical Services - $13 million

- Road and rail transport including transport support services and storage – $19 million
- Coal mining - $10 million
- Utilities (electricity, gas, water and waste water services) - $10 million
- Wholesale and retail trade $10 million
- Finance - $8 million
- Non-ferrous metal ore mining - $6 million
- Oil & gas extraction - $9 million
- Exploration and mining services - $5 million
- Employment and administrative services - $5 million

These forecasts assume that the trend towards greater use of imported steel will continue into the future. We estimate that imports currently supply 51 per cent of the market, and that this will continue to increase and reach 57 per cent in 2019/20. Given the low prices that are currently being observed globally, particularly China, we feel that this assumption may well turn out to be conservative.

5.2.2 Shift to 90 per cent local procurement for government projects

Naturally, reduced size of the government market combined with ongoing competitive pressures may put the future viability of the local steel industry at risk. However, a strengthening of government procurement policy in favour of local more local content will help mitigate some of these risks.

For example, a shift towards 90% local supply would grow domestically sourced steel from 633,000 tonnes currently to a peak of 1.5 million tonnes in 2019/20. Altogether, we estimate a ruling to 90% domestic content will add 3.4 million tonnes over the next five years, an average of 690kt per annum to the government market (relative to the business-as-usual scenario). This static analysis implicitly assumes the extra tonnages 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), i.e. there is spare capacity to increase production (which is true, as production in 2014/15 of 4.3 Mt compares to a nominal capacity closer to 5 Mt).

Production of an additional 3.4 million tonnes will add $4.3 billion to real GDP cumulatively over the next five years, using an average price of $1270 (10 per cent higher than the average import price used in Section 5.2.1). The largest positive contribution in gross value added will be from the iron ore mining (+$1.75 billion) and iron and steel manufacturing which is forecast to expand by $861 million. Increased output of steel manufacturing also means a larger contribution to value-added by sectors which service or supply inputs to the steel manufacturing industry. We estimate the positive cumulative contribution to gross value added in these related industries as follows:

- Professional, Scientific and Technical Services +$151 million
- Road and rail transport including transport support services and storage +$187 million
- Coal mining +$121 million
- Utilities (electricity, gas, water and waste water services) +$108 million

- Wholesale and retail trade +$119 million
- Oil & gas extraction +$103 million
- Finance +$92 million
- Non-ferrous metal ore mining +$69 million
- Exploration and mining services +$58 million
- Employment and administrative services +$53 million

The above extra tonnages from a local content policy only apply to public sector construction projects. Another area of significant steel consumption in the public arena is defence. Recently, the Commonwealth government announced $89 billion of defence contracts (spread over a number of years). If these projects were also subject to a local steel content policy, then there is upside to the above tonnages from the construction sector. It should be noted that under the US 'Buy American Act', the Berry Amendment requires certain purchases to be 100% American in origin. If the Commonwealth aimed for a high level content for Australian defence expenditure, it would have significant benefits, to not only the steel sector, but other suppliers. If the next round of submarines are built in Australia, and further major defence projects are undertaken, then a local content policy would realise further tonnages for domestic steelmakers. Unfortunately, the tonnages are unable to be quantified at present.

5.2.3 Shift to 80 per cent local procurement for government projects

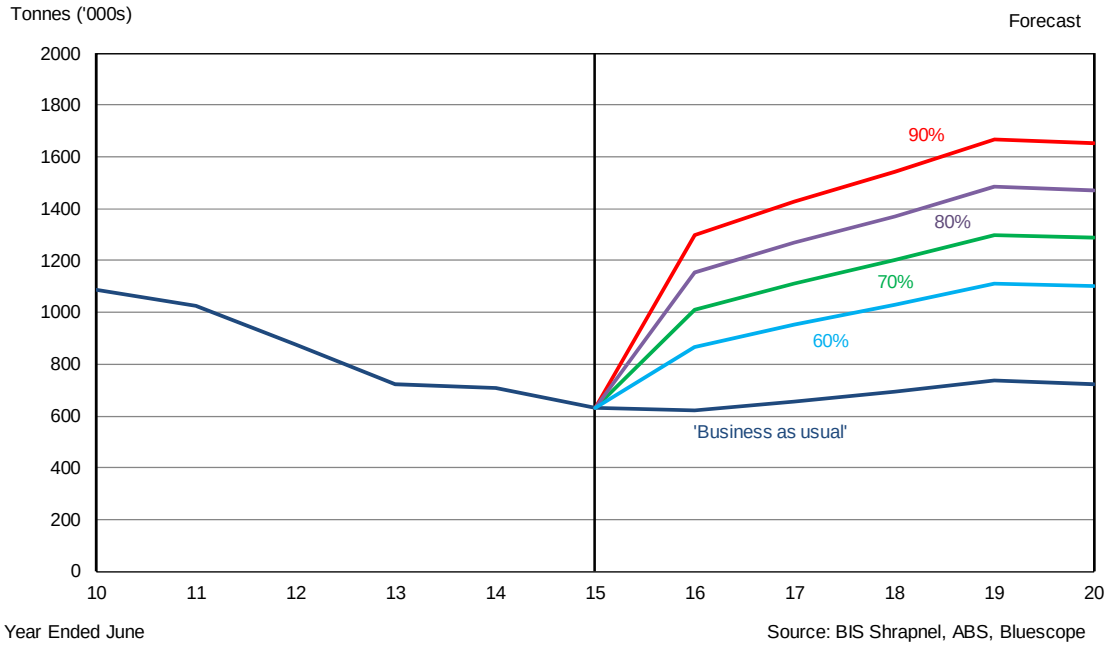
If the government introduced a policy of 80 per cent local steel, domestic steel used in public projects would grow from 633,000 currently to1.3 million tonnes in 2019/20, adding 537,000 tonnes per year on average compared to the 'business as usual' scenario.

This increase will add an estimated $3.4 billion cumulatively over the next five years, based on an average domestic price of $1270 per tonne (10 per cent above the average import price used in Section 5.2.1).

The above two local content policy scenarios represent a comparatively static analysis, whereby export and other tonnages are held constant, and extra local production supplies the larger government funded steel demand. However, the more likely outcome is that domestic producers is for domestic producers will divert product from the less profitable export market to the more profitable domestic market, and leave production more or less the same. But this would lead to a rise in overall profitability and help the domestic steel producers remain in business – which is actually the desired outcome from the local content policy.

Although we do not know average domestic steel prices, data obtained from the Department of Innovation, Industry and Science (formerly the Bureau of Resources and Energy) shows the average export price for Australian steel sold in export markets was $814/tonne. This is at least 6 per cent lower than the landed import price of hot rolled coil and considerably less than much of the higher value steel sold by Bluescope (who supply the majority of exports), including galvanised steel. The export price is also much lower than the average import price of $1121/t.

Chart 11: Domestic steel usage in government projects under alternative scenarios



BIS Shrapnel estimates that if the local content policy could achieve a 90% share in publically funded projects, then domestic steel used in publically funded projects would rise from 633kt now (annual volume in 2014/15) to 1514 kt by 2018/19 when public construction activity is forecast to peak. Compared to a 'business-as-usual' case, this represents an extra 778kt of domestic steel sales, which represents over 90 % of the 850kt currently exported. However, these extra sales for public sector construction are somewhat offset by lower expected sales for private sector construction and car production, which could be up to 200kt lower by 2018/19, under a business-as-usual case. Nevertheless a net 578kt displacement of less profitable exports for more profitable domestic sales would go a long way to ensuring the survival of the local steel industry. Given Bluescope's and Arrium's domestic sales are roughly equal (i.e. 50% share), then each would benefit by almost 290kt by 2018/19.

In value terms, an extra 778kt of domestic steel sales is worth an estimated $989m, while 578kt of sales is worth $734m – or $367m to each steelmaker (all based on a price 10% higher than projected import prices). But these are gross benefits. If the tonnages going to the public sector displace lower priced exports – which are projected to be $277/t lower than domestic steel sold to the public sector - then the net benefit is between $227m to $305m (i.e. for 578kt to 778kt).

5.3 Additional cost to government if share of local steel content is increased

We were unable to obtain domestic price information to estimate the additional cost. Instead, we have based our estimates on the East Asian Hot Rolled Coil (HRC) benchmark price and the landed price of HRC, obtained through industry sources. The landed price is higher than the benchmark, and we have viewed it as a minimum bound to the estimate. The upper bound of the estimate is the average price of imported steel products, as shown in Appendix A (this price shown in the 'sub-total' line excludes pipes).

The forecasts of prices are based on Consensus Economics Energy and Metals Consensus Forecasts publication, which provides East Asian HRC forecasts to 2020 in US dollars (see Chart 2). This is converted to Australian dollars using BIS Shrapnel's forecast of the exchange

rate, which averages US70cents over the five year horizon. We have assumed that the domestic price of steel will be 10 per cent higher than the landed price. This is in line with Ontario's 10 per cent preference to local suppliers, as discussed in Section 6.

As Table 5 shows, Victoria has attained an average local content over the past decade of 86 per cent with the Victorian Industry Participation Policy. With this in mind, we have modelled the additional cost to the government of an 80 and 90 per cent policy. Both policies, we believe, would absorb the excess domestic capacity, which in turn will support the ongoing viability of the local steel industry.

If the government was to source 80 per cent of steel used in public projects domestically, we estimate the additional cost to be between $47.9 and $62.4 million per annum.

If the more ambitious (but still attainable) policy of 90 per cent was undertaken, the additional cost would fall between $61.4 and $80.2 million per annum.

5.4 Cost of a complete shutdown of domestic steelmaking capacity

Under a complete shutdown scenario, the Australia economy would lose production of up to 5 million tonnes of steel and up to 10,000 jobs. This will subtract $10 billion per annum from real GDP. The loss of jobs and businesses would also significantly reduce the amount of income taxes and indirect taxes to the federal and state governments. In addition, the severe regional impacts in Wollongong/IIlawarra and Whyalla would probably necessitate substantial extra government expenditure on large bailout packages for these affected regions (similar to what happened in the Newcastle region when the Newcastle steelworks closed down).

6. LOCAL CONTENT PREFERENCES IN OTHER JURISDICTIONS

Policies that favour local content are currently in place in Victoria, as well as the United States and Canada.

6.1 Victoria

The Victorian Industry Participation Policy requires government entities to consider competitive local suppliers, when awarding contracts that are valued at $1 million or more in regional Victoria and $3 million or more in metro Melbourne (or state wide). The VIPP is largely targeted at local small and medium sized businesses engaged in supplying competitive goods and services to the procurement activities undertaken by the Victorian government. Local content is defined as covering Victoria, Australia or New Zealand. The VIPP applies to a project regardless of whether it is wholly or partially funded by the State Government, as long as the Victorian Government contribution exceeds the relevant threshold for VIPP and forms a considerable proportion of the cost.

The VIPP has been very successful in encouraging the use of domestic suppliers. Since its inception in 2001, the VIPP has led to an estimated $7 billion of import replacement. It was helpful in stimulating the local tram and train manufacturing sector, with the efficient delivery of E-Class trams and X'Trapolis trains. The table below shows that Victoria's local content policy has been very successful, with the local content proportion averaging 86% annually over the decade to 2013/14.

Table 5: Victorian Industry Participation Policy contracts by year

Year Ended June	No of Projects	Value ($ billion)	Avg. Local Content (%)
2004	99	2.95	86
2005	164	4.94	90
2006	176	2.45	87
2007	224	2.82	90
2008	229	5.75	80
2009	386	6.58	82
2010	1908	11.96	87
2011	325	6.26	89
2012	356	5.61	87
2013	216	3.36	88
2014	163	1.68	84

Source: Victorian Department of State Development,Business and Innovation

6.2 United States

The major Acts that have provisions relating to steel procurement are the Buy American Act and the Recovery Act Buy American Provision. The Recovery Act followed the GFC, and applies to construction, alteration, maintenance or repair contracts funded with Recovery Act money.

The Buy American Act has been in place since 1933, and has only been substantially amended four times since then. The Act applies to purchases directly made by the Federal government of more than $3000 as long as it is consistent with public interest, reasonable in cost and the item is for use in the United States.

The Act has been interpreted to mean that at least 50 per cent of the purchase be attributable to American made components. There are other statutes which impose higher domestic content requirements on procurements not covered by Buy American, or apply to indirect purchases (that is, not by Federal government entities, but using federal funds).

In determining what constitutes American goods, the place of mining, manufacturing or production is controlling. The nationality of the contractor is not considered when determining the origin of a product. To illustrate, for manufactured articles, regulations have interpreted the act as meaning that the cost of foreign components does not exceed 50% of the cost of all components. In terms of steel, for it to be deemed as 'produced in the US', all manufacturing processes must be performed in the United States. Exceptions apply for the metallurgical processes for steel additives. The federal government also have exceptions due to the World Trade Organisation Government Procurement Agreement (GPA). For projects/purchases that fall under the GPA, substantial transformation must occur in a signatory to the GPA.

Department of Defence purchases have more stringent requirements, with the Berry Amendment requiring certain purchases to be 100% American in origin.

6.3 Canada

Canada have the Agreement on Internal Trade (AIT), which is an agreement on trade between different provinces. The AIT explicitly allows preferences for Canadian content through the use of weighting criteria that favour 'Canadian value-added', or through limiting the tender entirely to Canadian suppliers or goods.

There are exceptions in Ontario and Quebec, the two largest provinces. These exceptions are generally in line with exceptions used in most US states. Ontario has a Procurement Directive that give a price preference of 10% for Canadian steel products identified in vendor proposals.

Appendix A: Steel Import Categories and Volumes

Table A1: Steel import Categories, Volumes ('000 tonnes) and Price (avg. $/tonne)

Code		Description	Tonnages			Prices		
			2013	2014	2015	2013	2014	2015
ABS-SITC	**671**	**Pig Iron, Spiegeleisen, Sponge Iron, Iron or Steel Granules and powders and ferro-alloys**						
HSC	7201	Pig Iron & Spiegeleisen In Pigs, Blocks Etc.	8	12	13	510	545	549
HSC	7202	Ferroalloys	56	38	42	1512	1856	1914
HSC	7205	Pig Iron, Spiegel, Iron Or Steel Granules & Powder	10	8	8	950	1080	1186
ABS-SITC	**672**	**Ingots and other primary forms, of iron or steel; semi-finished products of iron or steel**						
HSC	7203	Spongy Ferrous Prod & Iron 99.94% Pure, Lumps Etc	0	0	0	1627	976	1060
HSC	7204	Ferrous Waste & Scrap; Remelt Scr Iron/Steel Ingot	2	2	23	1195	957	380
HSC	7206	Iron & Nonalloy Steel In Ingots Etc Nesoi	12	0	0	237	3556	1889
HSC	7207	Semifinished Products Of Iron Or Nonalloy Steel	0	30	31	1549	610	588
ABS-SITC	**673**	**Flat rolled products of iron or non alloy steel, not clad, plated or coated**						
HSC	7208	Fl-Rl Iron & Na Steel Nun600Mm Wd Hot-Rl, Not Clad	219	114	153	713	777	773
HSC	7209	Fl-Rl Iron & Na Steel Nun600Mm Wd Cold-Rl, No Clad	39	33	25	877	921	952
HSC	7211	Fl-Rl Iron & Na Steel Un 600Mm Wd, Not Clad Etc	27	17	19	836	1089	1112
ABS-SITC	**674**	**Flat-rolled products of iron or non alloy steel, clad, plated or coated**						
HSC	7210	Fl-Rl Iron & Na Steel Nun600Mm Wd, Clad Etc	447	386	384	989	1100	1133
HSC	7212	Fl-Rl Iron & Na Steel Un 600Mm Wd, Clad Etc	22	27	27	1067	1150	1139
ABS-SITC	**675**	**Flat-rolled products of alloy steel**						
HSC	7219	Fl-Rl Stainless Steel Products, Not Und 600Mm Wide	61	61	59	3059	3041	3432
HSC	7220	Fl-Rl Stainless Steel Products, Under 600Mm Wide	3	3	3	3554	3795	4548
HSC	7225	Fl-Rl Alloy Steel Nesoi Nun 600Mm Wide	88	86	91	1575	1328	1163
HSC	7226	Fl-Rl Alloy Steel Nesoi Un 600Mm Wide	12	11	13	2053	2388	2591
ABS-SITC	**676**	**Iron and steel bars, rods, angles, shapes and sections (incl. sheet pilings)**						
HSC	7213	Bars & Rods, Iron & Na Steel, H-R Irreg Coils	112	118	192	727	721	686
HSC	7214	Bars & Rods, Iron & Na Steel Nesoi, H-R Etc	246	264	195	757	712	716
HSC	7215	Bars & Rods, Iron & Na Steel Nesoi	31	17	13	918	1064	1090
HSC	7216	Angles, Shapes & Sections Of Iron & Nonalloy Steel	117	81	124	889	950	951
HSC	7218	Stainless Steel In Ingots Etc & Semifin Products	0	0	0	2497	3482	11267
HSC	7221	Bars And Rods, Stnls Stl, Ht-Rld, Irreg Coils	1	1	1	3215	3068	3750
HSC	7222	Bars & Rods, St Steel Nesoi; Angles Etc, St Steel	11	11	11	4334	4130	4612
HSC	7224	Alloy Steel Nesoi In Ingots, Oth Pr Frm & Semif Pr	4	1	1	1697	1590	3141
HSC	7227	Bars & Rods Alloy Steel Nesoi, H-R Irreg Coils	21	17	12	871	960	972
HSC	7228	Al Steel Nesoi Bars, Ang Etc; Hol Dr St Bars Etc	90	92	59	1290	1280	1614
ABS-SITC	**677**	**Rails or roadway track construction material, of iron or steel**						
HSC	7302	Railway Etc Track Construct Material, Iron & Steel	47	103	45	1318	1218	1455
ABS-SITC	**678**	**Wire of iron or steel**						
HSC	7217	Wire Of Iron & Nonalloy Steel	77	102	118	922	910	887
HSC	7223	Wire Of Stainless Steel	3	3	3	5006	5137	5473
HSC	7229	Wire Of Alloy Steel Nesoi	18	19	17	1307	1211	1355
Sub Total			1782	1661	1682	1068	1115	1121
ABS-SITC	**679**	**Tubes, piles and hollow profiles, and tube or pipe fittings, of iron or steel**						
HSC	7303	Tubes, Pipes And Hollow Profiles Of Cast Iron	0	0	8	0	0	933
HSC	7304	Tubes, Pipes Etc, Seamless, Iron Nesoi & Steel	209	190	148	2331	2709	3052
HSC	7305	Tubes & Pipes Nesoi, Ext Dia Ov406-4Mm, Ir & Steel	564	499	901	1218	1540	1749
HSC	7306	Tubes, Pipes & Hollow Profiles Nesoi, Iron & Steel	414	405	348	1129	1181	1628
HSC	7307	Tube Or Pipe Fittings, Of Iron Or Steel	9	12	4	38111	38283	101846
Total Iron and Steel Imports			2978	2767	3091	1233	1364	1526
Total (excl. 7305 & 0.5 of 7306)			2207	2065	2016	1352	1482	1528

Source: World Trade Atlas,ABS

Notes:

ABS-SITC ABS Standard International Trade Classification
HSC Harmonised System Code

Appendix B: Extracts from Bluescope FY2015 Investor Presentation, 24th August 2015

Australian Steel Products

Spread continues to be a significant driver of segment profitability

East Asia HRC price (US$/t) and indicative steelmaker HRC spread (A$/t)

Source: SBB, CRU, Platts, TSI, Reserve Bank of Australia, BlueScope Steel calculations

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	1H FY15	2H FY15
Indicative steelmaker HRC spread (US$/t)	365	271	276	277	283	268	307	228
Indicative steelmaker HRC spread (A$/t)	414	275	267	270	308	318	344	292
Indicative spread with pricing lags (A$/t)	403	292	257	278	295	331	336	326
AUD:USD	0.88	0.99	1.03	1.03	0.92	0.84	0.89	0.78

Notes on calculation:

- 'Indicative steelmaker HRC spread' representation based on simple input blend of 1.5t iron ore fines and 0.71t hard coking coal per output tonne of steel. Chart is not a specific representation of BSL realised export HRC spread (eg does not account for iron ore blends, realised steel prices etc), but rather is shown primarily to demonstrate movements from period to period arising from the prices / currency involved. 'Indicative spread with pricing lags' includes three month HRC price lag, three month lag on iron ore price and two month lag on coal price
- Indicative iron ore pricing: 62% Fe iron ore fines price assumed. Industry annual benchmark prices up to March 2010. Quarterly index average prices lagged by one quarter from April 2010 to March 2011; 50/50 monthly/quarterly index average from April 2011 to December 2012. Monthly thereafter. FOB estimate deducts Baltic cape index freight cost from CFR China price
- Indicative hard coking coal pricing: low-vol, FOB. Industry annual benchmark prices up to March 2010; quarterly prices from April 2010 to March 2011; 50/50 monthly/quarterly pricing thereafter

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BLUESCOPE

University of Wollongong

Regional Economic Impacts of a Closure of BlueScope Steel Operations in Port Kembla

Report prepared for the Australian Workers Union, Port Kembla

University of Wollongong

August 2015

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Disclaimer

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EXECUTIVE SUMMARY

This report focuses on BlueScope Steel's Port Kembla steelworks. It examines the possible scenarios of complete shutdown of steel production and the direct and indirect job losses of such events. In the context of significant global uncertainty in the steel industry, BlueScope Steel has considerable international pressure from international competitor's including China, Japan and the United States. This has placed pressure on the viability of domestic steel production.

The report begins by emphasizing the role of manufacturing in the region. It examines the role of restructuring and the concurrent job impacts since the 1980's. It then examines the restructuring efforts since the mid 1990's focusing on industry and changes in employment.

The main aspect of the report comprises an analysis using the Illawarra Interregional Input-Output Model (IIRI-OM) based upon ABS data and specifically for the regional economy. The main findings of this study are that a complete shutdown of the plant is estimated to result in a $3.3b loss to gross regional product (GRP). This translates to total GRP for the Illawarra region at $15.5b. Approximately 10,000 jobs are estimated to be lost if such a shutdown occurred, exacerbating existing unemployment levels which currently stand at 8.3%. Historical data and modelling suggest that marginal workers such as older workers and youth will be severely impacted in this scenario.

OVERVIEW AND STUDY CONTEXT

In June 2015, University of Wollongong researchers were commissioned by the Australian Workers Union, Port Kembla branch to undertake scenario research on the possibility of job losses arising from the complete shutdown of steel production at Port Kembla.

The main emphasis of the research is to consider the implications of these proposals for direct and indirect job losses and how, at a regional level of aggregation, this will flow through to associated economic sectors. The rationale and research dimensions include the following:

1. To verify the directly dependent job losses concerning directly employed staff, contracted staff, and other associated employed persons at BlueScope Steel under a complete shutdown scenario;

2. Examine the potential impacts of indirect job losses occurring throughout the broader Illawarra regional economy using the Illawarra Interregional Input-Output Model; and

3. Ascertain through the results from the Input/Output Model the multiplier effects and flow-on impacts to various sectors of the regional economy under various scenarios;

i. To consider the implications for the region's labour market such as unemployment and its various groups e.g. older workers, youth etc; and;

ii. An analysis of previous economic studies to give a sense of the impacts both historical and contemporary.

The following report attempts to answer these research parameters utilising the following methodology:

1. An analysis comprising a document review of existing economic studies is undertaken to give context to the current predicament; and

2. The main analysis is undertaken using the Illawarra Interregional Input-Output Model (IIRI-OM) for the Illawarra region.

The report takes the following form. Section one discusses the region and its economic context reviewing existing studies of steel production and restructure. It considers the employment impacts of previous downturns and places into context the current predicament. Section two outlines the impact analysis of the BlueScope Steel using the Input/Output model. Section three outlines the main findings from the analysis and concludes the report.

The study comprises the local government areas of Wollongong, Shellharbour and Kiama. It also includes the areas of the Shoalhaven and Wingecarribee. This area is defined as the Illawarra region as measured by the Australian Bureau of Statistics (ABS). This is referred to as “Illawarra” or “region” throughout the report.

Please note

The Input/Output model does not include data from the Shoalhaven and Wingecarribee.

SECTION ONE: THE ILLAWARRA REGION AND ITS ECONOMIC CONTEXT

1.1: Introduction

The Illawarra is a major regional area of New South Wales and Australia. With a population of approximately 413,000 and a labour force of 185,000, the Illawarra region includes the city of Wollongong, the harbour of Port Kembla, the growth corridors of Albion Park, Dapto and Shellharbour, and an important surrounding agricultural region taking in the Shoalhaven and Wingecarribee. The region is characterised by major sectors of manufacturing including coal mining, steel making and port facilities undertaking a wide range of economic activities. These include coal exports, steel imports, and broader imports of bulk cargoes, containers and motor vehicles within international supply chains. The region also has developed a burgeoning service industry with sectors including aged and healthcare, retail, building and construction, education (particularly tertiary) and public administration.

The region's gross regional product (GRP) is $15.5b with an average annual growth rate of 4.8% per annum from 2006-11 (IRIS Research 2015). In the last few decades, the region has experienced major restructuring and its economy has been opened up to global market forces. At the same time, a concerted effort to diversify economic activity has led to further structural change. Between 1976 and 2006, census data indicates that the percentage of employed persons in the Illawarra who were working in production-based industries fell from 55% to 24%, while the percentage working in service-based industries rose concomitantly from 45% to 76% (Burrows 2013: 383).

For example, the health care and social assistance sector is a major aspect of employment representing 15.2% of total employment compared to an Australian average of 11.6%. The retail and education sector follow in second and third place respectively and both represent higher than Australian averages in terms of employment. The manufacturing sector represents the fourth most important pillar in

the region's economy representing 10.1% of employment and marginally higher than the Australian average of 9%.

Regardless, manufacturing is a major aspect of the region's economy and continues to play a major role. It contribution to direct and indirect employment representing 1 in every 10 employment positions (IRIS Research 2013: 8). Steel production for example, continues to contribute $2.41 billion dollars in gross regional product (GRP).

1.2: The Illawarra Steel Industry: Restructuring and Job Loss 1980-83

As an example of previous steel downturns, the period of 1980-1983 is a very useful reference point. If a downturn or complete shutdown of steel production was to occur, the impacts would be significant and perhaps worse than those experienced in the early 1980's. A primary difference in 2015 is that those jobs lost were partly offset by external contractors. In 2015, there is no substantial offset to absorb those jobs. A partial shutdown could provide some absorption of these losses however a complete shutdown will have an immediate effect on the economy. It is difficult to see whether other sections of the economy will be able to absorb those job losses in either scenario.

In the period of 1980-1983, a resources boom anticipated by BHP failed to materialise and world steel prices fell sharply in late 1981. Steel operations were rationalised and local coal mines were closed throughout the region. In response, BHP reduced capacity, output and employment. From November 1981 and June 1983, the workforce was reduced by 5000 (Rittau 2001: 76). Job losses through retrenchments and voluntary redundancies contributed to an increase in unemployment of 33% (Mangan and Guest 1983). These impacts were evident in the recipient rates for unemployment benefits during the period of 1981-1982. This is illustrated in the following table.

Table 1: Recipients of Unemployed Benefits for Illawarra 1981-1982

% Increase	1981 (June)	1982 (June)	1982 (November)
Wollongong:			
Unemployment	4,289	5,501	7,294
% increase	-9.2	28.3	32.6
Shellharbour:			
Unemployment	1,532	1,772	2,460
% increase	-1.0	15.7	38.8
Kiama:			
Unemployment	222	252	352
% increase	15.0	13.5	39.7
Total			
Unemployment	6,043	7,525	10,106
% increase	-7.2	24.5	34.3

Source: Mangan and Guest (1983: 10)

Between March 1981 and December 1983, the number of unemployed people registered with the C.E.S. increased from 7,711 to 21,415. Employment in the steel industry for example fell from 20,350 in May 1981 to 14,400 by May 1983. BHP accounted for 71.6% of the employment in the region providing 27.6% of direct employment and 44% of indirect employment. The steel works had, directly and indirectly, accounted for over 70 per cent of the regions employment (Mangan and Guest 1983: 12).

Table 2: Persons Employed at BHP 1981-1996

Year	Persons
1981	20,305
1993	7,700
1996	6,000

Source: IRIS Research (Various Years) *Profile Illawarra*, IRIS Research, Wollongong.

Table 3: Persons Employed at BlueScope Steel 2009-2012

Year	Persons
2009	4,700
2010	5,500
2011	5,200
2012	3,500

Source: IRIS Research (Various Years) *Profile Illawarra*, IRIS Research, Wollongong

In response, a Steel Industry Plan and a Steel Industry Development Agreement was developed to limit further retrenchments and at the same time open up the local economy to global markets. Despite these attempts to reconfigure economic activity, employment in traditional manufacturing declined and became increasingly precarious between secure and insecure jobs. It also introduced the sub-contracting practices in the steel industry along global supply chains (Mylett 2003).

1.3: Regional Employment: Post Restructuring

In the context of the restructuring efforts over the last few decades, employment in the region has generally been poor over the fifteen years of 1996-2011. The region has underperformed compared to other regions across Australia with a net increase of 12,682 jobs. Newcastle for example, experienced a 30.7% net job increase, NSW increased by 18.3% while Australia's total employment experienced a 31.7% increase. The employment consequences of these changes have led to major labour market problems. This includes unacceptably high levels of youth unemployment due to poor labour market conditions and generally poor economic growth and job creation (Burrows 2013). The annual youth unemployment rate in the region for February 2015 was 17% (IRIS Research 2015).

Table 4: Illawarra Unemployment Rates, June 2015

Regional Locality	Adult Unemployment Rate%	Youth Unemployment Rate %
Illawarra	8.3%	14.6 %

Source: ABS Labour Force Survey, June 2015

At the same time, these economic conditions have been part of and contributed by major rationalisations of value added economic activity. Agriculture, manufacturing, the public sector (local, state and federal) and coal mining have all experienced significant job losses. In the case of steel production, the closure of BHP in 1999 and its amalgamation with BlueScope Steel has weakened employment growth. More recently, employment growth was 5.3% during 2006-11. This represents half of Newcastle and Australian average employment growth with a slight increase over the NSW average. This is illustrated in Table 5 below. In Table six, in the years of 2001-2011, manufacturing employment increased marginally in the region.

Table 5: Employment in Illawarra, Newcastle, NSW and Australia

	Illawarra	Newcastle	NSW	Australia
1996	78,651	153,180	2,563,315	7,636,319
2001	81,107	163,555	2,734,553	8,232,803
2006	86,711	181,971	2,909,445	9,104,181
2011	91,333	200,269	3,033,526	10,058,329
Change 96-01 (%)	3.1	6.8	6.7	7.8
Change 01-06 (%)	6.9	11.3	6.4	10.6
Change 06-11 (%)	5.3	10.1	4.3	10.4
Change 96-11 (%)	16.1	30.7	18.3	31.7

Source: ABS Census of Population and Housing

Table 6: Employment Growth/Decline by Industry 2001-2011 Illawarra Region

Industry	2001	2011	Increase/Decline
Health Care and Social Assistance	15,365	24,569	+ 9,204 (60%)
Public Administration and Safety	6,638	15,139	+ 8,501 (128%)
Other Services/Arts and Recreation	8,934	15,867	+ 6,933 (78%)
Accommodation and Food Services	8,246	14,933	+ 6,687 (77%)
Building and Construction	12,196	15,541	+ 3,345 (27%)
Mining	1,523	4,740	+ 3,217 (311%)
Financial and Insurance Services	4,439	7,565	+ 3,126 (70%)
Transport, Postal and Warehousing	6,100	8,862	+ 2,762 (45%)
Education and Training	12,584	15,318	+ 2,734 (22%)
Electricity, Gas, Water and Waste Services	1,155	3,698	+ (220%)
Property and Business Services	13,730	16,272	+ 2,542 (18%)
Manufacturing	20,314	21,465	+ 1,151 (5%)
Agriculture, Forestry and Fishing	2,317	3,323	+ 1,006 (43%)
Information Media and Telecommunication	2,175	2,201	+ 26
Wholesale	5,670	3,163	-2,507 (-44%)
Retail	23,729	21,303	-2,426 (-10%)

Source: ABS Census of Population and Housing

1.4: The Steel Industry, Restructuring and the Future

In recent years, the steel industry has rationalised production in the region with the last restructure occurring in 2011. Over 800 direct jobs were lost at this time with further indirect losses occurring throughout the economy. This directly impacted regional suppliers and contractors. More recently, speculation arose when discussions in the media and elsewhere indicated that BlueScope Steel would cease domestic production. A more concerted analysis undertaken by Bank of America/Merrill Lynch (2015) suggested a reduction in steelmaking costs was necessary for BlueScope Steel to maintain profitability in the medium to longer-term. The context of this analysis was to limit losses through land remediation and focus on growing its existing coated products business. Profitability remains a key priority for the company but concern is being shown as to the future operations of the plant. As the report has outlined, any further rationalisations of the plant will put upward pressure on unemployment, exacerbating existing levels of joblessness. Employment growth/decline therefore is very sensitive to changes in this industry sector. Current considerations are crucial to the ongoing operation of the Port Kembla Steel Plant. The consequences of complete or even partial shutdown may become closer to reality than previously expected. The real prospect of complete shutdown is a major dilemma for all stakeholders and the community.

The pressing issue for government is deciding and implementing an appropriate policy response in an era of free trade agreements and the currently under negotiation Trans-Pacific Partnership (TPP). A new steel industry plan could save Illawarra steel production but it would need to address the issue of direct and indirect protections afforded to BlueScope's international competitors. For example, jurisdictions such as Canada and the United States mandate the use of locally produced steel. Australia has yet to seriously consider such proposals.

From another perspective, the Australian Steel Institute (2015) argues, locally produced steel can be used for national projects and to overcome supply and quality difficulties current infrastructure projects are now experiencing. Governments have been wary to offer industry support through directed industry policies and are more

likely to support steel communities through such economic difficulties. Indeed, they can offer incentives and even encourage capital investment and even as our Canadian and U.S. counterparts have done, enforce requirements to purchase locally made products.

There have been some approaches to address these issues. Policies enacted by the last Federal government included the Illawarra Regional Innovation and Investment Fund (IRIIF). This was established in the aftermath of BlueScope's announcement to half production capacity at the Port Kembla Steelworks in 2011. Jointly funded by BlueScope, Federal and State governments to the extent of $30 million, the fund was set up to diversify industry employment in the local economy and result in sustainable job creation. The program concluded on June 30 2014. Further work is currently being undertaken by the authors (Burrows) and colleagues on the effectiveness of this program in creating jobs and transitioning workers to newer employment.

SECTION TWO: IMPACT ANALYSIS OF BLUESCOPE STEEL ON THE ILLAWARRA ECONOMY

2.1: Introduction

In this section, the results of the input/output model are discussed. This was undertaken to provide a technical analysis of the regional impacts of job loss arising out of a complete shutdown of BlueScope Steel's Port Kembla plant. A detailed breakdown of the technical aspects of the input/output model is discussed in Appendix A.

2.2: Some notes concerning the Input/Output Model

In the following section of the report, we model the direct/indirect impacts for the regional economy. Before we discuss the findings a number of important points need to be made concerning the modelling. These include:

1. There are assumptions about the nature and activity of BlueScope Steel's activities. We have used available public information/knowledge concerning these assumptions. Indeed, this report and its analysis provides a preliminary analysis of the economic impacts, and should be carefully judged by stakeholders. This report discusses possible scenarios that may/may not occur in the future. We welcome discussion of these trajectories but warn any definite scenario's with caution;

2. The Input/Output model does not take into account other economic transfers such as taxes, redundancies or welfare support in possibly mitigating or exacerbating economic impacts; and

3. The Input/Output model assumes a model of full employment and that labour is freely entered into and maintained. I.e. additional labour requirements are met from outside the region and excess labour moves elsewhere.

The following section also highlights a worst case scenario, being a total shutdown of operations in the region. Again with caution, if the economy experiences major job loss, in the case of the local steel industry, we can assume a number of economic stabilisers will counter-balance these shocks. The need for labour in other sectors is a central stabiliser given the role services play in the regional economy. Other factors might include unemployment benefits or voluntary redundancy. The Input/Output model does not factor input on taxation revenues and local specific economic spikes such as the housing market etc. The modelling of Gross Regional Product (GRP) is a worst case scenario. The actual indirect job loss will be dependent on economic sectoral movements and trajectories.

2.3: Direct and Indirect Economic Impacts

According to the BlueScope Steel website, the steel plant in Port Kembla employs around 3,500 direct employees after the first blast furnace shutdown. The manufacturing multipliers show that there are more than 10,000 jobs in the Illawarra directly dependent on the plant. The manufacturing plant contributes more than $2 billion in sales to regional gross output (GRP) with a capacity of producing 2.6 million tonnes of steel per annum on its 760 hectare site (BlueScope Steel 2015).

The following figures in Table 7 show the monetary impact of BlueScope Steel Illawarra on the regional economic structure based on the $2 billion regional sales. The first column, *Sector*, list the 28 sectors that directly or indirectly affected by BlueScope, either as suppliers or as buyers of the steel manufacturer. The column named *First Round* shows the overall financial impacts on sectors directly linked with BlueScope activities, which are immediately impacted by fluctuations in BlueScope productions. The column named *Indust Sup* presents the financial impacts on

sectors that are suppliers of the sectors that are directly linked with BlueScope activities. As a result of the direct and indirect effects of BlueScope activities, the level of household income throughout the economy will increase/decrease as a result of increased employment. A proportion of this increased income will be re-spent on final goods and services. This is the induced effect and is shown by the *Consumption* column for every sector. Lastly, the total financial impacts of BlueScope activities are presented in *Total* column.

Furthermore, the figures in Table 8 present the dollar value of BlueScope purchases from and sales to other sectors for a hypothetical production of $26,033.70. *Sector* column displays all the sectors that interact with BlueScope. T1 presents the total inter-sectoral purchases, COE stands for Compensation of Employees, GOS + MI stands for Gross Operating Surplus + Mixed Income, OVA stands for Other Value Added, followed by imports. T2 is the summation of T1 plus COE, GOS + MI, OVA, and Imports. Lastly, Emp is the full-time equivalent (FTE) required in human resources to produce $ 26,033.70 worth of BlueScope steel.

Table 7: The Impact of BlueScope Steel Shutdown

The Impact of $2b from BlueScope Steel Shutdown				
(Illawarra Sales per Annum $2,000,000,000.00)				
Sector	*First Round*	*Indust Sup*	*Consumption*	*Total*
Ag, forestry, fishin	$ -	$ -	$4,000,000.00	$4,000,000.00
Mining	$166,000,000.00	$58,000,000.00	$2,000,000.00	$228,000,000.00
Food, beverage mfg	$ -	$ -	$12,000,000.00	$12,000,000.00
Textile, clothing mf	$ -	$ -	$ -	$2,000,000.00
Wood, paper prod	$ -	$2,000,000.00	$ 4,000,000.00	$4,000,000.00
Petrol, chem prod	$2,000,000.00	$4,000,000.00	$ 4,000,000.00	$8,000,000.00
Non-met minerals	$4,000,000.00	$2,000,000.00	$2,000,000.00	$8,000,000.00
Primary, fab metals	$378,000,000.00	$92,000,000.00	$4,000,000.00	$2,474,000,000.00
Mach, equip mfg	$2,000,000.00	$4,000,000.00	$6,000,000.00	$10,000,000.00
Other mfg	$ -	$ -	$ -	$ -
Elect, gas, water	$12,000,000.00	$8,000,000.00	$ 14,000,000.00	$34,000,000.00
Construction	$2,000,000.00	$6,000,000.00	$6,000,000.00	$14,000,000.00
Wholesale trade	$10,000,000.00	$8,000,000.00	$20,000,000.00	$36,000,000.00
Retail trade	$ -	$ -	$60,000,000.00	$62,000,000.00
Accom, food serv	$2,000,000.00	$2,000,000.00	$46,000,000.00	$50,000,000.00
Transport, postal	$24,000,000.00	$16,000,000.00	$18,000,000.00	$ 60,000,000.00
Info, telecommunicat	$ -	$2,000,000.00	$12,000,000.00	$14,000,000.00
Finance, insurance	$4,000,000.00	$16,000,000.00	$86,000,000.00	$106,000,000.00
Rental, real estate	$8,000,000.00	$10,000,000.00	$10,000,000.00	$28,000,000.00
Ownership dwellings	$ -	$ -	$60,000,000.00	$60,000,000.00
Prof, scient, tech s	$4,000,000.00	$12,000,000.00	$14,000,000.00	$30,000,000.00
Admin support serv	$6,000,000.00	$6,000,000.00	$8,000,000.00	$18,000,000.00
Public admin	$ -	$ -	$2,000,000.00	$2,000,000.00
Education, training	$ -	$ -	$22,000,000.00	$22,000,000.00
Health, social assis	$ -	$ -	$16,000,000.00	$16,000,000.00
Arts, recreation	$ -	$ -	$6,000,000.00	$ 6,000,000.00
Repairs	$2,000,000.00	$4,000,000.00	$10,000,000.00	$16,000,000.00
Pers, oth serv	$ -	$ -	$10,000,000.00	$10,000,000.00
Total	$626,000,000.00	$256,000,000.00	$454,000,000.00	$3,336,000,000.00

Note 1: the column *Total* is summation of not only direct and indirect impacts, but also change in household consumption resulted from the direct and indirect impacts plus the flow-on effects.

Note 2: these figures are estimated based on the $2billion production contribution stated on BlueScope Steel website.

Note 3: the estimated figures obtained from this model are based on the availability and quality of the data. The methodology used in modelling the impact analysis is based on the latest methodologies found in scientific papers.

Table 8: BlueScope Sectoral Purchases

	Purchases			*Sales*		
Sector		Primary, fab metal		Ag, forestry,	30.4	0.12%
Ag, forestry, fishin	$	3.70	0.014%	Mining	1,005.50	3.86%
Mining	$	4,292.60	16.489%	Food, beverage	79	0.30%
Food, beverage mfg	$	11.70	0.045%	Textile, cloth	12.4	0.05%
Textile, clothing mf	$	15.10	0.058%	Wood, paper pr	99.4	0.38%
Wood, paper prod	$	72.90	0.280%	Petrol, chem p	97.7	0.38%
Petrol, chem prod	$	272.20	1.046%	Non-met minera	94.9	0.36%
Non-met minerals	$	96.50	0.371%	Primary, fab m	3,861.70	14.83%
Primary, fab metals	$	3,861.70	14.833%	Mach, equip mf	2,005.90	7.71%
Mach, equip mfg	$	45.00	0.173%	Other mfg	167.9	0.64%
Other mfg	$	10.80	0.041%	Elect, gas, wa	102.2	0.39%
Elect, gas, water	$	589.80	2.266%	Construction	2,483.70	9.54%
Construction	$	149.50	0.574%	Wholesale trad	204.2	0.78%
Wholesale trade	$	598.40	2.299%	Retail trade	76.8	0.30%
Retail trade	$	109.50	0.421%	Accom, food se	45.7	0.18%
Accom, food serv	$	62.70	0.241%	Transport, pos	156.4	0.60%
Transport, postal	$	828.30	3.182%	Info, telecomm	127.6	0.49%
Info, telecommunicat	$	102.90	0.395%	Finance, insur	3.9	0.01%
Finance, insurance	$	169.80	0.652%	Rental, real e	42.1	0.16%
Rental, real estate	$	340.10	1.306%	Ownership dwel	84.7	0.33%
Ownership dwellings	$	-	0.000%	Prof, scient,	287.6	1.10%
Prof, scient, tech s	$	268.50	1.031%	Admin support	41.2	0.16%
Admin support serv	$	257.10	0.988%	Public admin	138.1	0.53%
Public admin	$	22.60	0.087%	Education, tra	71.7	0.28%
Education, training	$	12.70	0.049%	Health, social	52.4	0.20%
Health, social assis	$	3.30	0.013%	Arts, recreati	26.2	0.10%
Arts, recreation	$	1.80	0.007%	Repairs	109	0.42%
Repairs	$	38.90	0.149%	Pers, oth serv	42.1	0.16%
Pers, oth serv	$	3.90	0.015%	T1	11,550.50	44.37%
T1	$	12,242.10	47.024%	PFCE	183	0.70%
COE	$	4,005.80	15.387%	GFCE	37.7	0.14%
GOS + MI	$	2,536.80	9.744%	GFCF	687.2	2.64%
OVA	$	186.80	0.718%	Exports	13,575.40	52.15%
Imports	$	7,062.30	27.128%	TOTAL	26,033.70	100.00%
T2	$	26,033.70	100.000%			
Emp		43				

SECTION THREE: MAIN FINDING

In this section, the data and analysis are discussed to investigate the possible impacts of a complete shutdown of BlueScope Steel's Port Kembla works. Three aspects are considered in light of these possible scenarios. These include the employment impacts across the population, the expenditure impacts in the economy and the economic value of steel production.

3.1: General Economic Impacts

To analyse the structure of a regional economy and to examine the potential impacts of policies on the future economy of a region, two key methods are used. The first method is IO modelling, through which the interactions between economic sectors are examined and the impacts of exogenous shocks on the economy are determined (West and Jackson 1998; Miller and Blair 2009). The multipliers in IO modelling enable analysts to calculate the direct and indirect effects of any shifts among various economic sectors and to trace the impacts of inter-sectoral transactions within an economy. The other method is econometric modelling, through which the growth rate of each sector is forecasted and the effects of a policy on high growth rate industries are evaluated.

3.2: Expenditure Impacts in the Regional Economy

The findings for this report are modelled by a standalone IO analysis. The findings pertain to the importance of the steel sector with respect to its direct and flow-on effects on other industries and employment. As noted on Table 7 and Table 8, this sector has significant impact on sectoral profile of the regional economy and employment. Based on the reported $2b contribution of BlueScope Steel, the total monetary impacts of the steel manufacturing activities are computed to affect the regional economy by $3,336,000,000.00. Of this $3.3b total impact, 16.5% is the direct impact on mining; followed by more than 15% direct impact on the employee

compensations of the steel manufacturing expenditures (purchases). This would also impact the net regional exports (imports subtracted from exports) by nearly 48%.

3.3: Employment Impacts across Population

In earlier sections, the report outlined the deleterious impacts of job losses across the region in the last few decades. This has arisen primarily through economic restructuring and generally poor economic conditions over the period. The decline in employment in steel production has also played a significant role in these losses. While the Input/Output model cannot estimate these job losses, careful scrutiny of employment data is necessary to ascertain the absolute numbers. The authors suggest the following aspects for consideration.

The broader labour force is impacted by any job losses. If a directly dependent job loss of 10,000 occurred, there would be an effective doubling of the unemployment rate. The current rate is 8.2% (ABS 2015). Two groups, in the main, would be disproportionately impacted by these losses. These include older workers and youth. Recent research undertaken by the University of Wollongong (see O'Brien and Burrows 2014a, 2014b, 2014c) on the displacement of retrenched BlueScope workers during the last restructure in 2011 highlighted the difficulties for many older workers transitioning to new jobs and training.

Youth will be further marginalised by any job losses, and in particular, through indirect job losses arising from any downturn in aggregate spending in the economy. The main sector of employment for youth is located in the retail industry, and this will effect both full-time and part-time workers either through reduced hours or retrenchment. The levels of youth unemployment in the region will be compounded to higher levels and this rate is sensitive to economic recession and recovery (Biddle and Burgess 1999; Burrows 2010).

Regardless, the social cost of such high levels of unemployment will be felt throughout the region. In a region already struggling with high unemployment

(especially youth), poverty and other social ills, the impacts will led to significant social dislocation that is not in the region's best interest.

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APPENDIX A: STATISTICAL METHODOLOGY

The Illawarra Interregional Input-Output Model (IIRI-OM)

The authors have developed a Regional Input-Output (I-O) model specifically for the Illawarra. The overall aim of the Illawarra I-O Model is to help improve the capacity for stakeholders within our region to identify and respond to economic challenges.

The Illawarra I-O Model provides evidence-based decision support in relation to economic impact issues. It offers local businesses, government agencies and the community access to a more sophisticated level of descriptive and predictive analysis in relation to the economic impacts of various scenarios on the local economy. Its potential uses include, but are not limited to, the following:

Appraising the regional economic (and sector-specific) contribution of large businesses, as well as the effects of substantial growth or decline in operations. The contribution by a firm or organization to employment, output, income wages etc. can be identified – facilitating the identification of sectoral dependencies and linkages;

1. Appraising the regional impact of substantive private sector investment initiatives, as well as from major structural adjustments that result in reduced spending and output from currently significant sectors;

2. For identifying regional production bottlenecks (supply chain weaknesses) and capacity constraints that result in external spending leakages from the regional economy;

3. As a tool for evaluating the employment creating potential across competing public sector projects (e.g. infrastructure expenditure), facilitating a priority ranking during times of scarce public funding;

4. As a policy tool to identify key sectors within the region in terms of their generation of: expenditure, output growth, employment, value added, taxes, wages and exports;

5. As a regional economic development policy tool for region-wide planning purposes, and for analysis of the regional impact of state and federal policy and budgetary initiatives - such as those in the area of health and aged care expenditure;

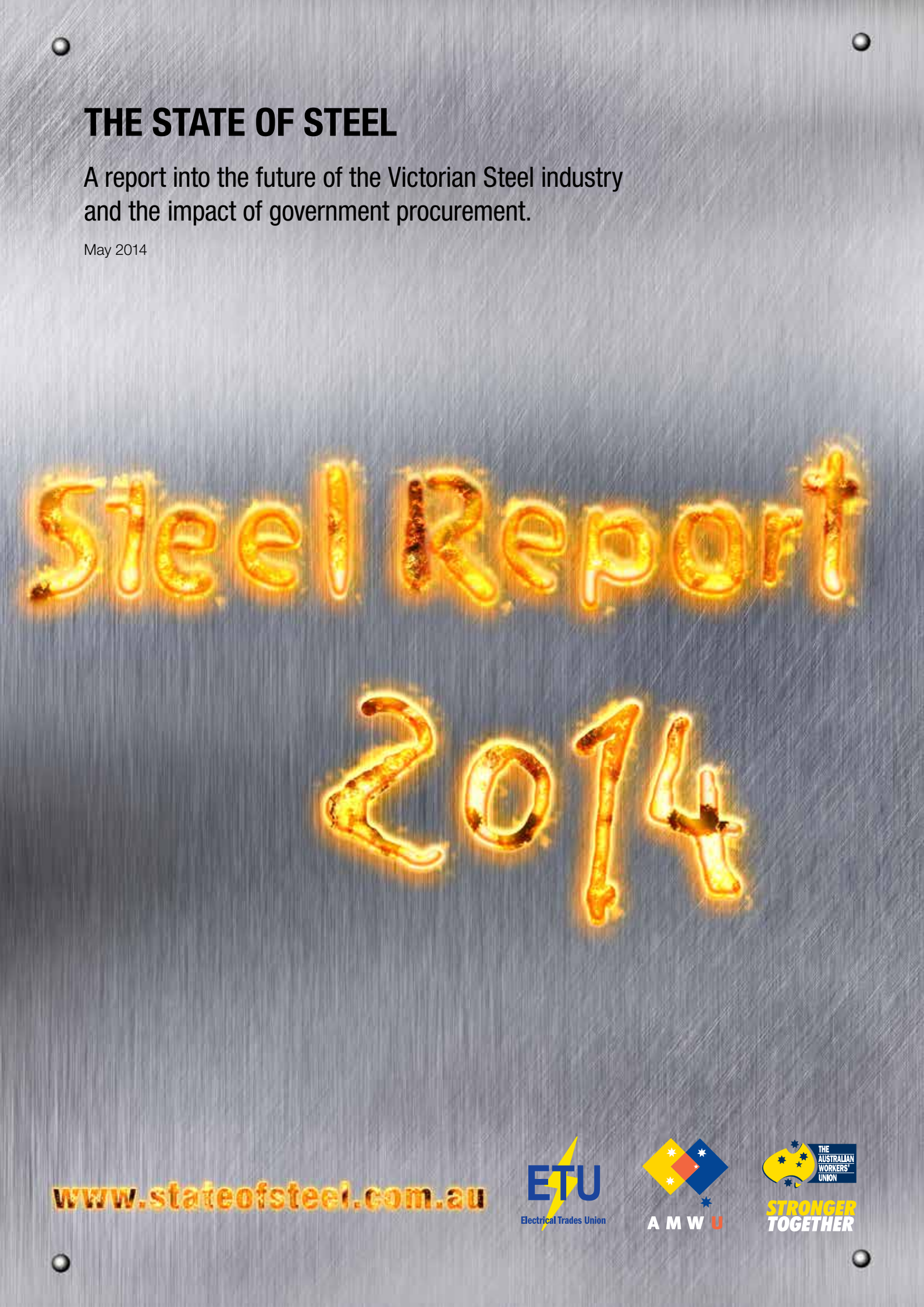
6. For identifying the extent of regional autonomy/dependency relative to other regions, rest of the state and national economies; and

7. In relation to all the above uses, impacts can potentially be disaggregated by local government area. Moreover, for each use economic impact includes that on regional expenditure, output growth, employment, value added, taxes, wages and exports.

THE STATE OF STEEL

A report into the future of the Victorian Steel industry and the impact of government procurement.

May 2014



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ETU Electrical Trades Union

AMWU

THE AUSTRALIAN WORKERS' UNION
STRONGER TOGETHER

EXECUTIVE SUMMARY

The local steel industry makes a vital contribution to both the Victorian and Australian economies. Steel generates major macroeconomic benefits, including over $29 billion of economic activity nationally and employing over 106,000 along the entire steel industry supply chain. In Victoria employment in the sector supports 25,517 full time jobs. The steel sector inclusive of local milled and fabricated steel adds at least 7 full time equivalent jobs for every $1 million expended along the local steel supply chain.

The steel supply chain is extensive. On the supply side, iron smelting and steel manufacturing delivers primary iron and steel product for transformation by casting and forging, steel pipe and tube manufacture, structural steel fabrication, rollforming, sheet metal fabrication, spring and wire product manufacture and many more.

Turnover in these sectors reaches into the billions of dollars, providing thousands of jobs. And Victoria is the recipient of the extensive multiplier benefits of these activities which percolate through the state's economy.

While Victoria has a strategically important presence in steel production and processing in Western Port and Laverton (in addition to the wide array of downstream activities located throughout the state) it has a relatively smaller share (compared to the state's share of gross national product) than both NSW and South Australia for iron smelting and steel manufacturing (measured by iron and steel products output). Victoria's share is also lower than NSW and Queensland in the number of structural steel fabrication enterprises but has a relatively stronger presence in steel pipe and tube manufacture, iron and steel casting and forging and in spring and wire product manufacture.

Overall, while not predominating, Victoria retains a broad capability though the steel supply chain. In addition to being a valuable industry in its own right, the sector has the capacity to supply the local steel needs of a range of other industries and projects including major transport, infrastructure and defence activities in Victoria and nationally.

The purpose of this paper is to highlight the current capacity for the local steel sector to supply inputs to major infrastructure projects including the East-West Link, thereby maximizing the value of the benefits of these major projects to the local economy.

The paper identifies flow-on benefits of local steel supply to the Victorian economy. Seizing these benefits is vital in order to arrest the slide in local manufacturing in circumstances where the state's economy cannot rely on mining and energy activity to generate wealth which main competitor states currently enjoy.

The Victorian Industry Participation Policy (VIPP) strategic projects concept supporting local content policies introduced by the Brumby Government on 1 July 2009 was actively supported by the AWU. It has been instrumental in revitalizing the local tram and train manufacturing sector via the efficient delivery of E-Class trams and X'Trapolis trains by Bombardier and Alstom, respectively.

The AWU stands ready to assist the Victorian Government deliver additional local content benefits from future strategic projects including from the East-West Link project and has devised a ten point plan to that end.

On the other hand, if specific allowance has not been made in good faith for local steel in the final proposals received for East West Link Stage One, the AWU will insist that they be reviewed with proponents in order to improve local content outcomes prior to the decision on and announcement of the winning bid.

The AWU is therefore keen to ensure that final proposals received from bidders for East West Link Stage One include tangible local content initiatives including for steel, which will be integral in the assessment of their value for money consistent with requirements as a VIPP Strategic Project.

Rushing procurement selection to publicly announce the winning bid risks missing local content targets and cutting across a considered tender evaluation process weighted for local content and steel. A "best-endeavours" approach to including local supply is insufficient in view of the project being declared by the government a Strategic Project.

This would represent a major lost opportunity for local industry and workers which rightly expect Strategic Project considerations to have been central to the government's assessment in a project of this size and scope. Left unaddressed, the Victorian steel industry appears unlikely to maximize its involvement in East Link Stage One.

In this regard, it is a particular concern to see no reference to local content or manufacturing in the joint media release by the Treasurer and Minister for Roads of 28 April 2014 announcing receipt of final proposals by bidders.[1] Attempting to expedite the selection process in order to commence the project prior to the state election does nothing to promote the interests of the local steel industry and local jobs.

Therefore, the AWU will be campaigning in support of the Victorian steel industry and jobs in the East West Link project and other major infrastructure projects in the days and months ahead.

1 28 April 2014, Treasurer (Hon Michael O'Brien MP) and Minister for Roads, (Hon Terry Mulder MP) Media Release: Tender milestone for East West Link reached http://www.linkingmelbourne.vic.gov.au/__data/assets/pdf_file/0020/6428/140428_OBrien_Mulder_-_Tender_milestone_for_East_West_Link_reached_media_release.pdf

INTRODUCTION

This paper responds to identified current and future opportunities to maximize local steel content in current and up-coming major infrastructure projects, including the East West Link project and in the consideration of proposals for East West Link Stage One.

It is vital that a focus on local supply is maintained aimed at maximizing the scale of local content in the East West Link project (Stages One and Two) and in future major transport, infrastructure and defence projects because underwriting imports via inappropriate government procurement decisions represents a major lost opportunity for the private sector to invest in expanding local industrial output and jobs. The long term viability of the steel industry is put at risk.

Government procurement has the opportunity to play a more significant role in contributing to the State's economy generating economic activity and increased tax receipts while also meeting competitive tender requirements.

The AWU acknowledges that at least initially steps appeared to have been taken to offer the opportunity for local steel suppliers to participate in the East-West Link project as a strategic major project. However, this opportunity alone is insufficient. What is still required is the necessary implementation accompanied by appropriate checks and balances to ensure that local content opportunities are realized as outcomes.

The AWU is concerned that the East West Link Stage One is now being "fast-tracked" such that previous commitments made by the Government to declare the project as strategic regarding local content are being by-passed in order to meet a timetable dictated by politics rather than policy and the overall interests of the State.

Effective implementation of local content policies is key in order that words truly become deeds. After summarizing the contribution steel makes to the economy this paper outlines local capabilities in the steel sector (in addition to the threats from lower quality sources of supply offshore), and the requirements for maximizing local content in the East-West Link project in particular among other major infrastructure projects.

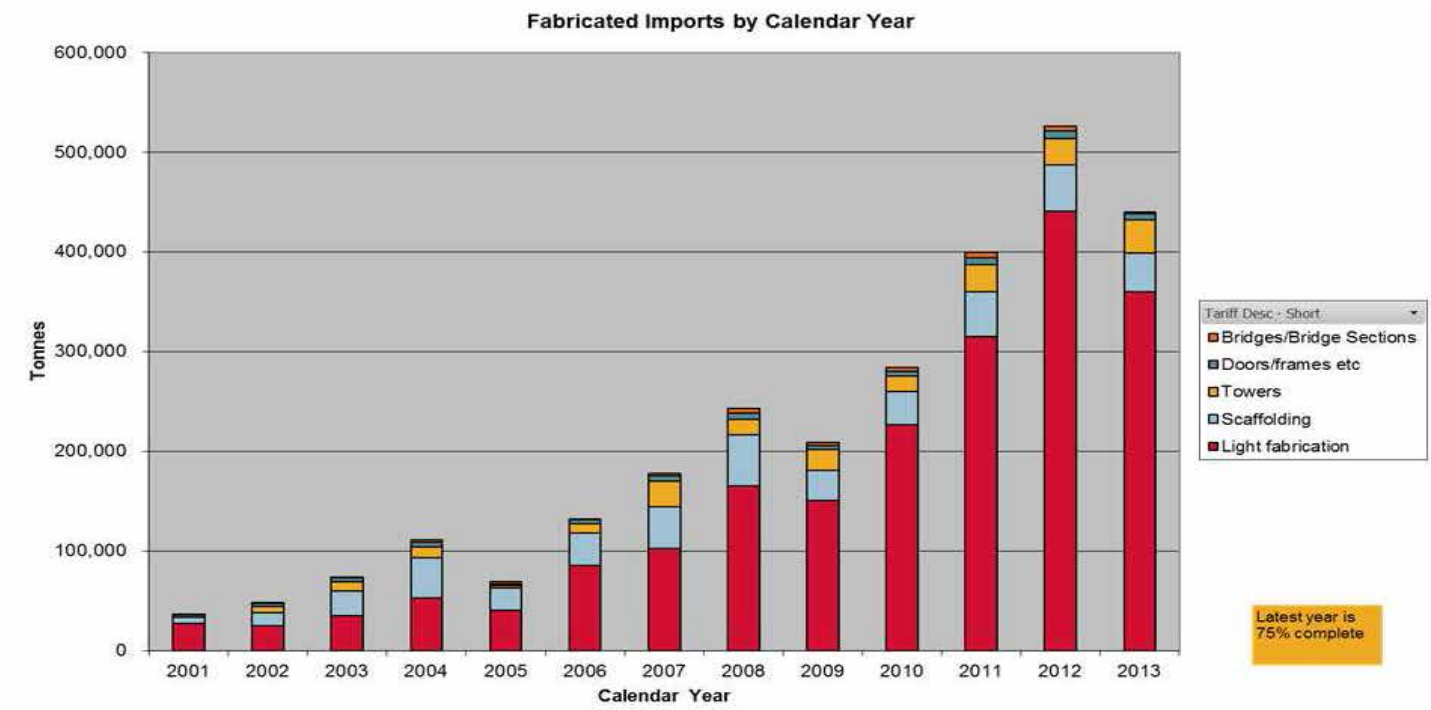
The paper concludes with the AWU's expectations regarding the consideration of East West Link Stage One proposals with the clear aim of maximising local content opportunities for the local steel sector rather than see them escape offshore.

THE MARKET SITUATION

The iron smelting, steel manufacturing and structural steel fabricating industry in Australia currently generates annual revenue of approximately $20.2 billion and directly employs approximately 43,800 people. Annualised revenue is expected to fall over the five years through 2014 by 8.4% (iron smelting and steel manufacturing) and 4.2% (structural steel fabricating).[2] (See below for more detail on the steel market).

A measure of the challenge facing local steel manufacturers is illustrated by the scale in recent years of fabricated steel imports. Imported fabricated steel structures (See Figure below – "Light fabrication") increased from less than 100 000 tonnes/year in 2006 to over 400,000 tonnes/year in 2012. The 2013 data is a year to date total for the first three quarters of the year. Based on this preliminary number, the total level of imports for 2013 is likely on track to exceed 2012 by a significant margin.[3] These figures do not include steel intensive modules and other plant and equipment imported for major resources projects, which the Australian Steel Institute (ASI) estimates at approximately the same tonnages.

These products are not included in this chart as they come under a variety of different Customs tariff codes and are often difficult to identify.



Source: OneSteel

2 IBISWorld.com.au: Iron Smelting, Steel Manufacturing and structural steel fabricating in Australia: Market Research Report – Report Snapshot

3 Ai Group, November 2013, The quest for a level playing field, The non-conforming building product dilemma, p24: Data compiled by Onesteel from ABS figures for the following HTISC steel codes (Bridges/ Bridge Sections, Towers, Doors/Frames, Scaffolding, light fabrication). The HTISC code 7308900049 for "light fabrication" is described as, "Plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures of iron or steel".

THE VALUE OF LOCAL CONTENT TO THE ECONOMY

The trends noted above have been the subject of a number of important studies assessing the benefits from substitution of a portion of imports with local content. These studies have detailed the benefits of sourced local steel in the provision of major infrastructure projects.

In particular, the AEC has analysed the multiplier benefits of local manufacturing, including in the primary and fabricated metals sector including steel. ASI has estimated the contribution to the economy of sourcing local steel for major offshore LNG projects. The Australian Industry Group (Ai Group) has assessed the clear quality advantages of local sourcing for a range of manufactured products, including steel. These studies are briefly discussed below.

ICN - AECGROUP[4]

The direct and indirect multiplier effects of $1.0 million in increased or retained business output highlights the manufacturing industry supports:

TYPE I MULTIPLIERS[5]

- $713,400 worth of gross value added in terms of industrial support activity (i.e., type I effects)
- Six full time equivalent (FTE) jobs
- $64,900 in avoided welfare expenditure
- $225,300 in tax revenue.

Type I Multipliers – Activity from $1.0 Million of New or Retained Business

Sub-Division	Value Add	Employed	Welfare Savings	Tax Revenue
	‘000s	FTEs	‘000s	‘000s
Primary Metal and Metal Product Manufacturing	$728.7	3	$35.0	$230.1
Fabricated Metal Product Manufacturing	$752.5	5	$56.9	$237.7
Total Manufacturing	**$713.4**	**6**	**64.9**	**$225.3**

4 ICN – Compiled by AECgroup, 2012: Impacts of new and retained business in the Australian Manufacturing Sector

5 Type I multipliers show induced activity resulting from industry production to supply inputs into either new or retained manufacturing business, assuming an exogenous household sector. Type I multipliers assume the income generated from induced industry activities does not affect household consumption decision.

TYPE II MULTIPLIERS[6]

- $1,156,000 worth of gross value added in terms of industrial support activity (i.e., type II effects)
- Ten full time equivalent (FTE) jobs
- $101,800 in avoided welfare expenditure
- $365,000 in tax revenue.

Type II Multipliers - Activity Induced from $1.0 Million of New or Retained Business

Sub-Division	Value Add '000s	Employed FTEs	Welfare Savings '000s	Tax Revenue '000s
Primary Metal and Metal Product Manufacturing	$1,016	6	$58.9	$321
Fabricated Metal Product Manufacturing	$1,262	9	$99.3	$399
Total Manufacturing	**$1,156**	**10**	**$101.8**	**$365**

The above tables indicate that the range of Type I and Type II Multiplier benefits in terms of activity induced in the steel sector from new or retained business is between:

- $740,600 - $1,139,000 worth of gross value added
- 4 - 8 FTE jobs
- $45,950 - $79,100 in avoided welfare expenditure
- $233,900 - $360,000 in tax revenue

Therefore, the size of the benefits forgone with every $1 million in steel sector output lost via reduced production or imports is approximately around:

- $939,800 of gross value added
- 6 FTE jobs
- $62,525 in avoided welfare expenditure
- $296,950 in tax revenue.

In metal fabrication (inclusive of local milled steel) the figures are even bigger:

- **$1,007,250 of gross value added**
- **7 FTE jobs**
- **$78,100 in avoided welfare expenditure**
- **$318,350 in tax revenue.**

The above factors do not account for the social benefits of a further 6 to 10 people in gainful employment. These benefits also have significant value to the State.

MAJOR PROJECTS USING STEEL - LOCAL STEEL IN LNG

ASI has been a strong advocate for securing more work for Australian industry on major projects, including measures involving greater support and onus for the use of Australian Industry Participation Plans (AIPPs).

In 2011, ASI commissioned the National Institute of Economic and Industry Research (NIEIR) to estimate the benefits to the Australian economy of greater share of major LNG projects as the pay-off for a targeted approach to offering tax concessions to the sector.[7] The ASI indicate that Australian steel content in the construction of major resource projects is between 10 to 12 percent with the majority of the balance being imported from Asia. ASI's key concerns are outlined in the box below.

6 Type II multipliers show induced activity resulting from industry production to supply inputs into either new or retained manufacturing business, and as households respond to income (generally by increasing demand for goods and services) from induced industry activity. Consequently, Type II multipliers give higher estimates of impacts than those of Type I as they include the Type I effects plus household expenditure effects.

7 Tax incentives to increase Australian content in major resource projects. Submission to the Federal Government Tax Summit by Australian Steel Institute (ASI) (supported by National Institute of Economic and Industry Research (NIEIR)) September 2011, http://steel.org.au/media/File/ASI_Tax_Forum_Submission_Oct_11.pdf

RED TAPE

The AWU is committed to improving the competiveness of the Australian steel industry which must compete globally. We are also conscious of not adding to administrative burden of local manufacturers. However, the incremental effort required in validating local content commitments in major projects is very small. Feedback from ASI in consultation on the Australian Jobs Bill indicates that the Australian Industry Participation Plan (AIPP) process similar to VIPP proposals cost project 3 cents in every $1000 spent of 0.00003%. A number of proponents and contractors have also said that it assists their procurement process and helped them identify local suppliers outside their normal channels often with positive outcomes. Not too much therefore is being asked in support of Victorian jobs.

THE ISSUE
The ASI and its members are extremely concerned about the amount of imported fabricated steel on major resource and infrastructure projects. The Australian steel industry is not opposed to mixed local and imported input, but rightly rejects the notion that Australian steel be effectively shut out of meaningful involvement on major projects developed here.

LOSS OF VITAL SKILLS
The trend towards imported modular construction for key components of resource projects has meant that local industry has been excluded from significant participation. Many ASI member manufacturers and fabricators are running their companies at substantially lower production and employment levels compared to recent years with employment levels the lowest seen in 18 years. For instance, figures sourced and compiled by an independent consultant show that WA companies have undertaken less than 10 percent of the potential work available. If this trend continues, there is the danger of essential skills in the steel fabrication and heavy engineering sector being lost forever. These are important skills which will be required for ongoing maintenance and extensions to existing and new plant. This is not only in resources, but essential services areas like power, water, and basic infrastructure, and therefore it's in the nation's interest that this skill base is kept viable.

COMPLIANCE TO STANDARDS
There is a growing trend for major development projects driven largely by multinational proponents to be designed and engineered overseas to foreign standards. The ASI regards that specifying steel sections to foreign standards for major projects in Australia does not represent fair opportunity for local industry. This practice would not be accepted for projects in the countries of our major trading partners so it is unreasonable to expect Australia to do so. Australian standards provide high quality assurance framed with the country's specific conditions in mind. Chances of misinformation and mistakes in interpreting site plans, local regulations and environmental matters can be minimised. By meeting certified standards, exacting specifications and having a 'right first time' culture, Australian suppliers further eliminate the need for costly re-work. Additionally, the systems rigour and traceability requirements that adherence to these quality standards demand facilitate seamless inputs. Inspection costs can be significantly reduced compared to alternate supply of fabricated steel which may require many overseas visits.

SKEWED PLAYING FIELDS
It has become more obvious that there is confusion in the market about what constitutes 'open' compared to a 'level' playing field – they are not the same thing. Australia has one of the most open economies in the world with low barriers to trade, a business environment the ASI has long supported. But the field would only be level if our trading partners each had similarly open economies and played by the same rules, but that is simply not the case. Many of the Australian industry's main competitors in steel construction have Government export incentives and major competitor China has a well documented subsidised steel industry and under-valued currency, perhaps to the value of 30 percent. This is NOT a level playing field. Australian Government action is urgently required to level market conditions. Such measures that may include stipulating a proportion of fabricated steel that developers or EPCM contractors must procure within Australia, doubling the depreciation time against any imported item or discounting royalty payments to major project proponents for increased percentage of 'contestable' local content used.

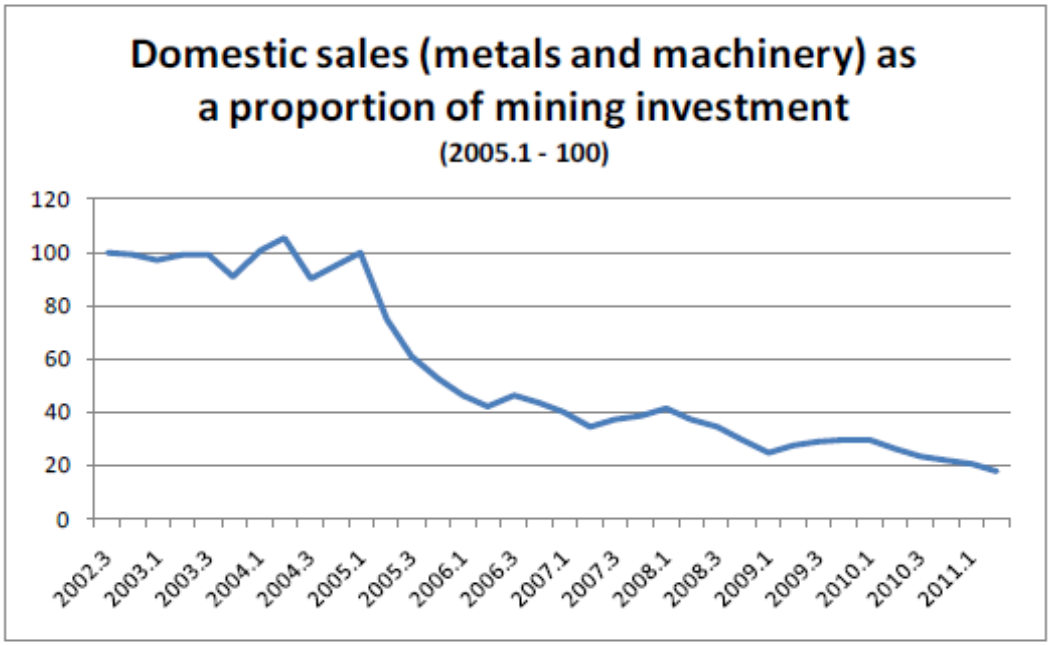
POLICY PARITY NEEDED
There are various State government local content policies in Australia that vary considerably and some haven't been revised for five or six years and are loosely monitored for compliance. All state and federal governments need consistent and stronger policies with appropriate levels of monitoring. The ASI advocates stricter local content policies be applied to a variety of Government and private projects including, Public Private Partnerships (PPPs), major road, rail and port development, desalination and power plants, wind towers, and projects where Government has financial involvement, such as currently in Victoria where the 25 percent local content (for 'contestable' manufacturing) is mandated on publicly funded projects and those deemed of strategic importance.

IMPORT CONCESSIONS
The Australian Government's Enhanced Project By-law Scheme (EPBS) provides tax concessions to project proponents for importing materials not available locally, provided they commit to undertaking a Local Industry Participation Plan (AIPP). But tariff concessions should not be awarded to major project proponents unless their undertaking to maximise local participation is fully honoured, not just for token efforts such as pooling non-contestable with contestable steel sections. Any package for steel fabrication must not be eligible for tariff concession if the capability exists in Australia. AIPPs should be made public and fully transparent, including the various components required and the proponents' procurement intentions. The ASI has contributed to the current EPBS Policy and Administrative guidelines review by Access Economics.

Government needs to view the substantial Australian steel industry as a strategic national requirement and seriously bring to bear effective measures to maintain it.

Source: http://steel.org.au/key-issues/local-content/the-issue/

Research by NIEIR showed that the Australian metals, fabrication and machinery sector was not sharing the investment boom in resource projects. The chart below shows that domestic sales of metals, fabricated metals and machinery falling as a proportion of total investment in the resources sector.



Source: http://steel.org.au/media/File/ASI_Tax_Forum_Submission_Oct_11.pdf

The study shows the macroeconomic benefits from a 15 percentage point increase in local content from a large scale offshore LNG project valued at $43 billion (modelled on the Gorgon project). A 15 percentage point increase in local content for a $43 billion project gives a GDP benefit of $6.5 billion over four years, or $1.6 billion for one year. The results in the table below are for a one year average. The $1.6 billion GDP benefit is distributed over the metals and machinery industries in accordance with the resource industry's current pattern of demand.

Increased local content from mining investment: Annual impact on national economic indicators – large scale offshore LNG project 15 percentage point increase in local content on $43 billion project over 4 years

National aggregates		
GDP at factor cost	$2009m	1615.6
Mining gross product at factor cost	$2009m	108.4
Non mining gross product at factor cost	$2009m	1507.2
Gross local product at factor cost	$2009m	1163.2
Net local product at factor cost	$2009m	1018.5
Total employment - full time equivalent	'000	14.0
Household consumption expenditure at basic values	$2009m	528.2
Per capita household consumption expenditure	index – per cent change	0.1
Capital stock	index – per cent change	3044.8
Factor productivity - net national product	0.0	
Household income Formation		
Net national product at factor cost	$2009m	1354.6

Wages and salaries	$2009m	961.6
Mixed income	$2009m	116.9
Interest received dividends	$2009m	93.8
Disposable income	$2009m	739.8
Government revenue		
Household direct taxes	$2009m	198.1
Enterprise direct taxes	$2009m	94.5
Indirect taxes	$2009m	82.8
Total	$2009m	375.5

Source: ASI 2011: Tax incentives to increase Australian content in major resource projects, table 3.

Proposed budget neutral tax concessions (including accelerated depreciation) were aimed at inducing an accordingly higher proportion of local content in procurement, thereby achieving the scale of results outlined above. The payoff from a marginally higher local content contribution is also illustrative of the multiplier impacts noted in the AEC's report.

AUSTRALIAN INDUSTRY GROUP (AI GROUP) SURVEY

Ai Group has undertaken a major survey[8] assessing the quality and safety of building and construction products.

Businesses supplying products to the building and construction sector are concerned at what they see as increasing competition from products that do not conform to Australian standards and regulatory requirements. Non-conforming product affects importers, manufacturers and fabricators. Immediate business impacts of this uneven playing field are usually in the form of eroded margins and reduced revenues. The Ai Group report found that the majority of companies responding to the survey believe their market is penetrated by non-conforming product.

Respondents indicated that margins are low and are under intense pressure. Margins are reduced by maintaining conformance with standards and specification requirements.

From a steel fabricator:

"There is intense competition with margins now between 0 – 9% (before tax). We recently bid $26 million for a project, at 5% margin, and were beaten by an overseas fabricator who came in at $22M which is around 10% under our cost."

Businesses are confused about who the relevant regulator is; what enforcement powers they have; and how to lodge complaints.

Gaps and weaknesses in the building and construction conformance framework are also highlighted in the report's findings. The report suggests that non-conforming products have been allowed into the market due to inadequate: surveillance; audit checks; testing; first party certification; and enforcement. It also suggests that building certifiers bear a disproportionate share of the burden for product conformance - raising the question of whether more responsibility should rest with product suppliers and builders.

The impact of non-conforming product is a major concern for industry and points to the need to reform the current system to ensure the quality of building and construction products so that importers, manufacturers and fabricators who make and supply conforming product have a level playing field.

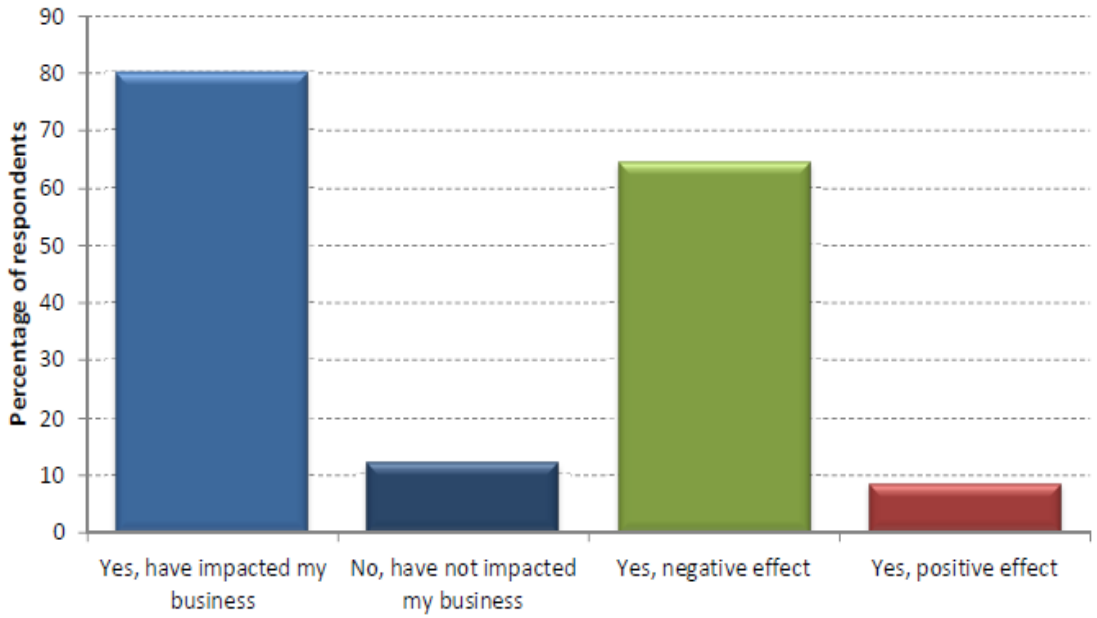
8 AIG, November 2013, The quest for a level playing field, The non-conforming building product dilemma

BUSINESS IMPACT

Respondents said that **64%** of steel sector businesses have been negatively affected by non-conforming products. **40%** of all businesses in the steel sector are losing revenue, margin and employment numbers due to NCP. Other businesses say they are downgrading their product quality and service offer in order to remain viable.

Another **8%** of businesses say they have been positively affected by non-conforming products because they obtain rectification work and this is often at higher margins because of the tight deadlines involved.

Figure 4 - The impact on business of non-conforming product in the Steel product sector



Source – Ai Group

Interviews indicated that the main impact on businesses is to their overall viability:

"Non-conforming competitors don't have the same business costs as we do. They counterfeit our compliance information. We have to take legal action. They obviously don't test their products, don't do load tables, don't mark products correctly, don't have a quality system. This is costing our business margin and jobs. We've got 40 people in a factory in [regional town] that is not sufficiently profitable and we have dropped our staffing levels. There has definitely been commercial damage to our business fromnon-conforming products."

Others indicate their sales have been suffering due to high currency exchange rates, product dumping and nonconforming products (NCP) and it is not possible for them to determine the precise fall in sales that is due to each of these concurrent factors.

Government procurers indicated there has been a cost impact on them due to the additional resources and systems needed to detect NCP.

FINDING - A high proportion of businesses in the Steel product sector (40%) have been negatively impacted by non-conforming product. The main impact has been the loss of margin, revenue and employees.

SAFETY IMPACT

The examples of NCP raised during interviews indicate that NCP can affect both worker safety (e.g. collapse of hangar; pre-stressing steel strand failures; unmarked weights on grates, deforming grates) and have the potential to affect long term installation safety (and therefore public safety) when full load rating (e.g. wind force or weight loading) is reached or corrosion occurs.

The QLD Workplace Health and Safety (WHS) authority has linked non-conforming product with non-compliance to the WHS Act 2011.[9] Many of those interviewed highlighted that when deviations from design standards occur (e.g. using other product standards or unqualified procedures), there is a need for rigorous engineering analysis to prove equivalence to the original design.

Australian fabricators believe such analysis is not occurring. Comments that summed up sentiment around safety are:

"There does not seem to be an adequate system for the approval of NCC alternative solutions including independent assessment or auditing. Structures are currently signed off as conforming in ignorance of the differences between standards." [10]

FINDING – Non-conforming steel products and structures can increase the risk of personal injury to employees and has the potential to affect long term building and structure safety.

LONG TERM ASSET VALUE IMPACT

Non-conforming steel materials and products can be affected over time due to strain aging, accelerated corrosion and deformation under load. Interviews raised examples of sub-standard protective coatings applied to products as well as incorrect welding types (fillet instead of butt welding) increasing the potential for corrosion to occur. Understrength steel materials can allow increased structural deflection which increases the risk of strain aging. There is the possibility for non-conforming assets to deteriorate at a quicker rate resulting in increased maintenance costs over time (the case studies on grates and non-conforming steel fabrications are prime examples).

The ACRS conformance scheme was started by industry and government procurers because of the high risk (and potentially large cost) over time of non-conforming reinforcing steel.

FINDING – Non-conforming product in the steel sector can escalate deterioration rates in buildings, reduces value of holding assets and increases maintenance costs.

POTENTIAL SOLUTIONS[11]

Respondents in the **Steel product** sector suggested the following potential solutions:

- There should be a federal body to undertake market regulation, surveillance, auditing and enforcement of building products. Other economies such as the UK and Germany have higher levels of regulation in this sector. Such an authority should clarify the regulations, codes and standards (or alternative solutions) that need to be complied with. First party certification is not working;
- Clarify the role of building certifiers;
- Product suppliers and builders should be accountable for the products they supply and install;
- Mandatory (confidential) reporting of NCP should be implemented. CROSS (UK) is a current, effective model;
- An industry sector risk based approach is needed - Possibly including 3rd party certification including mutual recognition of international conformity assessment bodies, round robin testing and peer reviews;
- Active support from the public and private sector procurers to purchase third party certified products;
- Education of the market is required;
- An Australian Standard for steel fabrication should be developed; and
- Providing greater visibility of product standards within the NCC (direct references in the NCC instead of the current secondary references).

9 http://steel.org.au/key-issues/compliance/whs-2011
10 Ai Group, November 2013, The quest for a level playing field, The non-conforming building product dilemma, p32
11 As above, p33

THE STEEL SECTOR IN VICTORIA – LOCAL CAPABILITIES

The ASI has compiled a comprehensive Capabilities report.[12] The report details the wide range of steel industry capabilities which are well represented in Victoria and the extensive supply chain and demand drivers (see diagram below).

The table below outlines the latest national results for the primary ironsmelting and steel manufacturing sector and the main downstream consuming sectors, including Victoria's share. Note that Victoria has a lower share than NSW (in every category apart from the percentage of iron and steel casting and forging establishments), Queensland (structural steel fabricating enterprises), and South Australia (iron and steel products output)[13]:

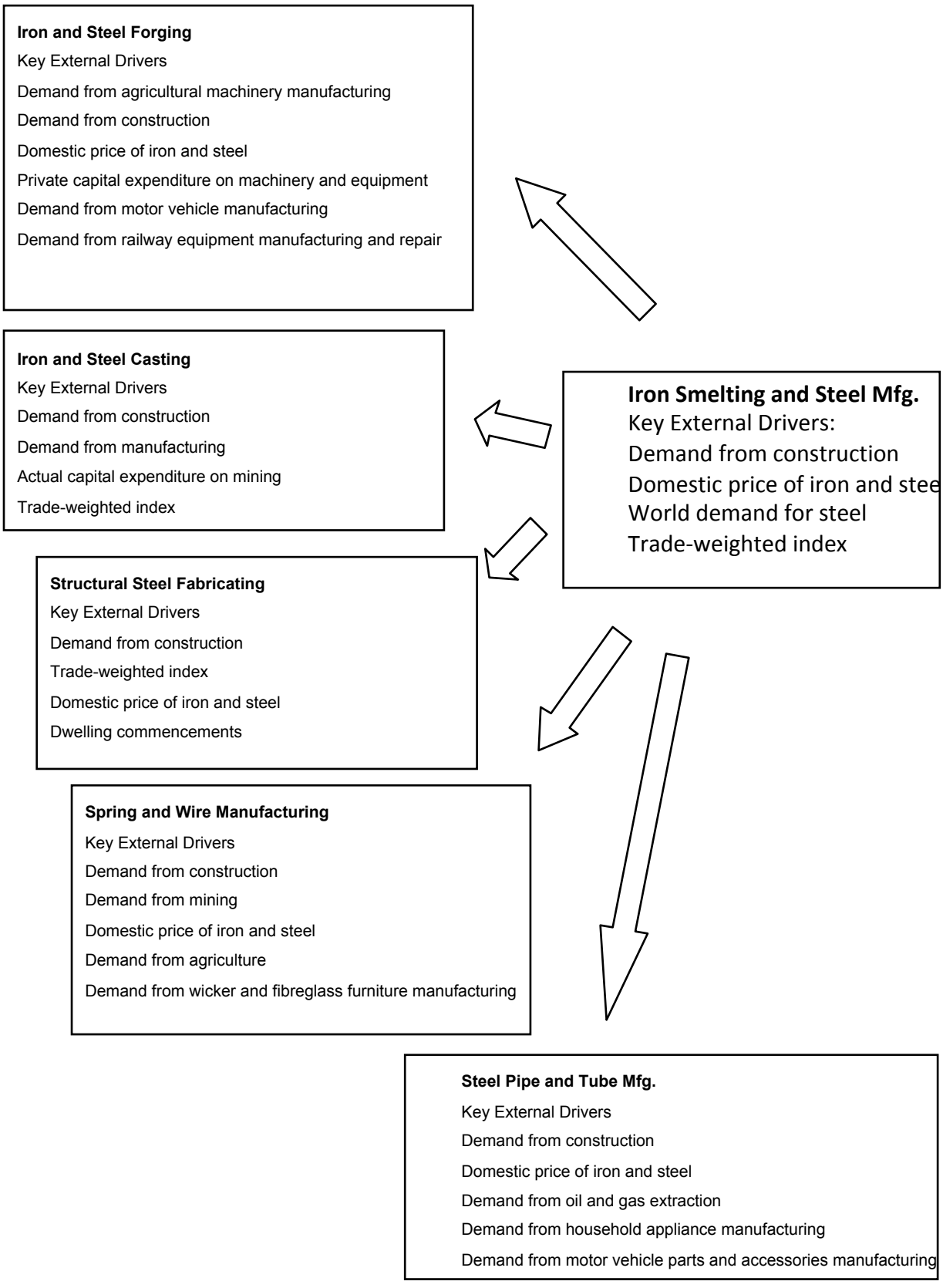
	2013-14	Employment	Revenue $mn	Businesses	% Vic	Exports $mn	Imports $mn
C2110	Iron Smelting and Steel Mfg.	19,800	12,700	140	12.7	890	1,900
C2121	Iron and Steel Casting	6,238	1,900	198	26.6	55	40
C2122	Steel Pipe and Tube Mfg.	2,415	1,213	241	26.3	145	2,300
C2210	Iron and Steel Forging	1,658	857.4	120	36.6		
C2221	Structural Steel Fabricating	23,700	7,200	1,850	22	70	1,310
C2291	Spring and Wire Manufacturing	3,650	1,250	435	26.4	113	712

Source: IBISWorld 22 April 2014 compiled by Eureka Economics

12 Capabilities of the Australian steel industry to supply major projects in Australia compiled by Ian Cairns - National Manager – Industry Development on behalf of the Australian Steel Institute Version 2.1.0 - March 2010

13 IBISWorld.com.au: Industry Market Research, January 2014. Also refer to Attachment 2

LINKS IN THE STEEL SUPPLY AND DEMAND CHAIN[14]

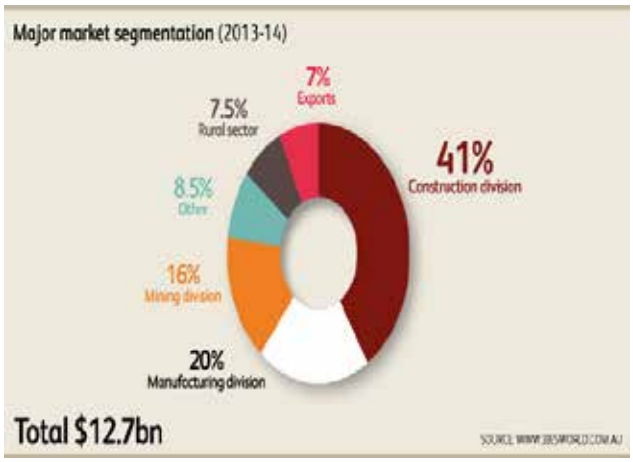


14 Compiled from IBISWorld.com.au data by Eureka Economics

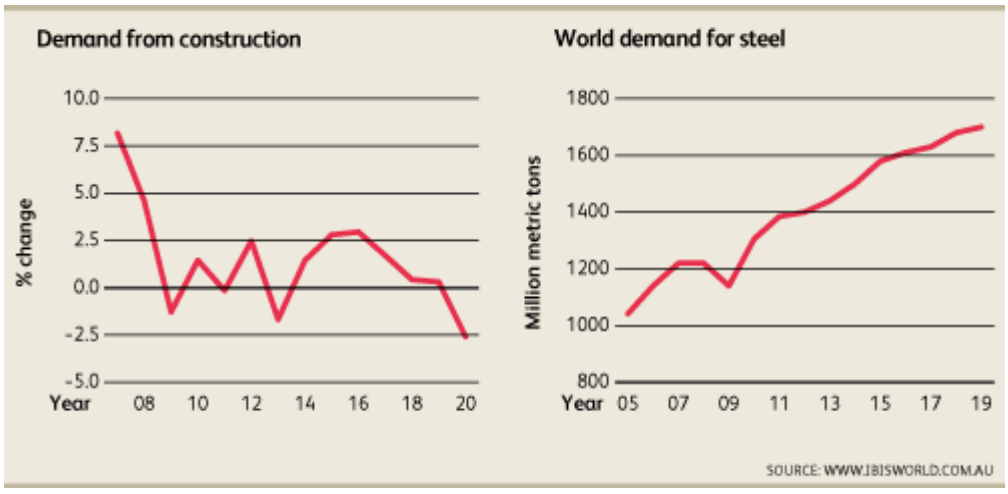
INDUSTRY PERFORMANCE – DEMAND FROM CONSTRUCTION

Trends in the domestic demand for steel are closely linked to business investment. Non-dwelling business investment is particularly important, given the Construction division's substantial demand for steel. The Construction division is the largest consumer of steel in Australia and accounts for 41.0% of industry revenue. Engineering construction accounts for just under half this category and buildings (residential and non-residential) for the remainder.

Products consumed by this sector include hot rolled structurals, reinforcing bar and wire, merchant bar and rail fastenings. As construction activities increase, so does the demand for iron and steel products. The share of sales accounted for by the construction sector initially expanded over the five years through 2013-14, reflecting rapid growth in spending on engineering construction. However, demand then dropped off in line with more subdued cyclical growth.



In 2013-14, the Construction division is expected to contract slightly as mining improvements are scaled back, thereby lowering demand from this particular market sector. This will be to the detriment of industry players that manufacture steel products for the Construction division and as such may represent a potential threat. Over the five years through 2018-19, the relative importance of this sector will continue to fluctuate in line with cyclical variables. Overall, dependence of demand from the construction sector will be a key determinant of the future viability of Australian steel production.



DOMESTIC PRICE OF IRON AND STEEL

Trends in the price of iron and steel directly affect industry revenue. In the past five years, domestic and international volatility in iron ore prices has characterised the global industry. In 2013-14, prices are expected to post a modest increase, which may represent an opportunity for players assuming they are able to pass on the higher prices.

WORLD DEMAND FOR STEEL[15]

THE GLOBAL OUTLOOK

While forecasting of global steel demand remains volatile, there are signs the global demand outlook is improving. Overall global steel demand is tipped to grow 3.3 per cent in 2014, an improvement on 2013.With a slightly stronger outlook for 2014 compared with 2013, and the promise of further progress in 2015 and beyond, a recent commentary is the steel sector is focusing ahead to plan and profit from the opportunities and prepare for demands of the future.

This change will not be immediate and the centres of demand will vary. The steel sector globally is highly geared with limited access to capital and this will increase the pressure on steelmaking capacity to close over the next two to three years.

The knock-on effect of this will be rationalisation in the sector as stronger operators acquire weaker competitors.

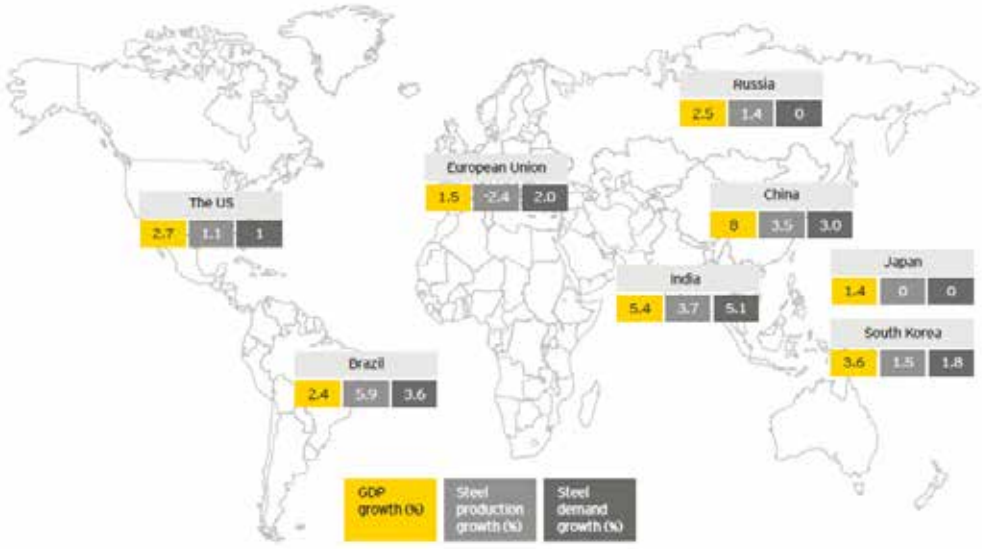
2014 GLOBAL OUTLOOK

1. Global demand forecast to grow faster at about 3.3% in 2014;
2. More demand growth expected from outside China;
3. Global supply and demand to largely follow economic growth recovery around the world, except China;
4. World Steel Association's short-term estimates for global steel demand more positive on growth in the US, the EU, Brazil and Russia, but relatively lower on Asian countries;
5. Steel demand in Europe and the US likely to improve during 2014–15;
6. Demand expected from investment in both infrastructure and manufacturing sectors; and
7. India, Brazil, Russia and MENA to experience faster steel demand growth.

Source: http://www.ey.com/Publication/vwLUAssets/EY_-_Global_steel_2014/$FILE/EY-Global-steel-2014.pdf

Nevertheless, the steel sector is expected to gradually gain momentum as the decade unfolds, with optimism building about what lies ahead. It is therefore important for Australia to retain its capabilities in order to benefit from the expected future uplift in local and international demand for steel.

Outlook for steel and economic growth in 2014 mapped against the location of major steel markets



Source: IHS Global Insight, BREE, EY, Australia, http://www.ey.com/Publication/vwLUAssets/EY_-_Global_steel_2014/$FILE/EY-Global-steel-2014.pdf

15 Also refer to Attachment 1

AUSTRALIAN GOVERNMENT ECONOMIC REVIEW OF SOUTH AUSTRALIA AND VICTORIA

The local steel industry has a vital role to play in supporting the construction sector. In view of the recent announced closures of manufacturing activity including in the automotive sector, there is scope for the steel sector to generate local economic activity in related infrastructure and defence projects where major procurement opportunities exist.

The Commonwealth Government in December 2013 announced that it was undertaking a review of the Victorian and South Australian economies in the wake of manufacturing closures.[16] The approach adopted in this paper would fit neatly in a future policy package aimed at ensuring that these economies are able to transition to more sustainable manufacturing activities. Funding of $100 million is currently available to support responsible projects in the manufacturing sector.

The Commonwealth itself has a major role to play in its own procurement activities particularly in the defence sector which is a major consumer of steel. It will be important that Australian Industry Participation Plans (AIPPs) include specifications to include local steel in project procurement, scope and design.

COMPARISON OF LOCAL PROCUREMENT WITH THE US AND CANADA

It is important to note that Australian and Victorian approaches to local procurement are consistent with tender processes which are open and transparent. Approaches in the US and Canada are worth briefly reviewing for comparison purposes before outlining recommended approaches.

PROCUREMENT IN THE UNITED STATES AND CANADA

Steel procurement figures prominently in the procurement regimes in both the United States (US) and Canada which either mandate the use of local steel or include a price preference favouring local steel.

UNITED STATES

The major Acts including provisions relating to steel procurement are the Buy American Act and the Recovery Act Buy American Provision which applies to construction, alteration, maintenance, or repair contracts funded with Recovery Act money. The provision requires that the iron, steel, and manufactured goods used for the project be “produced in the United States”.

There are three primary exceptions:

- Unreasonable cost. Inclusion of iron, steel, or manufactured goods produced in the United States will increase the cost of the contract by more than 25 percent;
- Inconsistency with the public interest. Applying the domestic preference would be inconsistent with the public interest; and
- Non-availability. Iron, steel, or manufactured goods are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality.[17]

THE HIGHWAY PROJECTS AND BUY AMERICA:

The administering agency is the Federal Highway Administration (FHWA), funding is sourced from the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU funded projects have Buy American restrictions that require all iron & steel materials to be U.S. made.

There are also aggressive set-asides for small disadvantaged (minority) and women-owned businesses.

When FHWA projects are executed by state or local governments, they are not covered by free trade obligations. Most highway projects are procured by state or local governments.[18]

16 http://www.industry.gov.au/industry/automotive/Pages/EconomicReviewSAVic.aspx and http://www.pm.gov.au/media/2013-12-18/securing-australias-manufacturing-future
17 http://www.mccarthy.ca/pubs/Home_Field_Advantage_Domestic_Preferences_in_Government_Procurement_and_Obligations_under_International_Agreements.pdf
18 http://www.canadainternational.gc.ca/sell2usgov-vendreaugouvusa/procurement-marches/sector_chart-tableau_sectoriels.aspx?lang=eng&menu_id=501

STATE PROCUREMENT PREFERENCES

Many U.S. states implement preferences that favour certain vendors, products or services over others in a bidding situation. For example, when it seeks suppliers for highways and buildings, Rhode Island is willing to pay 15% more for steel manufactured or produced in the United States. Not all states apply preferences, and preferences vary from state to state. In total 8 states have steel specific preferences. Attachment 3 contains a complete list of procurement policies implemented by State Governments in the US.

PENNSYLVANIA STEEL PRODUCTS PROCUREMENT ACT

A. Requirement. The Steel Products Procurement Act requires purchasing agencies to include the required contract provision in every contract for the construction, alteration, repair, improvement, or maintenance of public works.

B. Public Works. "Public Works" includes not only structures, buildings, highways, waterways, streets, bridges, transit systems, airports, or other betterment but also "any railway, street railway, subway, elevated and monorail passenger or passenger and rail rolling stock, self-propelled cars, gallery cars, locomotives, passenger buses, wires, poles, and equipment for electrification of a transit system, rails, tracks, roadbeds, guideways, elevated structures, buildings, stations, terminals, docks, shelters, and repairs to any of the foregoing."

C. Contract Provision. If any steel products are to be used or supplied in the performance of the contract, only "steel products," as defined in the Act can be used or supplied in the performance of the contract or any subcontract.

D. Steel Products: Definition. Products rolled, formed, shaped, drawn, extruded, forged, cast, fabricated, or otherwise similarly processed, or processed by a combination of two or more of such operations, from steel made in the United States by the open hearth, basic oxygen, electric furnace, Bessemer, or other steel making process:

a. Includes cast iron products
b. Includes machinery and equipment listed in United States Department of Commerce Standard Industrial Classification 25 (furniture and fixture), 35 (machinery; except electrical), and 37 (transportation equipment) and made of, fabricated from, or containing steel components.

http://www.mccarthy.ca/pubs/Home_Field_Advantage_Domestic_Preferences_in_Government_Procurement_and_Obligations_under_International_Agreements.pdf

INDIANA (DEPT OF ADMINISTRATION, PROCUREMENT DIVISION)

ABSOLUTE PREFERENCES

An absolute preference allows bidders meeting certain criteria to receive an award without regard to other criteria unless another bidder also claims the preference, meaning that the bidder offering the lowest cost may not be the correct choice for award. There are currently three absolute preferences offered.

- U.S. Manufactured Preference (Indiana Code 5-22-15-21, 25 IAC 1.1-3)

The statutes require the purchase of only United States manufactured products whenever possible. Bidders claiming this preference certify that the end products offered are U.S. manufactured. If the cost of its components mined, produced, or manufactured in the United States exceeds 50% of the cost of all its components, it meets the preference criteria. Bidders offering foreign-made products at a lower price should not receive an award if U.S. manufactured products that meet specifications are available for purchase.

- Steel Products Preference (Indiana Code 5-22-15-25)

Steel products used in the manufacture of supplies for a contract or supplies used in the performance of services under the contract must be manufactured in the United States. This preference applies only to purchases over $10,000. The steel preference is applicable only when steel products requested by specification are rolled, formed, shaped, drawn, extruded, forged, cast, fabricated, or otherwise similarly processed, or processed by a combination of two (2) or more such operations, by the open hearth, basic oxygen, electric furnace, Bessemer, or other steel making process (i.e. I-Beam, rebar, etc.).

- Coal Mined in Indiana (Indiana Code 5-22-15-22)

When purchasing coal for use as fuel, an absolute preference is given to coal mined in Indiana.
http://www.in.gov/idoa/files/Commodities_Streamlining12262013.pdf

CANADA

There are a number of areas where the federal government may approve initiatives and strategies aimed at leveraging procurement to advance various socio-economic development objectives.[19]

The Agreement on Internal Trade (AIT), Canada's inter-provincial trade agreement, specifically permits preferences for Canadian content in the form of weighting criteria in the bid solicitation that favour "Canadian value-added", or by limiting the tender entirely to Canadian goods or suppliers.[20]

Ontario and Quebec the two largest provinces list some exceptions. For example, Ontario specifically excludes urban rail and urban transportation equipment, systems, components and materials, in addition to all project related materials of iron or steel as well as highway construction there are two possible reasons for these derogations, these activities are largely supplied by local firms that would risk losing essential public contracts were they to face international completion and they are in line with exceptions retained by most US states.[21]

In Ontario, the Ministry of Transportation's mandate to build public roads comes from the Public Transportation and Highway Improvement Act (the "Act"). The Act authorizes the Minister to enter into agreements related to the planning, design and construction of highways and bridges. The tendering process for these contracts is subject to a Procurement Directive (the "Directive") that requires the disqualification of vendors if they fail to comply with a mandatory tender requirement. The Directive also provides for a steel policy which gives a price preference of 10% for Canadian steel products identified in vendor proposals.[22]

OPPORTUNITIES PROVIDED BY THE EAST-WEST LINK PROJECT

The East-West Link Stage One project represents a multi-billion dollar opportunity (valued between $6-8 billion) for the local steel industry supply chain to supply a range of product necessary to complete Stage One by 2019. East West Link Stage Two is estimated to cost an additional $8-10 billion and to be completed by 2023.

The East West Link Stage One is being procured as an Availability Public Private Partnership (PPP), with the State initially retaining tolling and traffic risk.

Under the PPP model, the private sector designs, constructs, finances, operates and maintains the road to specified standards in exchange for availability payments over the term of the concession period.

A competitive tender process commenced in late 2013 with a successful project proponent expected to be determined by late 2014.

Three consortia were shortlisted and invited to supply a final proposal (Refer to box below for details on the consortia participants). The original timetable was from mid to late 2014 contracts were expected to be awarded to build the East West Link and the detailed project design completed. Construction is expected to commence in late 2014 running through to 2019 for completion of the East West Link Stage One.[23]

Given the wide discretion allowed for in the project's timetable, there is a risk that the timetable for the announcement of the winning bid and commencement of construction may be in the process of being "fast-tracked" to meet election commitments in November 2014. This is placing the future careful consideration of a complex and long term infrastructure development project behind a political imperative driven by an election timetable aimed at expediting decision making on the project.

Recent government announcements regarding the receipt of final proposals exclude any reference to maximising opportunities for local content participation.[24] The government's announcement also pre-empts on-going consideration by the Linking Melbourne Authority (LMA) which has allowed time in the tender evaluation process to accommodate any recommendations from the independent East West Link Assessment Committee, which recently concluded a 30 day public hearing on the project.[25]

Shortcuts in the tender evaluation process would appear to have taken place in Melbourne Ports Authority consideration of the

19 http://www.ssc-spc.gc.ca/pages/itir-triti/pdf/ITIR_PBAC_TBS_Dec7-eng.pdf
20 Pocketbook on the Canadian Public Procurement regime http://www.blg.com/en/NewsAndPublications/Documents/publication_1799.pdf
21 Canada sub-central government entities and the Agreement on Government Procurement: past and present, David Collins, in The WTO Regime on Government Procurement: Challenges and Reform , WTO 2011, p 194
22 http://www.mcmillan.ca/Files/AnotherWeapon_0510.pdf
23 Planning is also occurring for commencement of Stage Two by late 2015 for completion by 2023.
24 http://www.linkingmelbourne.vic.gov.au/__data/assets/pdf_file/0020/6428/140428_OBrien_Mulder_-_Tender_milestone_for_East_West_Link_reached_media_release.pdf and http://www.linkingmelbourne.vic.gov.au/news-and-resources/latest-news/east-west-link/procurement-milestone-for-east-west-link
25 http://www.linkingmelbourne.vic.gov.au/__data/assets/pdf_file/0020/6428/140428_OBrien_Mulder_-_Tender_milestone_for_East_West_Link_reached_media_release.pdf

Webb Dock Redevelopment which will include predominantly imported steel. It has denied the opportunity for an innovative, regionally based local supplier (Keppel Prince) to benefit from this work when it was positioned to do so.[26] Victorian industry can ill afford such an approach to major procurement opportunities. It would be a pity (hard on the heels of this disappointing Webb Dock outcome) if this pattern was in the process of being repeated in relation to the East West Link Stage One project which has the potential to absorb up to 200,000 tonnes of local steel. (Also refer to commentary below).

THE IMPORTANCE OF INCLUDING VIPP REQUIREMENTS

Aimed at maximizing the opportunity for local suppliers to compete against alternative suppliers offshore the terms of the tender for the project are clear in their expectations regarding the tender process based on cost competitive principles. The project has been declared a strategic major project.

The Victorian Industry Participation Policy (VIPP)[27] is meant to apply to Stage One with respect to local content.[28] The policy will require Short-listed Respondents to submit a VIPP Plan as part of their Proposal.[29]

Short-listed Respondents must have their VIPP Plan certified by the Industry Capability Network (ICN). The VIPP Plan will be assessed as part of evaluation criteria of the Proposal.[30]

Stage One was expected to be a 'Strategic Project' for the purpose of the VIPP[31] (refer to boxes below for a definition and description). Where this is the case, minimum local content targets may be set and a Local Industry Development Plan (LIDP) would be required. A LIDP requires additional detail compared to a standard VIPP Plan and would be developed in consultation with ICN Victoria once Stage One has been registered on the VIPP Management Centre at www.icnvic.org.au/vipp.[32]

The Victorian Government applies the Strategic Project framework to significant projects on a case-by-case basis. Such projects are typically those activities where Victoria has a competitive advantage or where it is of strategic importance to actively maintain these capabilities within the State.

The key differences between a VIPP-applicable project and a Strategic Project are:

- The monetary threshold and complexity of the project.

VIPP PLANS VS. LOCAL INDUSTRY DEVELOPMENT PLANS (LIDP)

- Minimum local content requirements for Strategic Projects
- Requirement to work in good faith with ICN to develop the LIDP for Strategic Projects
- Additional VIPP conditions directly related to the project, such as identifying strategic items for consideration or stipulating minimum weighting requirements for local industry commitments in tender evaluations.

If a project is not deemed to be a Strategic Project then it will revert to the standard VIPP process.

Source, http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/frequently-asked-questions

26 Jobs blow for steel firms at loss of Webb Dock Work, Ben Schneiders, 21 April 2014 http://www.theage.com.au/victoria/jobs-blow-for-steel-firms-at-loss-of-webb-dock-work-20140420-36yxn.html

27 VIPP Objectives

The Victorian Industry Participation Policy Act 2003 (the VIPP Act) sets out the main objectives of the VIPP as follows:

- Promoting employment and business growth by expanding market opportunities for local industry
- Providing contractors with increased access to, and raised awareness of, local industry capability
- Exposing local industry to world's best practice in workplace innovation, e-commerce and use of new technologies and materials
- Developing local industry's international competitiveness and flexibility in responding to changing global markets by giving local industry a fair opportunity to compete against foreign suppliers.

28 It is assumed that VIPP will also apply to Stage Two with respect to local content settings.

29 See http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/about-the-vipp and http://www.icn.org.au/content/victoria/vipp and VIPP Guidelines, http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/guidelines-and-templates

30 In cases where there is a clear choice between local and imported content, the VIPP should play a more important role in tender evaluation. Source: https://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/frequently-asked-questions#faq7

31 East West Link Project: Stage One, Linking Melbourne Authority INVITATION FOR EXPRESSIONS OF INTEREST, 18 July 2013, http://vicmps.greens.org.au/sites/greens.org.au/files/EOI%20document.pdf

32 As above, East West Link Project: Stage One Expressions of Interest, p20

STRATEGIC PROJECTS - WHAT ARE VIPP STRATEGIC PROJECTS?

VIPP Strategic Projects are subjected to additional local content requirements to help drive additional economic activity and jobs.

A project can be declared by the Victorian Government to be a Strategic Project where it exceeds $100 million in capital expenditure or $250 million in whole-of-life cost, and where it meets any or all of the following criteria:

- Contributes to the productive capability of Victoria and make a strategic economic contribution to the State's potential to generate significant local industry participation, employment or skills and training/technology transfer opportunity to build ongoing industry capability, skills and employment benefits contains significant contestable items.

Bidders for projects of state significance will be required to produce Local Industry Development Plans (LIDPs) in consultation with ICN which will be used to assess competing bids. In addition, bidders must meet a minimum local content commitment determined on a case-by-case basis for each Project.

Other conditions which may be imposed include requiring additional information on the procurement plans for key strategic items.

What is a Local Industry Development Plan (LIDP)?

A LIDP is required for VIPP Strategic Projects, to demonstrate how the VIPP requirements will be achieved. A LIDP is a more detailed VIPP Plan reflecting the size and complexity of Strategic Projects.

All shortlisted bidders for Strategic Projects will be required to complete a LIDP instead of the VIPP Plan.

LIDPs are provided by the Department of State Development, Business and Innovation (DSDBI) and tailored to the specific needs of each Strategic Project.

Source: http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/frequently-asked-questions#faq7

SHORTLISTED CONSORTIA TO CONSTRUCT THE EAST WEST LINK

After considering four expressions of interest, a shortlist of three consortia vying to deliver the East West Link have been chosen. Global and Australian construction companies are featured, including some of the world's leading tunnelling firms, as well as every major Australian construction firm.

East West Connect

Members of East West Connect have experience in significant projects both in Australian and overseas, including Legacy Way (Brisbane), Pajares Tunnel (Spain), Peninsula Link (Melbourne) and Port of Miami Tunnel (Miami).

- Capella Capital Pty Ltd as agent for Capella Capital partnership
- Lend Lease Engineering Pty Ltd
- Acciona Infrastructure Australia Pty Ltd
- Bouygues Travaux Publics
- Lend Lease Services Pty Ltd
- Lend Lease Infrastructure Investments Pty Ltd
- Bouygues Construction Australia Pty Ltd

Inner Link Group

Members of the Inner Link Group have been involved in significant local and international projects including 407ETR (Canada), EastLink (Melbourne), Incheon Bridge (South Korea) and Legacy Way (Brisbane).

- Cintra Infraestructuras S.A
- Retail Employees Superannuation Pty Ltd acting as Trustee for Retail Employees Superannuation Trust
- Samsung C&T Corporation
- Ferrovial Agroman (Australia) Pty Ltd
- Ghella Pty Ltd
- Transfield Services (Australia) Pty Ltd
- Macquarie Capital (Australia) Pty Ltd
- Uberior Infrastructure Investments (No.4) Ltd

Momentum Infrastructure

Members of Momentum Infrastructure have worked on significant projects both in Australia and overseas, including EastLink and CityLink (Melbourne), Airport Link (Brisbane), CLEM7 (Brisbane), Lane Cove Tunnel (Sydney), Alaskan Way (Seattle), Madrid M-30 (Spain) and Interstate595 (Florida).

- John Holland Pty Ltd
- Dragados Australia Pty Ltd
- Leighton Contractors Pty Ltd
- Iridium Concesiones de Infraestructuras S.A
- The Bank of Tokyo – Mitsubishi UFJ, Ltd

Source: Linking Melbourne Authority, http://www.linkingmelbourne.vic.gov.au/east-west-link/project-overview/procurement-and-tenders

EXPECTATIONS FOR LOCAL CONTENT IN THE EAST WEST LINK PROJECT

Shortlisted consortia proponents listed above[33] should have been consulting with ICN on the development of LIDPs which will be an integral component of the consideration of their proposals. Attachment 4 refers. Proposals from the shortlisted bidders were received by the Linking Melbourne Authority on 28 April 2014.[34] In this regard, under the strategic projects model, the Government must ensure that local steel is included as a "key strategic item" for the purposes of meeting the minimum local content targets for this project in addition to the weightings assigned to local content to be used in the assessment of bids.

It should be made clear under the LIDP discussions that local steel means primary steel sourced from the mill gate rather than value added content which leaves open the strong possibility of primary steel being sourced offshore.

OneSteel's Laverton Mill produces re-bar and BlueScope's Port Kembla and Hastings Mills produce flat products which are within the specifications for the project. Both these major local steel producers have the capability and capacity to supply all or most of the project's requirements. The project is expected to use between 140,000 to 200,000 tonnes of steel.

The AWU seeks an assurance that the steel content included in the East West Link project stipulates that Australian milled steel will be expected to be included in the tender bids (or as revised) to be counted against local content targets and weightings.

Further, the weighting assigned to local content in the assessment of the East West Link project bids should also include a specific allocation to local steel. The AWU would support a 20 per cent weighting to be applied to local content in the East West Link project including 10 percentage points measured against the inclusion of local steel.

STRATEGIC PROJECTS - IMPLEMENTATION OF THE POLICY REQUIREMENTS

In addition to the East West Link project there are a number of other major projects under the ICN Gateway[35] which will need to be the focus of attention by the Victorian Government aimed at maximising local steel procurement opportunities and considerations as strategic projects. The complete list currently includes:

- New Bendigo Hospital
- Royal Victorian Eye and Ear Hospital Redevelopment Project
- Ravenhall Prison
- East West Link
- Epworth Geelong Hospital

CURRENT PROJECTS

- Ballarat West Employment Zone
- E-Gate
- Federation Square East
- Flinders Street Station Design Competition
- Kew Residential Services Redevelopment
- Melbourne Market Relocation
- Melbourne Park Redevelopment
- Parkville Gardens
- Shrine Galleries of Remembrance
- Princes Pier Restoration
- Victorian Emergency management Training Centre
- East West Link
- Regional Rail Link

Other major project opportunities but which are not covered by Victorian Government procurement rules:

· RAAF Base East Sale Redevelopment
· Christchuch Earthquake Recovery Rebuild

33 http://www.linkingmelbourne.vic.gov.au/east-west-link/project-overview/procurement-and-tenders
34 http://www.linkingmelbourne.vic.gov.au/news-and-resources/latest-news/east-west-link/procurement-milestone-for-east-west-link
35 http://www.icn.org.au/content/victoria/projects-and-opportunities

THE VICTORIAN GOVERNMENT HAS COMMITTED $27 BILLION WORTH OF INFRASTRUCTURE INVESTMENT IN ITS 2014-15 BUDGET ANNOUNCED ON 6 MAY 2015, INCLUDING:

- $24 billion to go to road and rail infrastructure, with about $14 billion specifically allocated to rail projects;
- Melbourne Metro rail, including a rail link to Melbourne Airport, allocated up to $11 billion;
- Up to $2.5 billion towards upgrades to the Cranbourne and Pakenham rail lines, including four level crossing upgrades;
- $685 million allocated to a level crossing removal program;
- $180-220 million to upgrade country rail freight lines in the state's west, including upgrading the Mildura to Maryborough and Murtoa to Hopetoun lines and standardising the Mildura to Geelong rail link;
- In roads, the government promised to build the East West Link's western section, in addition to last year's announcement of funding the eastern section, at an estimated cost of $8-10 billion;
- A further $850 million has been budgeted to build more lanes along the CityLink-Tullamarine corridor and $130 million in additional funding is pegged for road maintenance and restoration, taking the total annual commitment to more than $500 million;
- $362 million was announced for the duplication of 37km of the Princes Highway West between Winchelsea and Colac;
- $11 million for upgrading 3km of Princes Highway East between Nowa Nowa and Orbost;
- $30 million to upgrade the Sands Road interchange;
- Non-road and rail infrastructure projects include the building of new schools worth $500 million and redeveloping the Latrobe Regional Hospital at a cost of $73 million.

Source: 2014-15 Victorian Budget and ConstructionIndustryNews.net

And there are important lessons to be learned from recent procurement decisions for major projects. For example, while a very positive outcome was achieved regarding maximizing local content under the trams tender (ultimately won by Bombardier) undertaken in 2010, (in large part as a consequence of the active and constructive engagement of ICN Victoria and the DSDBI), a very different outcome appears to be unfolding at Webb Dock.

Recent reports point to the reliance on imported steel product for the piling construction of Webb Dock.[36] The project appears to have been exempted from VIPP Strategic Projects requirements (detailed below). The industry is at a loss to understand why the VIPP was overlooked, particularly in view of the size and strategic nature of this procurement project. This is anomalous and contrary to the intentions of the VIPP.

Webb Dock joins other major infrastructure projects such as the Clem 7 tunnel in Brisbane, the Sydney Convention Centre and the Adelaide Superway examples of poor local content outcomes for Australian milled steel which perversely offer a supply channel to market for suppliers offshore.

It is important to note that the SA Government has responded by establishing the Office of the Industry Advocate, headed up by Ian Nightingale. His role is to further the aims of the Industry Participation Policy (equivalent to our VIPP) ensuring local businesses leverage maximum opportunities from the $3.8 billion of contracts let annually by the State Government.[37] The Office has also been charged with remediating the Superway tender.

While major procurement mistakes have occurred in other jurisdictions, as far as Victoria is concerned, it is vital that our own best practice local content requirements which are included under the VIPP Strategic Projects are implemented on each occasion a major project comes to tender.

The AWU is concerned that steel has not been included as a specific strategic item under all of the above strategic projects. The AWU therefore requests that variation of the LIDPs take place where applicable consistent with the Strategic Project requirements outlined below (refer to Step Seven, Attachment 4) in order to maximize local content outcomes for Australian steel, prior to final tender decisions.

If the Victorian Government had omitted to include steel as a strategic item or assigned a minimum local content target and local content weighting to the East West Link Stage One project, there was an opportunity to rectify this under the VIPP LIDP arrangements in consultation with the shortlisted bidders prior to acceptance of final proposals and announcement of the winning bid. However, the AWU is concerned that the government has expedited the bidding process in order to commence construction despite the local content outcomes. This cuts across good governance requirements regarding the VIPP and the strategic projects policy.

36 Jobs blow for steel firms at loss of Webb Dock Work, Ben Schneiders, 21 April 2014 http://www.theage.com.au/victoria/jobs-blow-for-steel-firms-at-loss-of-webb-dock-work-20140420-36yxn.html

37 http://www.dpc.sa.gov.au/office-industry-advocate

THE FUTURE GOVERNANCE FRAMEWORK

Wide disparity in the application of local content requirements under strategic projects implies the need for a more systematic approach to implementation, monitoring and evaluation. For example, while the Royal Children's Hospital was meant to include 90 per cent local steel, the majority of the primary milled steel content originated from China. To add insult to (significant) injury, we believe that this entire product was attributed to local content as it was roll-formed and installed by a local contractor. There was also major non-compliance questions raised in relation to the imported steel product used.

Currently, ICN has responsibility to oversee application of LIDP requirements. And there is an expectation that proponents will work in good faith with ICN.[38] However, this may be insufficient to ensure that appropriate steps have been taken to meet local content requirements. It may be more appropriate therefore to have a dedicated procurement officer assigned to a particular strategic project who is able to focus on implementation issues in cooperation with project proponents and their contractors consistent with obligations included under the LIDP.

The procurement officer / supplier advocate could also act as a clearing house for any issues pertaining to local procurement on behalf of both the project proponents and local suppliers. This would improve the transparency and consistency of the application of local content conditions pertaining to the particular project. The procurement officer would also be the "gate-keeper" to review potential non-conforming products working in conjunction with local product associations.

The procurement officer / supplier advocate would also be expected to assist participants in coordinating both state and federal requirements including applicable AIP Plans.

APPLICATION OF THE WEIGHTING SYSTEM: A WORKING EXAMPLE

The indicative table below illustrates how weighting could work in practice for a steel intensive project. Weights of course may vary apart from the total of 20 percentage points for local content steel combined because the aim is to bolster the value for money assessment in this project in this regard. For example:

WEIGHTS

Cost / price - 45%
No of jobs: - 25%
Fit for purpose - 10%
Local content (excl steel) – 10%
Steel – 10%

For bids A, B and C, shortlisting and selection can be won by a bidder which may not necessarily have the cheapest price but a bigger score against fit for purpose and local content / steel criteria. On the other hand, it also does not imply the most expensive bid wins either…. Bidders B and C would most likely go through to the next round with the aim of reducing Bidder C's price. If not Bidder B wins based on the above as it is cheaper but delivers the same benefits as Bidder C.

East - West Link	Weighting %	Bidder A	Bidder B	Bidder C	Ranking
Price	45	45	40	35	A
Jobs	25	25	25	25	A, B, C
Fit for purpose	10	5	10	10	B, C
Local content (exc steel)	10	5	10	10	B, C
Steel	10	0	10	10	B, C
Score	**100**	**80**	**95**	**90**	**B**

Source: Eureka Economics

38 What is the expectation to work in good faith with ICN?
Working in good faith with ICN means that the bidder for a strategic project takes on ICN's advice regarding local capabilities relevant to their project and collaborates with ICN to identify competitive suppliers that may be engaged in the project. Given Strategic Projects represent a significant opportunity for local industry, there is an expectation that bidders will maximise business opportunities for local industry where they are competitive. ICN pays a critical role in maximising these opportunities by informing bidders of local capabilities and through their extensive knowledge of competitive local firms.
See http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/frequently-asked-questions#faq7

TEN POLICY IMPLICATIONS FOR EAST-WEST LINK (AND FUTURE MAJOR PROJECTS)

- Cabinet (or sub-committee) to nominate local milled steel as a strategic item under the LIDP on the East West Link project, Stages 1 and 2;
- Cabinet (or sub-committee) to nominate a total local content weighting of 20 per cent applied to the formal bid assessment process;
- Cabinet (or sub-committee) allocate a 10 percentage point weighting to local milled steel to the East West Link project (as a share of the 20 per cent local content weighting) as a discrete VIPP Strategic Project assessment requirement;
- Appoint a dedicated procurement officer / industry supplier advocate to the East West Link project to work with ICN/DSDBI. In addition, agree to assess benefits of establishing a dedicated Office of the Industry Advocate to assist in future major projects and to hear any appeals by industry (including transferring responsibility for the VIPP from DSDBI to the Office of the Industry Advocate);
- Following formal Cabinet Committee decision on applicable minimum local content target and weightings applicable for steel and local content, instruct the Industry Supplier Advocate to implement the 20 per cent minimum local content target, including a 10 percentage point weighting to local milled steel in consultation with short-listed consortia;
- Procurement outcomes to be reviewed by the Industry Supplier Advocate (in cooperation with ICN Victoria) and the performance of Industry Supplier Advocate to be assessed by the Auditor General in the annual report to Parliament;
- During the consideration of final proposals, appoint a steel procurement liaison committee comprising industry and union representatives with expertise in project infrastructure delivery (on time and within budget) to work cooperatively with the industry advocate on supply opportunities to inform LIDPs of shortlisted consortia (or their revision in the absence of relevant local content data);
- The steel procurement liaison committee to monitor implementation of local content requirements in consultation with the Industry Supplier Advocate and ICN/DSDBI, consistent with the steps to be followed in implementing Strategic Projects compliance requirements (set out in attachment 4);
- ICN/DSDBI (and future Industry Supplier Advocate) to engage the procurement liaison committee to assess the steel supply opportunities in future major projects in Victoria in cooperation with the industry supplier advocate;
- AWU, ASI and Ai Group to continue to assess progress with improving local content outcomes in major projects, work cooperatively on filling future procurement supply opportunities and argue for retention at the national level of the ICN Steel Sector Manager and the Steel Supplier Advocate as vital to identifying the steel supply chain for the future.

CONCLUSION

Steel output has strategic significance for the Victorian economy. Spending an additional $1 million on locally manufactured steel results in $939,800 in value added and up to $500,000 in tax revenue and avoided welfare payments. Steel is an essential input to infrastructure and defence projects. The higher up the value chain the local steel sector's value added contribution can be captured the more positive the macroeconomic outcomes. The demise of the local automotive manufacturing sector in Victoria has raised the economic importance of the steel sector as a driver of growth and new jobs.

The AWU in consultation with ASI therefore considers that it is essential that steel be nominated as a strategic item for inclusion in the LIDP for the East West Link Stage One project (in addition to other major projects). It would also be appropriate to include a discrete weighting to local milled steel in the assessment of proposals. The AWU considers that a 10 percentage point weighting should be assigned to local milled steel to the East West Link project, incorporating a 20 per cent weighting to local content.

The AWU is keen to ensure that the announced process by the Victorian Government for project consideration is being followed. This includes announcing its intention to declare the East West Link Stage One project a Strategic Project. What are the strategic project requirements? Is the LMA aware of VIPP requirements and insisted that bidders comply?

Have the necessary resources within ICN and DSDBI been allocated to implement the suite of policy requirements pertaining to strategic projects as defined under the VIPP outlined above? This would have enabled engagement with the local steel supply chain such that available supplier opportunities relating to the project were fully considered. Most recent public announcements by the government however point to these requirements being overlooked in order to expedite project commencement prior to the scheduled election in November 2014.

In order to avoid repeating past mistakes including the lack of a VIPP on Webb Dock steel procurement, assurances are therefore required that:

- Local milled steel has been included as a strategic item in East West Link Stage One;
- Minimum local content targets and weights have been assigned to the assessment of LIDPs and which should have been received with the proposals;
- The ICN has worked with the shortlisted bidders to develop the LIDPs to maximize local content including for local steel as a strategic item prior to receipt of proposals;
- Shortcuts have not occurred in the procurement process in order to meet artificial deadlines regarding announcement of the winning bid; and
- In the event that steel has not been adequately included under local content considerations (consistent with recommendations contained in this paper) that assessment of proposals halt and LIDPs be reviewed and resubmitted by bidders prior to further assessment.

Further improvement to local procurement opportunities could be made via the appointment of an Industry Supplier Advocate and steel procurement liaison committee.

Market conditions for steel output although challenging are also improving and world demand for steel will continue to rise along with development. However, in view of the sustained appreciation in the Australian dollar, local demand for steel driven by major infrastructure projects will remain a vital ingredient underwriting local production and fabrication of steel. Demand for local steel is vital in sustaining the long term capabilities including training, jobs and local investment.

This paper has outlined the quality and safety benefits associated with local steel production and fabrication often overlooked by procurement officers in the mistaken pursuit of cheapest supplier options rather than a balanced approach to the consideration of value for money which includes additional factors such as quality and benefits associated with access to a supportive local supply chain and the dividend to Victoria.

The AWU looks forward to maximizing local steel industry participation in East West Link Stages One and Two and other major infrastructure and transport projects. However, necessary steps need to be (and be seen to be) taken by the government to facilitate achievement of these outcomes.

The AWU and industry partners will continue to press for closer integration of the local steel supply chain with all major strategic projects which include significant steel inputs.

ATTACHMENT 1

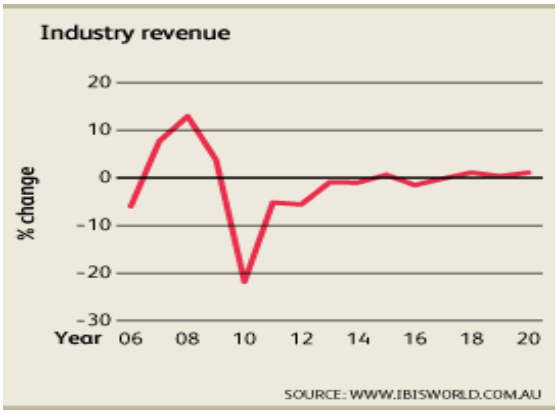
CHARACTERISTICS OF THE IRON SMELTING AND STEEL MANUFACTURING

As part of Australia's steel industry, the Iron Smelting and Steel Manufacturing industry is substantial, generating about 0.1% of Australia's GDP. It employs 25,517 workers in Victoria alone out of 106,144 employees nationally.

However, the industry is currently undergoing a period of structural change. Difficult trading conditions since 2009-10, combined with the closure of one of BlueScope Steel's blast furnaces at Port Kembla, are expected to result in industry revenue falling at an annualised rate of 9.0% over the five years through 2013-14.

REVENUE GROWTH

Year	Revenue $ million	Growth %
2000-01	12,233.6	0.0
2001-02	13,669.3	11.7
2002-03	14,698.9	7.5
2003-04	15,431.4	5.0
2004-05	17,174.4	11.3
2005-06	16,156.4	-5.9
2006-07	17,400.8	7.7
2007-08	19,651.0	12.9
2008-09	20,394.4	3.8
2009-10	15,950.6	-21.8
2010-11	15,123.9	-5.2
2011-12	14,279.4	-5.6
2012-13	13,235.6	-7.3
2013-14	12,700.0	-4.1



Source: IBISWorld.com.au

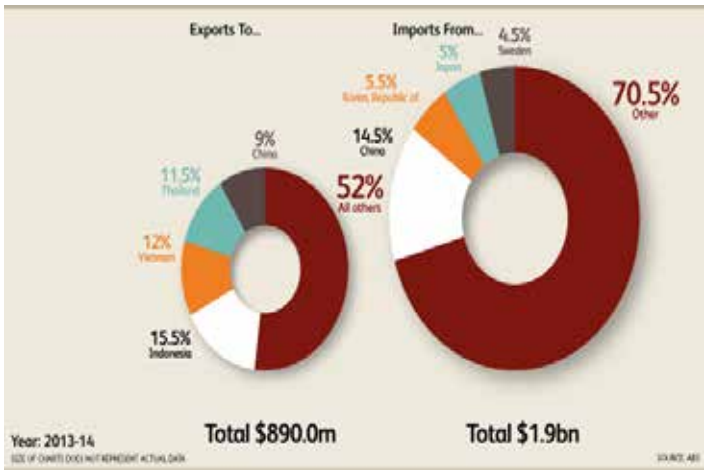
(The AWU together with industry players worked cooperatively and very intensively in 2009-10 to ensure that the industry was able to absorb the worst impacts of the drop-off in demand as a consequence of the GFC while retaining local manufacturing capabilities. This effort assisted recovery in revenues).

However, production volumes in 2013-14, at an estimated 4.5 million tonnes, are just half of what they were one decade earlier. These are now reaching a point of critical mass and cannot be allowed to reduce any further.

Export volumes have fallen along with production. BlueScope Steel closed its blast furnace to exit the export market, where low-cost production from other countries and the strong Australian dollar made sales unprofitable. Even prior to that decision, Australia imported more steel than it exported. Plant closures and moves to improve efficiency in remaining operations have reduced employment to 19,800 in 2013-14. In 2013-14, the industry is expected to generate sales worth $12.7 billion, down 4.0% on the previous year as steel output levels continue to fall.

The products of the Iron Smelting and Steel Manufacturing industry are essentially intermediate products that are used as inputs by an array of differing industries.

The Iron Smelting and Steel Manufacturing industry is not protected by tariffs and does not receive any non-tariff import protection or government subsidies. However, steel producers are able to use Australia's anti-dumping and countervailing system to challenge imports that are either unfairly priced (below the good's price in the country of origin) or have been subsidised by the exporting country's government. Anti-dumping measures take the form of a duty applied to goods that are being dumped in the local market, which raises their price.



INDUSTRY OUTLOOK

Over the next five years, industry performance will continue to depend on steel prices and more importantly local demand. Australia's demand for steel is expected to recover as the economy improves and spending on infrastructure projects continues to grow. Spending on non-dwelling construction, although uneven, is also set to expand, underpinning rising demand for steel. While Australia's demand for steel is forecast to improve over the next five years, falling local production means that growth risks being met increasingly by imports from foreign steel manufacturers. Imports are forecast to grow by an annualised 4.3% to be worth $2.3 billion by 2018-19.

International competition has intensified over the past five years with imports cited by a number of major players as one of the reasons for their recent poor performance. In some instances, imported steel product has been dumped onto the local market For example in July 2013, the Australian Anti-Dumping Commission put into place provisional duties of 9 to 26% on certain exports of steel plate from Korea, China, Indonesia and Japan. BlueScope and OneSteel have filed a number of applications concerning dumping and countervailing subsidisation of imported steel. In 2013-14, imports worth $1.9 billion will satisfy 13.9% of domestic demand. This does not include the high increase in value-added fabricated products produced by steel maker customers.

Competition also occurs with substitute products with material substitution representing one of the biggest challenges for the overall steel industry. Alternative products increasingly being used in place of steel include aluminium, plastic, wood, composites, concrete and even bamboo. For example aluminium is increasingly being used within the automotive industry as it weighs less even though it costs three times as much.

In this climate, growth in industry revenue will be modest, equating to an annualised 1.5% over the five years through 2018-19. Following five consecutive years of contractions, the industry will slowly regain some lost ground, starting with a 0.8% rise in revenue in 2014-15. Despite this, forecast revenue of $13.7 billion in 2018-19 will still only be in line with 2012-13 levels. Industry profit levels will continue to depend on the cost of raw material inputs, volumes dispatched and global prices received. International competition is expected to intensify, taking a toll on industry profit margins.

The industry is expected to continue to invest in more environmentally sustainable production processes as it seeks to emphasise the sustainable nature of steel as an everyday resource. Technological innovations will also focus on the role of steel in the provision of sustainable solutions. Despite this, Australia's overall steel sector will continue its ongoing period of structural change as it adapts to its changing operating environment. While Australia's steel production is expected to fall by 0.9% annualised over the five years through 2018-19, China is expected to grow its production by 3.3% annualised.

REVENUE OUTLOOK

The industry is expected to be fare marginally better over the five years through 2018-19. Over this time, industry revenue is forecast to grow by an annualised 1.5% to reach $13.7 billion. While production levels will continue to drop, it is forecast that some improvement in domestic steel prices will serve to partially offset the fall effect of lower volumes.

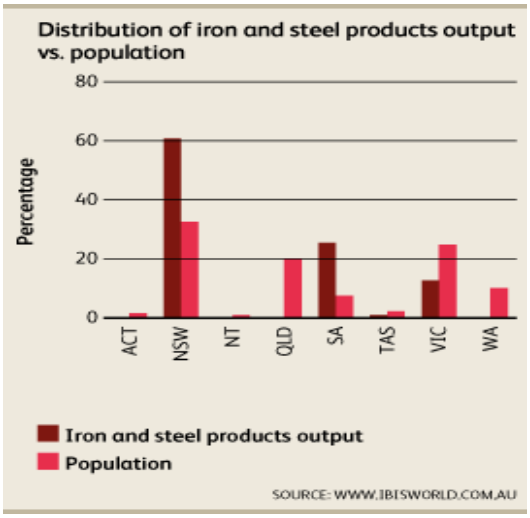
Revenue Outlook

Year	Revenue $ million	Growth %
2014-15	12,800.0	0.8
2015-16	12,500.0	-2.4
2016-17	13,500.0	8.0
2017-18	13,650.0	1.1
2018-19	13,700.0	0.4
2019-20	13,850.0	1.1

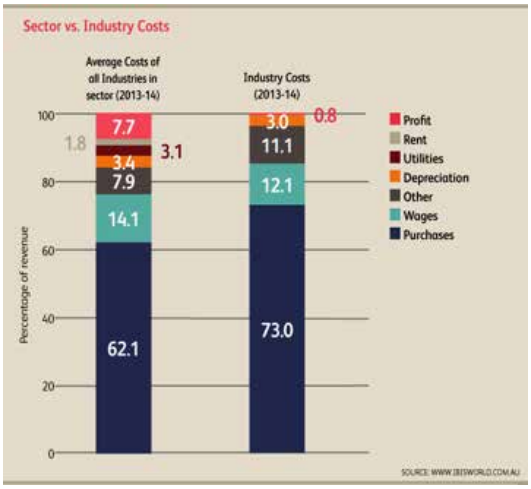
Source: IBISWorld.com.au

ATTACHMENT 2

BUSINESS LOCATIONS

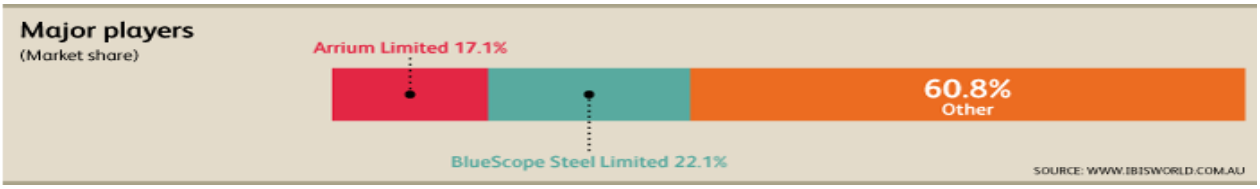


Australia's steel production is based at Port Kembla, NSW and Sydney, Laverton and Westernport Bay, VIC and Whyalla, SA. Steelworks with the exception of Whyalla, tend to reflect the availability of markets rather than access to input materials such as iron ore. The importance of New South Wales was greater prior to the closure of the former BHP steel operation in Newcastle and capacity reductions at Port Kembla.



Ferroalloy production is based in Tasmania rather than in areas close to either steel industry consumers or manganese mines. Its location was determined by the availability of cheap electricity in Tasmania. Until 2011-12, relatively low energy costs in Tasmania more than offset the disadvantage of shipping ore from Groote Eylandt, NT, and then either exporting product or selling it into the steel towns of New South Wales and South Australia. In May 2012, the operator of the ferroalloy plant in Tasmania, BHP Billiton, announced that the plant would begin blending in ores from other sources aimed at cutting costs.

MAJOR COMPANIES



BLUESCOPE STEEL LIMITED MARKET SHARE: 22.1%

BlueScope Steel Ltd specialises in manufacturing flat steel products and has operations in Australia, New Zealand, China and the United States. BlueScope's main Australian facility at Port Kembla, NSW, produces a range of finished and semi-finished flat steel products, both for Australian and international customers. Following the October 2011 closure of a blast furnace at Port Kembla in order to move to single blast furnace operations, capacity was cut from 5.3 million tonnes per year to 2.6 million tonnes. BlueScope's other major facilities are the Western Port steel mill in Victoria and a smaller plant at Springhill, NSW. These two plants produce cold rolled, metal coated and pre-painted steel coils for local and overseas markets. Western Port has a capacity of 1.2 million tonnes per year, while Springhill has a capacity of 0.9 million tonnes per year. BlueScope Steel generated $7.5 billion in revenue in 2012-13 and employed over 17,000 staff.

BlueScope Steel's operations in Australia are divided into two business segments. These business segments are Coated and Industrial Products Australia (CIPA) and Building Components and Distribution Australia (BCDA). The company operates in the Iron Smelting and Steel Manufacturing industry through CIPA. The Port Kembla steelworks and facilities in Western Port and Springhill primarily focus on coated and industrial steel products. Over the past five years, BlueScope Steel acquired a number of smaller firms operating in the industry. It acquired Fielders Australia from Hills Ltd in January 2014 and Pacific Steel from Fletcher Building in February 2014. Fielders Australia is a manufacturer of steel roofing and flooring and Pacific Steel is a New Zealand downstream steel business that produces reinforcing steel.

ARRIUM LIMITED MARKET SHARE: 17.1% BRAND NAMES: ONESTEEL

Arrium Ltd is a publicly listed Australian company, formed in October 2000 as a BHP Billiton spinoff. It is an internationally diversified mining and materials company and is Australia's largest manufacturer and distributor of steels rails, rods, merchant bars, wires, pipes and tubes and structural and reinforcing steel products. The company operates with three main business divisions in mining, mining consumable and steel segments. In 2012-13, Arrium generated $6.2 billion in revenue and employed over 10,000 staff.

Arrium Ltd operates in the industry through its subsidiary OneSteel. OneSteel operates at a number of sites around Australia and produces steel rods, bars, wires, pipes, tubes and structural steel. OneSteel produced 2.5 million tonnes of raw steel in 2012-13, with 650,000 tonnes coming from operations in Whyalla, SA. A large proportion of steel is transferred in billet form to Arrium's manufacturing market mills for further processing. The balance of the steel is converted to finished products in the Whyalla Steelworks rolling mill. These products supply the construction and rail transport industries. The company employed 5,946 staff in 2012-13.

Source: IBISWorld.com.au

ATTACHMENT 3

STATE PROCUREMENT PREFERENCES: INDIVIDUAL STATE LAWS AND REGULATIONS

Legend:

An "X" or a number indicates the application of preferences.

T = Tie bid preference: When two bidders propose the same price for the same contract, the in-state bidder will be favoured. This is not always codified. Kentucky, for example, has an informal tie bid preference.
R = Reciprocity in preferences
% = Amount of preference applied
L = Preference for labour
P = Preference for products
A = Preference for agricultural products (incl. fisheries)
S = Preference for U.S. or State made steel

Summary table of state procurement preferences

States	T	R	%	L	P	A	S	Other
Alabama	X		5	X	X			Award to non-resident bidders if bid is 5% cheaper.
Alaska			X		5	7		5% in-state bidder preference, 15% preference on services, 5% on insurance, 5% on recycled products.
Arizona								Preference for recycled products (5%).
Arkansas			5					
California		X		5	X	X		Small and disadvantaged business preference; preference for economic "target areas" and work to be performed in "enterprise zones" (5%); preference for recycled products.
Colorado	X	X			X	X		Preference for recycled products; in-state firms given preference for services and supply contracts.
Connecticut	X				X			Preference for recycled products.
Delaware				X				Bids may be rejected if disadvantageous to the state.
Florida	X	X		X	X			Preference for minority-owned companies.
Georgia	X	X		X	X	X		Tie bid or reciprocal preference depending. Compost and mulch. No purchasing of non-U.S. beef.
Hawaii		X	X		X			Preference for printing (15%) and software; 3%, 5%, or 10% in-state product preference (by "class"); preference for recycled products and biofuels.
Idaho		X	5	X	X			Preference for recycled paper (5%).
Illinois		X	10	X		X	X	Small business set-asides; preference for recycled products (10%).
Indiana		X	X		X		X	15% preference for U.S. steel (may be increased to 25%); small business set-asides; in-state small business preference (15%).
Iowa		X						
Kansas	X	X						Preference for recycled paper.
Kentucky	X					X		Informal tie bid preferences. Small and small minority business set-asides. Preference for in-state firms.
Louisiana	X	X	7	X	X	X	X	
Maine	X	X		X	X	X		List of preferred items published yearly by the state. Preference for recycled products (10%).
Maryland		X				X	X	Preference for recycled products (5%). Preference for mercury-free products.
Massachusetts	X				X			Preference for buying from "depressed areas".
Michigan	X	X		X	X			Preference for printing.
Minnesota	X	X				X		Preference for small business, "targeted groups" (women, minorities), and disadvantaged areas. Preference for recycled materials (10%).
Mississippi	X	X			X	X		Reciprocal preference for labour. Preference for recovered materials.
Missouri	X	X		X	X	X		Preference for coal, recycled products. General preference for U.S. commodities.
Montana		X		X				Hiring preference for Native Americans when projects are within reservations. Printing preference.
Nebraska		X						Preference for recycled or biodegradable materials.
Nevada		X						Preference for recycled products.
New Hampshire								
New Jersey		X						
New Mexico			5		X	X		Preference for New York businesses (equal procurement access). Preference for recycled products.

New York		X					X	Special treatment for New York businesses.
North Carolina	X	X				X		NB: Reciprocal preference can be waived. General preference for U.S. products.
North Dakota	X	X		X	X			Preference for recycled paper (newsprint).
Ohio	X	X	X	X	X	X	X	Preference for U.S. and Ohio contractors and products. 5% domestic bid preference (with discretion). Preference for recycled products.
Oklahoma		X		X	X			Preference for minority and disadvantaged businesses. Preference for U.S. products (2.5%). Preference for recycled products.
Oregon	X	X		X	X	X		Reciprocal and tie bid preferences. Preference for recycled materials. Printing preference.
Pennsylvania	X	X					X	Preference for U.S. steel and aluminum. Preference for recycled materials.
Rhode Island				X		X	15	Preference for recycled products and low- or non-mercury products. Preference for in-state professionals and products produced by the disabled.
South Carolina	X		7		X	X		Preference for resident design services.
South Dakota	X	X		X	X			Preference for handicapped. Preference for recycled or starch-based materials (10%).
Tennessee	X	X	X		X	X		Domestic meat, coal and natural gas preferences.
Texas	X	X			X	X		Preference for minority businesses, the disabled, and in-state service providers. Preference for recycled and energy efficient products. Preference for U.S. over foreign commodities.
Utah	X	X		X	X	X		Preference for recycled paper.
Vermont	X				X	X		Insurance preference.
Virginia	X	X			X			4% on coal. Preference for recycled products.
Washington		X	X					
West Virginia		X	X					Preferences are from 2.5 to 5%.
Wisconsin	X	X			X			Preference for U.S.-made materials.
Wyoming			5	X	X	X		Added preference on printing contracts of 10%.

Source: http://www.canadainternational.gc.ca/sell2usgov-vendreaugouvusa/opportunities-opportunites/opportunities-debouches.aspx?menu_id=347

ATTACHMENT 4 STEPS TO COMPLY WITH STRATEGIC PROJECTS

STEP ONE – INVITATION TO TENDER ISSUED

1. **Suppliers will be invited to tender for a Strategic Project on the Tenders Vic web portal. The request will indicate:**
- that bidders will need to register their details with ICN through the VIPP Management Centre, at icnvic.org.au/vipp
- the contestable items within the project
- the VIPP requirements for the project
- that shortlisted bidders will need to complete a LIDP (Local Industry Development Plan), which is available by contacting DSDBI at vipp@dbi.vic.gov.au

STEP TWO – BEING SHORTLISTED

2. The LIDP is only required once a firm has been shortlisted. However, bidders may choose to begin their LIDP prior to being shortlisted.
If the Agency is not shortlisting, then the Agency will request a LIDP be prepared at a suitable point prior to appointment.

STEP THREE – PREPARING A LIDP

3. The LIDP is a more detailed version of a VIPP Plan, reflecting the size and complexity of Strategic Projects.

4. Bidders must provide detailed information on:
- expected level of ANZ value-added local content, which is the cost of ANZ goods or service, less the cost of the imported components, which must be above the mandated minimum level
- expected employment levels for new and retained full-time equivalent employment opportunities (jobs) to be created in ANZ as a result of the contract
- expected number of new and retained apprentice/ trainee positions created in ANZ as a result of the contract
- opportunities to increase the training and skills development of the workforce or any technology transfer that will result from:
    - innovation
    - research and development
    - transfer of Intellectual Property
    - transfer of know-how
    - apprenticeship training
- any additional VIPP conditions required for the specific Strategic Project, such as procurement plans for key strategic items
- how the plan will be implemented and expected outcomes achieved.

5. Bidders must contact ICN for assistance to prepare and complete their LIDP.

6. ICN will also assist bidders to identify competitive local SMEs to supply contestable elements of the project.

STEP FOUR – SUBMITTING A LIDP TO ICN

7. A completed LIDP must be submitted to ICN through the VIPP Management Centre.

8. In order to receive ICN certification, the status of a LIDP must be in 'Certification' mode.

9. If a LIDP is submitted after the due date provided by the Agency to ICN, a non-compliant letter will be issued to the bidder.

10. Extensions may be sought under certain circumstances by contacting the tendering Agency as per normal processes, outlining why an extension is required. If approved, the contract manager will adjust the timelines on the VIPP Management Centre as appropriate.
Suppliers to allow time for ICN certification of LIDP

11. ICN will review each LIDP to determine if:
- the shortlisted bidder has provided sufficient information
- the details provided give a reasonable expectation of VIPP outcomes to be achieved and adequate opportunities for local SMEs to supply into the project.

12. ICN will provide a certification letter to respective shortlisted bidders that have provided a satisfactory LIDP.

13. ICN will prepare a LIDP evaluation report and send this to the Agency for its consideration.

STEP FIVE – SUBMIT LIDP TO THE AGENCY FOR EVALUATION

14. Shortlisted bidders will submit their LIDP and ICN certification letters to the Agency's tender evaluation panel.

15. Only shortlisted bidders with an ICN certified LIDP may be considered by the tender evaluation panel when selecting the preferred supplier. The LIDP will be used to assess competing bids.

16. Value for money remains the key criterion in selecting successful bidders, and covers the life of a project. The Victorian Government Purchasing Board (VGPB) describes value for money as:

Value for money denotes, broadly, a balanced benefit measure covering quality levels, performance standards, risk exposure, other policy or special interest measures (e.g. environment impacts), as well as price.

Generally, value for money is assessed on a 'whole of life' or 'total cost of ownership' basis, which includes the transitioning in, contract period and transitioning out phases of a contractual relationship.

It is often used in the sense of the 'long term sustainability of value for money', denoting that the State focuses on choices that ensure value for money outcomes are promoted and protected in successive anticipated contracts.6

STEP SIX – CONTRACT AWARDED

17. The contract manager for the Strategic Project will notify ICN of the successful bidder/s once the contract has been agreed and signed.

18. Commitments under the LIDP must be incorporated into the contract, as a reportable condition. This can be achieved by attaching the final agreed LIPD to the contract.

STEP SEVEN – CONTRACT VARIATION (IF APPLICABLE)

19. All Strategic Projects will have local content targets and VIPP conditions applied through a LIDP. Accordingly, any variation that makes a change to the ability of the project to comply with its VIPP commitments will require a revised LIDP.

20. The need for a revised LIDP will be decided between the Agency, ICN and DSDBI.

21. The contracting Agency will notify the contracted project manager and ICN in writing (hardcopy or electronic) that a revised LIDP is required.

22. If a revised LIDP is required, this must be prepared in collaboration with ICN as per steps three to five.

STEP EIGHT – POST-CONTRACT VERIFICATION

23. The purpose of post-contract verification is to demonstrate the outcomes that have been achieved through the project. The outcomes achieved are compared to those expected in the original LIDP.

24. The post-contract verification process is required for all VIPP-applicable projects once a project has been implemented, including Strategic Projects.

25. Post-contract verification commences upon practical completion of the project, where works have been finished. Further administrative or regulatory processes that may need to be followed prior to the contract being formally seen as complete are not relevant in terms of preparing post-contract verification documentation.

26. Once a project has been completed in practical terms, the successful supplier must submit the following information to the contract manger:
- a completed LIDP monitoring table – similar to the VIPP monitoring table provided at Appendix A, and will largely reflect the information provided in the LIDP
- a statutory declaration – signed by a company Director, Chief Executive or Chief Financial Officer, and must state that the information provided in the LIDP monitoring table is true and correct (Appendix B).

27. The Agency in turn provides the completed monitoring table and signed statutory declaration to ICN for verification. Suppliers may be asked to provide additional explanation as to any discrepancies between the expected outcomes from the agreed LIDP to the outcomes reported in the monitoring table.

28. The information provided in the monitoring table will inform the annual reporting on VIPP outcomes from supplier activities by the Agency.

While post-contract verification is required upon project completion, suppliers may be required to provide the Agency with an annual update that demonstrates that the VIPP Plan is being implemented. The Agency will advise suppliers if this is required.

See VIPP – Supplier Guideline, http://dsdbi.vic.gov.au/our-department/strategies-and-initiatives/victorian-industry-participation-policy/guidelines-and-templates