

PROCUREMENT OF GOVERNMENT INFRASTRUCTURE PROJECTS

Organisation: Illawarra and other Australian Businesses
Name: Mr Ian Waters
Position: On behalf of 68 Businesses
Date Received: 4/03/2016

Partially Confidential

Submission from 68 NSW and Australian Businesses to the NSW Legislative Assembly Inquiry into the procurement of Government Infrastructure Projects.

Introduction:

This submission is centred around **steel** which is a major critical component in many infrastructure projects. It is supported by the 68 Businesses listed in Appendix 6. The steel products referred to in this submission are:

- Sheet piling (Raw material can be manufactured by **BlueScope Steel Port Kembla**, secondary manufacture can be carried out by **other NSW businesses**).
- Armco safety railing (**NSW manufacturers** as above).
- Tunnel lining and duct material made from spiral wound steel strip (**NSW manufacturers** as above).
- Purlins and girts for buildings (**NSW manufacturers** as above).
- Building roof and wall cladding (**NSW manufacturers** as above).
- Steel plate (Plates can be manufactured by **BlueScope Port Kembla**, fabrication can be done by **hundreds of fabricators across regional and metropolitan NSW**).
- Structural tubes and pipes (Hot rolled coil can be manufactured by **BlueScope Port Kembla** and formed into tubes and pipes by Austube Mills at their **Newcastle** or Acacia Ridge plants or by Orrcon (BlueScope subsidiary) at their Brisbane or Adelaide factories
- Concrete reinforcing bar & mesh and merchant bar (Can be manufactured by **Arrium at Rooty Hill NSW** and secondary processing

done by **hundreds of fabricators across NSW**). Also manufactured by Arrium at Laverton North Victoria.

- Steel beams, columns, channels, angles and merchant bar (Raw material can be manufactured by **Arrium at Whyalla S.A.** and fabrication can be done by **hundreds of fabricators across NSW**).
- Quenched and tempered high strength plate – used for components such as bridge girders and construction aids such as overhead cranes (Raw material can be manufactured by **BlueScope Port Kembla** and then quenched and tempered by **Bisalloy at Unanderra** and then fabricated by **hundreds of fabricators across NSW**)

Many of the above products have at least three stages of manufacture – steelmaking, secondary processing such as forming/shaping/welding and then tertiary processing such as painting or galvanising. If the Government sources them from NSW, there is a significant positive benefit through the whole state economy. The share of the final sale price which goes to the actual steelmaker is typically only about 1/3rd - the rest is in the “value adding” processing.

Our Businesses have great concerns that Australia’s steelmakers, secondary processors, fabricators and painters/galvanisers are under significant financial stress and we can see that there is a fantastic opportunity available for the NSW Government to support all of those businesses by specifying Australian steel in their Infrastructure Projects.

We believe that issues of **quality, safety of steel structures, whole of life costs** and **community economic benefits** far outweigh the natural desire for Governments to support taxpayers by buying items for **cheapest first cost**.

This submission mainly relates to item 7 of the inquiry terms of reference (“any other related matter”) but also contains some very important points which relate to items 1, 2, 3, 4 and 6.

Current situation:

Businesses in our group who are intimately involved with fabrication and steelmaking have observed that the NSW Government implementation of large Infrastructure projects involves “handing over” the responsibility of procurement to the tier 1 Contractors. This “handing over” includes every aspect of the procurement including price, delivery, decision on who the supplier is and most importantly – **quality**. Some tier 1 contractors have shares in fabrication shops in China and some are “Partners” with Chinese fabricators. See appendix 1. We have no issue with Contractors engaging whoever they wish – from any country in the world – as partners. This is a normal business decision. We do have an issue though with the NSW Government management of some contractors where the financial need of the contractor to get the cheapest price/support their partner over-rides the need of the NSW taxpayer to have safe structures erected and the need of hundreds of fabricators and the two steelmakers in the State to survive.

We cannot give details publicly but wish to request a private meeting with the full Committee where we will provide full details of information we have.

Proposed activities signalled up by the NSW Government around steel procurement.

Judging from comments made by members of the NSW Government during the Parliamentary debate about procuring 100% Australian steel for Infrastructure projects last year, there is a significant knowledge gap amongst Politicians:

- Of the eight (8) different types of steel products which have their origin at BlueScope Port Kembla (Please refer to the list on pages 1 and 2 of this submission) only **two** are covered in the Government’s considerations.
- There are already at least 4 excellent Australian Standards which cover the production and fabrication of steel (listed on the next page) and yet the NSW Government is waiting for an additional Australian Standard to be written. We have significant examples where steel already procured by the NSW Government does not comply with the **existing** standards.

Civilised world approach to building things from steel.

For any item to be built from steel there are certain criteria that need to be met in order for the designer's intent to be carried out. As a simplistic example, imagine a bridge girder that an Engineer has designed to withstand a stress of 150MPa for example, in the belief that the steel which will be used is safe for 250MPa - and the girder is actually built from defective (perhaps imported) steel which can only withstand 140MPa, the bridge will collapse.

The Engineering approach of knowing the characteristics of the steel to be used, knowing that properly trained tradespeople will be fabricating it, knowing that properly trained people will be erecting it and knowing the loads and how to design it - results in an extremely high probability that the structure will be safe and the taxpayers have value for their money. There is nothing new in this approach, it is more than a century old. In the 1930s Dorman and Long successfully built the Sydney Harbour Bridge because they used this Engineering approach.

We have evidence of many examples where steel fabrication work being carried out by suppliers to the NSW Government has not used this Engineering approach – effectively taking the State's Infrastructure back to more of a “third world” approach.

In order to help steel designers and builders and users achieve their twin objectives of safe, cost effective structures there are several relevant Australian Standards which provide guidance:

- AS/NZS 3679.1 is an excellent standard which defines the **raw steel** beams/columns/channels etc. People amongst our group can provide evidence of this Standard being breached by the NSW Government in Infrastructure projects.
- AS 1554 is an excellent standard which defines **welding** of steel structures. People amongst our group can provide positive direction so that the committee can confirm that steel sourced for the NSW Government did not comply with this standard.

- AS 4100 is an excellent standard which covers **design and fabrication** of steel structures. Same comment as above.
- The Work Health and Safety Act 2011 has requirements that “A public authority” and “a person conducting a business or undertaking” must provide a safe workplace as well as other requirements. People from our group can provide evidence where the NSW Government has breached this act with some of their Infrastructure projects – because of non-complying imported steel.

Our intent is not to be critical or negative about the NSW Government – we have no political agenda and are 100% bipartisan – our intent is to assist the NSW Government to develop a more enlightened policy as per **suggestion 1** at the end of this submission.

Secrecy agreements:

We can provide the NSW Government with an example where a secrecy agreement, struck by a supplier to the Government, caused information about non-complying steel on one of their Infrastructure projects to be suppressed from the public. This type of information is in the public interest and suppressing it with a secrecy agreement is working directly against the taxpayers who paid for the work. We recommend **suggestion 2** at the end of this submission to the Government.

Community feeling:

Some members of our group ran a petition asking the NSW Government to specify 100% Australian steel in their Infrastructure projects. 15,300 people from all over NSW, Victoria, Queensland, South Australia and Western Australia signed the petition. Businesses all around the Illawarra actually ran the petition from their counters, encouraging people to sign it. Should the NSW Government choose to ignore suggestion 1 at the end of this submission, the public will surely form an opinion that an **economic concept** (economic

rationalism/free trade) is more important to the Government than the peoples' actual **personal future**. Conversely there is a great likelihood that if the Government was to go with suggestion 1, it would be viewed in a positive way by all demographics – as the Victorian Liberal and Labor Governments decisions have achieved with their 98% and 100% Australian steel policies and as the WA. Liberal Government's decision to build the Perth football stadium from Australian steel was.

Some NSW Politicians' incorrect view that any 100% Australian steel procurement policy will allow BlueScope to take advantage of the NSW Government.

It has been stated publicly several times and in meetings by senior representatives of the NSW Government that a 100% Australian steel procurement policy would lead to BlueScope Steel treating the NSW Government as a “captive soft customer” and increasing prices to take advantage of them.

With all due respect, these comments indicate a total lack of understanding of the Australian steel industry and market forces.

- **Reason1:** The NSW Government is never going to be the largest single customer of BlueScope Steel. At best, with all NSW Infrastructure projects using Australian steel, BlueScope's volume of a given product being purchased by the Government would never exceed say 20 or 30% of their production. BlueScope are in the wider market competing against imports, therefore their prices have to be competitive with those imports because of the 70 or 80% of sales to the non-Government market.
- **Reason 2:** In 5 minutes, anyone with a telephone can find out BlueScope's list price for a given product. This could easily be compared to what the Government is paying and is an instant, simple, transparent method to confirm that excessive prices are not being charged.

- **Reason 3:** Sales would not normally be direct from BlueScope to the Government. They are normally made through a steel merchant. Unless it is a massive single order, BlueScope would not necessarily even know if some of their product is going to the Government.
- **Reason 4:** Careful study of the diverse companies listed on page 1 and 2 of this submission shows that in fact many other businesses **value-add** BlueScope's products in virtually every case and their selling price will be typically approximately 3 times the BlueScope sales price. They would be the entity who would have direct contact with government representatives – not BlueScope. NSW fabricators all compete with each other so the Government would receive competitive pricing.

Important “compare and contrast” exercise with another manufacturing Industry and activities in Victoria:

The NSW Government has mandated an ethanol content in petrol sold across the state. There is a recent commitment from the NSW Government to enforce that mandate. Conversely, some NSW Politicians have told members of our group “The Government is unable to specify 100% Australian steel in Infrastructure projects”. This statement is a little difficult to believe - firstly in light of what the NSW Government has done for one NSW ethanol producer and secondly in light of actions taken by the previous Victorian Liberal Government – 98% Australian Steel to be used on East West link project (see Michael O’Brien MP press release 1/10/14 in appendix 2) and the Victorian Labor Government’s current project which is using 100% Australian steel on their level crossings (See extract from Victorian Labor website 20/11/14 in appendix 3). (Repeated on their website 21/8/15)

To summarise the Ethanol mandate (which our group are in no way critical of or negative about)– it benefits just one NSW company directly, it benefits several hundred workers in that one company, it also benefits some wheat farmers and associated suppliers, its implementation costs service station owners around the State, its implementation costs motorists around the State

and a positive feature of the mandate is that it gives NSW some fuel self-sufficiency by “home growing” a small percentage of the fuel used in the State. In other words, there is a **small positive strategic impact**.

Contrast this with the scenario if the NSW Government was to use 100% Australian steel in their Infrastructure projects: It would benefit literally hundreds of NSW companies – see the full list of large and small companies from one end of the State to the other on page 1 of this submission and keep in mind the hundreds of fabricators and painters, it would benefit literally thousands of workers (rural, regional and metropolitan), it would help support a steelworks that puts \$2.5 billion into the economy every year and would have an **enormous strategic impact** by maintaining a healthy steel Industry in NSW.

Importance of Steel industry to the Illawarra and NSW.

In making procurement decisions just based on cheapest first cost, the NSW Government has been ignoring two key parameters – the first of course is quality (safety) and the second is the wonderful opportunity to provide economic benefit across NSW to our steel industry. The main players in the Industry – BlueScope and Arrium – are a key component of the State’s manufacturing industry and provide much more than just economic benefit. BlueScope’s contribution to the State’s education through the University of Wollongong for example is nothing short of fantastic. Their Community activities contribute way beyond other Australian Companies and are much more than the NSW people would have a right to expect.

Of course the industry is about a lot more than just the big players and that is an issue that we request the NSW Government focus on. There are two groups to consider:

The first is every single service station, hardware shop, take-away food shop, newsagent, real estate agent, car dealer, school, restaurant, sign-writer, machine shop, fabricator, hotel, maintenance organisation, club, coal mine, transport company, engineering supplier and supermarket in the Illawarra who mostly have massive dependence on the survival of the steelworks. If the

steelworks was to close, many of those businesses would close within weeks. BlueScope Port Kembla has 2,769 businesses who supply them direct. We ask the NSW Government to **respect** those businesses as well as every other Illawarra business.

The second group are all the other businesses around NSW who are involved in downstream processing of steel. We believe that the NSW Government underestimates how many of these businesses there are – and how many people they employ. There are fabricators, roll formers, galvanisers, painters, heat treaters, transport companies all over NSW whom we ask that the NSW Government treat with **respect**.

Australian Governments have available to them the “Remplan” software which can run models showing the economic effects of changes in the economy. We have organised the running of two Economic impact assessments for the information of the NSW Government. They are contained in Appendix, 4 and 5.

The first of those analyses the effect of the Port Kembla Steelworks closing, with BlueScope importing hot rolled coil for their Lysaghts operation instead of making it themselves. We have been advised by some of the best Sharemarket analysts in Australia that this is a possible option and that simple changes in parameters such as the value of the Australian dollar or a reduction in the Asian HRC. price or significant dumping efforts by overseas suppliers could result in a situation where it would make more sense to BlueScope shareholders to import rather than make. Loss of volume of hot rolled coil caused by the demise of Australia’s car manufacturing Industry is also a looming factor.

This impact assessment shows the loss of over **5,000 jobs** and a **\$2,571,542,000 annual hit** to the Illawarra economy if steelmaking ceases.(Note that the assessment does not include the small increase in cost for Governments purchasing Australian steel).

The second analysis looks at the positive view which is the scenario where the NSW and Federal Governments specify 100% Australian steel for all of their Infrastructure projects. The resultant supply of an additional 389,000 Tonnes of steel annually to the Governments would result in an extra **1307 jobs** in the region and an improvement of output in the Illawarra economy of

\$663,529,000 per year. Of course this analysis does not include the beneficial effect on the rest of the State. That effect would be large because of bigger employers like Arrium Rooty Hill, Austube Mills at Newcastle as well as literally hundreds of smaller fabricators who would all benefit from such a policy.

Temporary or “construction” steel on Infrastructure projects.

People in our group have witnessed examples where an Infrastructure provider uses the very cheapest possible Chinese Steel for temporary formwork and other key items for use during construction on the project. Overhead cranes have been imported from China with no manufacturer’s name on them for these projects. In first world countries around the world, overhead cranes always have the makers’ name on them because they are proud of their product and are happy to be accountable for it. Please see **suggestion 3** at the end of this submission.

International background.

The Chinese Government has stated repeatedly that they have every right to dominate any international steel market. Many of their steelworks are State owned, are on free land, exist to employ people rather than run at a profit and have subsidies for export. Whether the actions of the Chinese Government and Steelmakers are deliberate or accidental in flooding the world with dumped steel (much of it low quality) is immaterial. The important thing is the result – which is that they now manufacture half the world’s steel and that their actions are quickly sending free market steelmakers around the world out of business.

There is a prevalent feeling in the NSW community that Governments and others who import Chinese steel (particularly non-complying steel) are more on side with the Chinese Government than they are with their own constituents.

Suggestion 1: The NSW Government to use 100% Australian steel, fabricated in Australia, for all of their Infrastructure Projects. (Where possible!). The safety, quality, whole of life costs and economic & social justifications are very strong.

Suggestion 2: Ban the use of secrecy agreements on NSW Infrastructure projects. These agreements are counter-productive to democracy and can result in dangerous and inferior outcomes.

Suggestion 3: Use 100% Australian steel, fabricated in Australia, for all temporary structures, construction aids and overhead cranes for all NSW Government Infrastructure projects. (where possible).

Appendix 6: List of NSW and Australian Companies who support this submission.

(The organisers of this submission would like to apologise to the thousands of other NSW companies who would no doubt have enthusiastically supported it had we asked you. Our time was very limited and unfortunately we don't have any highly developed media management skills. We suggest that you could send a copy of this submission to your local Member and ask them to support their constituents).

This Submission is supported by the following Companies:

- K&R Fabrications.
- Allfab Constructions.
- KJ Scaffolding.
- Illawarra Wire ropes.
- Allmen Industrial Services.
- WGC Cranes.
- D&D Employment Services.
- Carmine Industries.
- Mainteck Services.
- Traffic logistics.
- CMA Engineering.
- Cram Fluid Power.
- Coastwide Fabrication and Erection.
- Thurgate Electrical Services.
- Leussink Engineering.
- Cambewarra Engineering.
- Total Tools Albion Park Rail.
- Total Tools Fairy Meadow.
- Wollongong Cranes Dry Hire.
- Weldkam.
- Illawarra Fasteners.
- Affective Services.
- T.B.C. Distribution.
- Bratan Engineering.
- Klondu Group.

- Fenner Dunlop.
- Figtree Auto Electrics.
- “Try Our Buns”, Unanderra.
- Southern Steel.
- Highlube.
- R.E McMahon Pty Ltd.
- Camray Air.
- Jardine Motors.
- 3H engineering Pty Ltd
- Align It Up Pty Ltd
- Evermil Pty Ltd
- All source Aluminium Supplies Pty Ltd
- Rodel Corporation Pty Ltd
- Illawarra Electrical Design Pty Ltd
- Eva-Ready Fabrications Pty Ltd
- Active Security Operations Pty Ltd
- Bartercard South Coast & Highlands Pty Ltd
- Nupress Group Pty Ltd
- Pipe Tube & Fittings Pty Ltd
- Arrow Electrical services.
- Valveman Pty Ltd.
- Alamo Powder Coaters.
- Aquarius Surveys.
- Associated Gaskets Revesby and Wollongong.
- Total Tools Kewdale (Perth)
- Total Tools Albury.
- Total Tools Fyshwick.(ACT)
- Total Tools Gippsland Lakes Jetties (Vic).
- Total Tools Granville.
- Total Tools Moorebank.
- Total Tools Taren Point.
- Total Tools Warners Bay.
- Total Tools Penrith.
- Total Tools Gregory Hills

- Illawarra Industrial Supplies.
- Montague Smash repairs
- S&L Steel, Glendenning.
- B&E Gas supplies.
- Verdon Brothers.
- PremiAir Hire, Port Kembla branch and all 11 other branches in South Australia, Qld, Victoria and NSW.
- C&C Industries.
- Macks Rubber
- TWE Pty Ltd