

**Submission on
Strengthening Victoria's Local Jobs First Act 2003
– Consultation Paper feedback**

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The Australian Steel Institute (**ASI**) is pleased to make a submission on Strengthening Victoria's Local Jobs First Act 2003 – Consultation Paper.

Introduction

The ASI is the nation's peak body representing the entire steel supply chain, from the primary producers through to end users in building and construction, resources, heavy engineering and manufacturing sectors.

Its membership base includes approximately 6,000 individuals that are associated with more than 500 corporate memberships and over 350 individual memberships.

A not-for-profit member based organisation, the ASI's activities extend to, and promote, advocacy and support, steel excellence, standards and compliance, training, events and publications. The ASI provides marketing and technical leadership to promote Australian-made steel as the preferred material to the resources, construction, and manufacturing industries, as well as policy advocacy to government.

The Australian Steel Industry

The Australian steel industry consists of four primary steel producers, supported by over 300 steel distribution and processing sites throughout the country and hundreds of manufacturing, fabrication and engineering companies.

Australia's primary steel producers and steel product manufacturers together form a strategically important value chain that has the capability to supply in excess of 90 per cent of the steel grades and qualities required in this country. If special categories such as very large diameter pipe, stainless steel, electrical steel, and tinplate are excluded, then the capability is significantly closer to 100 per cent.

Australia produces around 6 million tonnes of steel per annum across five major manufacturing locations, with approximately 74 percent produced via the more emissions-intensive method in the blast furnace - basic oxygen furnace (BF/BOF) and the remainder produced via the electric arc furnace (EAF) method.

It is important to note the economic and social contribution of the Australian steel industry. It employs over 110,000 people and generates \$29 billion in annual revenue, and is associated with a disproportionately large share of skilled jobs in regional and rural areas.

Australia has world leading manufacturing capability in many areas of steel product application. Some examples include wear resistant and ballistic plate steels for mining and defence applications, grinding media for mineral processing, strata control products for underground mining, wire rope for open cut mining, wheels, rail, and sleepers for both mainline and heavy haul railway applications, strapping for load

restraint, engineered bar and resultant products such as automotive springs and specialty fasteners, high pressure gas storage tanks, racking and shelving for automated warehouse solutions, highly durable coated steel water pipe for infrastructure, and a myriad of specialised components for building, construction and defence industry applications.

Similarly, the steel fabrication sector is well served by a wide range of domestic businesses, located in all regions of the country, each with an area of unique capability or specialisation. Steel fabrication is essential for manufacturing of bespoke construction products such as foundations, piling, columns, beams, girders, gantries, platforms, and towers. Areas of specialisation include wind turbine towers, transmission towers, storage tanks, chemical processing plant, boilers and pressure vessels, mining infrastructure refurbishment, mobile equipment for underground and surface mining, mobile cranes, bridges, armoured vehicles for Defence, naval and domestic ship building, rolling stock, truck bodies and trailer chassis. In those applications where demand is relatively consistent from year to year, local fabricators have invested heavily in state-of-the-art manufacturing technology and fully integrated design software that incorporates visualisation and 3D simulation capability.

Supporting the local steel industry

Steel is fundamental to a modern society. Steel is the backbone of Australia's construction, infrastructure and manufacturing sectors and therefore can impact Victoria's economic growth. It is a vital and sustainable source of innovation, employment and capability in our cities and our regional communities.

It is used in the buildings in which we work, live and play and the transport infrastructure we use. Steel is also a vital component in the energy generation and transmission industries, in the extraction of minerals, oil and gas and in manufacturing and agriculture.

The steel industry is also a key enabler for Victoria's Renewable Energy Targets (VRET) initiatives.

The steel industry has diversified supply chains from smaller, family-owned businesses through to large national, multinational companies and feeds into construction, manufacturing, mining, defence, and a wide range of high-value uses and in doing so supports thousands of jobs and contributes significantly to Victoria's economy.

The Australian steel supply chain starts from the Australian steel producers/mills to the steel distributors and manufacturers, fabricators and detailers, builders and constructors.

Victoria has a requirement under the Local Jobs First Act 2003 that a responsible minister set local content and other requirements for identified strategic projects. Unless an exemption is granted, the responsible minister must set these requirements at no less than 90 per cent for a construction project, or 80 per cent for a services or maintenance project related to a strategic project.

Recommendations:

To strengthen Victoria's Local Jobs First Act 2003, a weighting should be applied in favour of procurements providing local benefits to the areas in which relevant infrastructure is being constructed. Legislation should permit the declaration of project of strategic importance, which may specify (amongst other things) a local content requirement for locally/Australian milled steel and also locally fabricated/processed steel. This should be continued in-line with the Local Steel – Policy Enhancements under Victoria's Local Jobs First Policy.

So as to facilitate investment decisions and limit skills and material constraints, the Office of the Local Jobs First Commissioner should establish clearly identified pipelines of infrastructure to be developed in Victoria and actively engage the local steel industry with Project Proponents and other key stakeholders to ensure clear visibility of steel requirements for Infrastructure projects and timelines to ensure delivery on these projects.

Proposed reform: Enforcing individual commitments in LIDPs

A Local Industry Development Plan (LIDP) is a document prepared by the supplier as part of the Expression of Interest, Request for Tender and/or tender submission for a Local Jobs First project. The LIDP details the supplier's commitment to address the Local Jobs First requirements and details the expected local content and job outcomes.

This is similar to the federal government's requirements for an Australian Industry Participation (AIP) Plan for infrastructure projects that is funded in some way by the Australian Federal Government, including financing arrangements, for example, via the Australian Government's Clean Energy Finance Corporation (CEFC).

Whilst the AIP plans for Federally funded projects are publicly available, the LIDP's for Victorian Government strategic infrastructure projects are not publicly available and deemed "*Commercial in Confidence*" and therefore only visible to the Victorian Government and its Agencies, including ICN Victoria.

Recommendations:

The LIDP's should be made more readily available to increase early visibility of the local content requirements in terms of specific goods and services quantities and timing, including steel, for each project to allow local suppliers greater opportunities to supply & deliver to the projects.

A formal procedure should be in place and followed to allow Project proponents to apply for dispensation from local content supply requirements due to unavailability of goods and services from local (Victorian/Australian) suppliers due to product specifications not available locally or unable to be delivered at the required and realistic lead times. This process must include current (not out-dated) written documentation / letters from local suppliers confirming inability to supply locally to the project before local content dispensation is reviewed by ICN Victoria and granted by the Victorian government (DJSIR).

For all local content requirements which do not have dispensation granted by DJSIR, the Local Jobs First Commissioner should be able to monitor and investigate compliance with potential penalties to enforce individual commitments in LIDP's,

Proposed reform: Commissioner investigation and reporting powers

Compliance with a supplier's LIDP is currently managed through contractual arrangements between the lead contractor (supplier) and the procuring agency (agency). As part of this process, agencies monitor contracted local content and job commitments and work directly with lead contractors to ensure that requirements and commitments are on track and being achieved.

The Act provides the Commissioner with compliance powers to monitor and review supplier and agency compliance with the policy and related commitments and obligations, and to recommend enforcement action to the minister responsible for Local Jobs First or the contracting agency.

Recommendations:

Whilst it is up to the procuring Government Agency to ensure that the lead contractor follows the contracted local content commitments, the same must apply to any sub-contractors along the supply chain and therefore, the lead contractor should be made ultimately responsible and accountable for local commitments along the supply chain.

In addition to compliance powers to monitor and review supplier and agency compliance with the policy and related commitments, this should be conducted at regular monthly/quarterly intervals via site inspections and thoroughly investigate and report on specific non-compliance occurrences via the Office of the Local Jobs First Commissioner.

Proposed reform: Consequences for non-compliance with LIDPs and the Act

The Local Jobs First model clauses make compliance with the Act and LIDP commitments a contractual requirement for suppliers. Enforcement activities are currently managed primarily by agencies, who are responsible for determining the contractual consequences if LIDP commitments are not met, which may include financial and/or other disincentives.

Under the Act, currently the Commissioner may, in circumstances of non-compliance, recommend actions for the minister responsible for Local Jobs First and/or for the contracting agency to take.

Recommendations:

Adherence to the LIDP's by Project Proponents should be monitored/audited at regular Quarterly intervals by the respective Government Agencies overseeing the project in liaison with DJSIR and/or Office of the Local Jobs First Commissioner with financial penalties being issued by the Office of the Local Jobs First Commissioner for any infringement / deviations from the LIDP and dispensation procedure.

The Local Jobs First Commissioner should be given additional powers to enforce action such as imposing fines / penalties including final contract payments being conditional on fulfilment of local content commitments or contract termination should local content requirements are not being adhered.

Suppliers not adhering to local content requirements should be deprioritised as potential suppliers for future government tenders.

The steel industry in the renewable energy transition

The steel industry is a key enabler for the Nation's renewable energy transition and associated legislated climate targets. Between now and 2030 it is estimated that at least 400,000 tonnes of fabricated steelwork will be required per annum to service over 23 GW of existing renewable energy generation projects across wind, solar, water and transmission infrastructure, as illustrated in this table:

Wind:

- It is estimated that each 1 MW generated by an onshore wind tower requires 124 tonnes of steel.
- Offshore wind increases generation scale and steel consumption further. Each 1 MW generated by an offshore wind tower requires 190 tonnes of steel.

Solar:

- The steel components include a foundation pile (normally a hot rolled channel or column), torque tube (octagonal, square or tubular hollow section), frames or Rails for PV panels and Brackets.
- Typically, about 45 tonnes of steel are required for each 1 MW of solar energy generated.

Water:

- Hydro projects require large diameter steel liner pipes, penstock, related fabrications, tunnel reinforcement, and foundations.
- It is estimated that each 1 MW of hydro power will require 161 tonnes of steel.

Transmission:

- Each 1000 kms of transmission line typically requires 2500 towers at 30 tonnes per tower.

Australia currently has limited local capability and has missed out on substantial economic value in recent years with renewable projects highly reliant on established overseas supply chains.

Some incremental local investments have recently been initiated but without further investment and government support this trend to predominantly overseas supply is set to continue.

The fabricated steelwork required for the renewable energy transition includes a mixture of components that are readily available in Australia and those that haven't been sourced locally for many years. The sheer scale of the demand and the extended timeframe over which it is required mean that Victoria's Renewable Energy Targets (VRET) initiatives provide a unique opportunity to develop advanced manufacturing capability in several areas of strategic importance for future energy security. These opportunities include but are not limited to:

- Onshore wind tower fabrication;
- Offshore wind tower fabrication;
- Production of large diameter tube suitable for manufacturing of torque tubes for solar cell tracking and support frame structures;
- High voltage transmission tower fabrication.

The local Australian steel producers, steel product manufacturers and fabricators have the crude steel supply and underpinning production capabilities to make these products, but largely lack the specialised large scale automated capacity that is typically required to produce cost efficiently. This capacity can readily be created in a relatively short time via targeted investment in dedicated plant and equipment. The key to driving the required capital investment is the existence of firm local participation targets for supply of renewable energy infrastructure, which are set at a level sufficiently high enough to ensure manufacturing economies of scale are achieved.

Recommendations:

Firm local participation targets for supply of renewable energy infrastructure be established in Victoria, such that it drives capital investment, with the support of the Victorian Government, in optimally scaled state-of-the-art manufacturing capability for local supply of renewable energy infrastructure.

Under the instruction of the Local Jobs First Commissioner, the procuring Government Agency, in this case DEECA for renewable energy infrastructure, must ensure that the lead contractor follows the contracted local content commitments, and the same must apply to any sub-contractors along the supply chain and therefore, the lead contractor should be made ultimately responsible and accountable for local commitments along the supply chain.

Sustainability accreditation

The built environment represents a significant opportunity to reduce the state's carbon emissions more broadly and support the ongoing transition to a net-zero emissions future.

As steel is recognised as a sustainable material, there was a need to establish mechanisms for companies to determine what a sustainable steelwork supplier is and how to identify one.

Superseding ASI's Environmental Sustainability Charter (ESC), the Steel Sustainability Australia (SSA) Certification Program was established by the ASI to identify sustainable steel suppliers by assessing the environmental and social impact of their steelwork manufacturing and processing operations. The SSA program engages the entire steel value chain by certifying downstream steel fabricators, roll formers, and reinforcing processors and verifying upstream steel producers against best practice environmental, social and governance (ESG) indicators.

The accreditation is designed to be used by regulators, building and construction proponents, specifiers and procurers including government agencies, and environmental rating agencies and bodies such as the Green Building Council of Australia to determine sustainable steel suppliers and products, and to support sustainability targets such as reductions in embodied carbon. SSA certification assures steel suppliers, and their products are sustainably manufactured and processed and are sourced through responsible and ethical supply chains.

Accordingly, it is recommended that government procurement policies should make it a mandatory requirement for procurers to adhere to the ASI Sustainability Specification for Steel: <https://www.steelsustainability.com.au/resources/specification/> and source finished steel products from businesses accredited under the SSA program

Recommendations:

All structural steel and fabricated or processed steel products should be sourced from businesses certified under the SSA Certification Program.

Victoria's Department of Jobs, Skills, Industry and Regions (DJSIR) should provide some grants / funding to encourage and support the Victorian structural steel fabricators to undertake their SSA Certification Program, if not already as further enhancement to the local steel enhancement policy under the Local Jobs First Policy.

Ensuring quality compliance to mitigate risk

As the Australasian Procurement and Construction Council says in its document Procurement of Construction Products: A Guide to Achieving Compliance (2015):

Evidence suggests that the market penetration of non-conforming products in several key construction product sectors in Australia may be up to 50 per cent. This is a sobering and alarming statistic.

Observable defects such as substandard welding that needed to be ground out and replaced, laminations in plate that could cause catastrophic failure, substandard corrosion protection affecting the life of an asset and generally poor workmanship were found unfortunately to be commonplace on imported structural steelwork.

There also is a price depressing effect from these imports that affects a sector of local fabricators that are forced to chase price at the expense of maintaining their quality systems and procedures.

The knock-on effect is that currently many fabricators and steelwork manufacturing SMEs are unable to maintain a reasonable profit that would allow them to reinvest in their businesses, such as new technology like robotic automation.

Testing by the steel industry has also identified metallic coated and pre-painted steels that do not meet Australian Standards and regulations. Examples include substandard metallic coating and paint thicknesses and non-conforming levels of lead in paint.

The non-compliances are not limited to poor quality and bad workmanship but extend to deliberate fraudulent behaviour with examples such as falsified test certificates, welds made with silicone rubber and then painted, attachment of bolt heads with silicon rather than a through bolt and water filled tube to compensate for underweight steelwork with fraudulent claims that their products meet particular Australian Standards.

This issue of non-compliant substitutions concerns building surveyors or inspectors who do not have the engineering expertise, knowledge, or often the opportunity to identify steel defects, or check whether the steel supplied is compliant.

Builders and project managers may take on the responsibility of site inspection but often do not have the skills or knowledge to understand compliance at a material or fabrication level.

Moreover, for structural steelwork there is currently no reliable system for surveillance of imported building products apart from product failure. However, if defects with major structural steel items are discovered, the prime contractor often has no alternative to meet the time constraints but to accept faulty product or try to patch repair any defects.

The implementation of a system that requires the supplier and all stakeholders in the construction chain to ensure that the products that they are selling are certified to comply with relevant standards and fit-for-purpose responsibilities within their scope will be good for Australia.

In 2014, the ASI implemented a National Structural Steelwork Compliance scheme that requires steelwork fabricators to elect to be audited for compliance capability. It is not mandatory and relies on contractor engagement and good purchasing practice for its success.

VIC Roads / VIC Department of Transport and Planning has made recent changes to their Standard Specification 630 Fabrication of Steelwork which now includes a deadline for mandatory requirements relating to prequalification in which:

As of the 1 January 2024, the Fabricator shall be certified as conforming to Construction Category CC2, CC3 or CC4 of AS/NZS 5131, as applicable to the works or to parts of the works. The certification of Construction Category applies to those Sections of AS/NZS 5131 that are applicable to the work carried out by the Fabricator.

Recommendations:

The above-mentioned Quality Requirements which is being introduced to Projects under the VIC Dept of Transport and Planning should be applied for ALL VIC Government Projects and be enforced as a pre-qualification requirement:

- (a) All structural steel products should be sourced from mills with Australasian Certification Authority for Reinforcing and Structural Steel (ACRS) or comparable independent third-party certification;**
- (b) All fabricated steelwork products should be obtained from suppliers certified by Steelwork Compliance Australia (SCA) third-party certification; and**
- (c) Steelwork meeting Australian Standard AS/NZS 5131 should be used by all Government Agencies when entering into contracts for the construction of all forms of building.**

The VIC Government should also establish statutory mechanisms to permit the reporting by the Office of the Local Jobs First Commissioner of the use of non-compliant product in the construction of VIC Government funded infrastructure projects with enforceable penalties.



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