



AUSTRALIAN STEEL INSTITUTE

# Maximising the opportunities for the Steel industry from Major Projects – a policy prescription for the future.

---



August, 2011

## Table of Contents

<b>BACKGROUND / INTRODUCTION</b> .....	<b>3</b>
<b>EXISTING ARRANGEMENTS ARE FAILING</b> .....	<b>4</b>
Summary .....	5
<b>PROPOSED ARRANGEMENTS</b> .....	<b>5</b>
<b>OTHER POLICY SUGGESTIONS / RECOMMENDATIONS</b> .....	<b>7</b>
Foreign Investment Review Board .....	7
Skills Development / Compact .....	7
Tax Incentives for Proponents .....	8
Industry Development / Technology Transfer .....	8
<b>PROPOSAL GRAPHIC</b> .....	<b>9</b>
<b>CONCLUSION</b> .....	<b>10</b>
<b>AUTHORS INFORMATION</b> .....	<b>10</b>



## 'Maximising the opportunities for the Steel industry from Major Projects – a policy prescription for the future' - August, 2011

### **BACKGROUND / INTRODUCTION**

The steel industry is a major sector of Australia's economy and supports approximately 100,000 jobs directly and indirectly. Recent announcements by the Government to establish the Steel Transformation Plan (STP) provide welcome acknowledgement of the importance of a vital and world-class steel-manufacturing sector.

However the STP, applies only to the two major steelmakers. For these companies to operate profitably, and for the Government's \$300m package to work, the steelmakers need a strong domestic market and customer base for their steel products.

Traditional domestic markets for steel, such as Manufacturing, Industrial Buildings, Commercial Buildings, Automotive and Residential Building remain under considerable growth pressure. The Industry is therefore looking to domestic growth markets that can satisfy both the steel-making and fabrication capacity in the market for the next decade. It should come as no surprise that the industry has identified the Resources Sector as that market. There is approx. \$400b of investment in this sector to be invested and built on our shores in the next 5 – 10 years. This investment in Oil & Gas, Iron Ore, Coal and other minerals, as you will appreciate is extremely steel intensive. The Australian steel value chain has been successfully involved in major resource projects for decades, however we have seen the domestic share in this work decline to approx 10 – 12% in recent years. This is due to a range of reasons, including the high AUD\$, modularisation, large scale of projects, growth and availability of Asian steel industry and global contract and procurement strategies. The bottom line is the Australian Steel Industry is getting ONLY 10-12% of this work.

This is in an environment where steel businesses are operating at well below capacity, skilled workers are underemployed, apprenticeships are at an all-time low and employment is falling. We have seen in recent weeks announced job cuts by BlueScope Steel and OneSteel. We have also been seeing this deeper in the channel for many months with people being laid off and businesses closing. If something does not change we are in danger of losing these businesses, skills and significant jobs for ever. Our Industry faces an extremely serious and urgent problem due to lack of demand. Government leadership and decisive action is required to stimulate Australian steel demand in major projects, which is currently being met by offshore suppliers.

It should not go unnoticed and seems quite ironic that the resources boom, which is causing challenges for non-resource, trade exposed industries, through;

- high AUD\$,
- high interest rates,
- and higher wages,

can actually be part of the solution by providing increased domestic demand through greater levels of Australian content in their projects.

Increased local content is good for Australia and the local economies in which the companies operate. For every \$1m of retained manufacturing business:

- A further \$985,000 of value-added is generated (Metal products is the highest VA)
- \$333,900 of tax revenue is generated.

- \$95,000 worth of welfare benefits is saved
- 10 full-time jobs are created or saved.

It makes obvious sense that a stronger policy framework to encourage this and soften the effect of the 'patchwork' economy is urgently needed.

### **EXISTING ARRANGEMENTS ARE FAILING**

There are currently a few key policies and semi-government agencies that are involved in trying to increase Australian content in major projects, both resources and other (public and private). In the view of the ASI, these are having mixed success at best or just not working at worst, as our share of between 10-12% shows. Some of these programs and agencies include:

- **Enhanced Project By-Laws Scheme (EPBS)** – provide tariff concession for use of AIPP. Theory is good, but in reality, not providing results. There is a total lack of transparency in the Scheme and no effective penalty regime to counter the rorting, which is suspected as being rife.
- **Australian Industry Participation Plans (AIPP)** – required under EPBS application, requires acknowledgment of Full, Fair and Reasonable Opportunity (FF&R) - again good in theory, but weak in content, accountability and transparency. This is a key component in the ASI Policy proposals.
- **Buy Australian at Home and Abroad (BAHA) (new)** – Announced at last budget in May. Details are still sketchy, however looks like not a lot of new ideas, much of the work already being done and further investment in Enterprise Connect and ICN, that are currently not working well for steel in driving demand for the Australian steel industry.
- **Anti-Dumping (Federal Customs Act)** – Recent changes announced by Ministers Emerson and O'Connor are encouraging and moving in the right direction. However the process is still costly and difficult for SME's to access.
- **Tariff Concession Orders (Federal Customs Act)** – Good structure and transparency through the Gazette is welcome. Recent announcements of budget increase should allow greater diligence in the process.
- **Foreign Investment Review Board (FIRB)** – Firstly we would like to confirm that we recognise the need for and encourage foreign investment. However, greater transparency is required on detail of foreign investments in major resource projects. FIRB should insist on use of AIPP for all projects. FIRB should insist on clear separation between investment and supply to a project by investors. Greater transparency on supply required.
- **Steel Industry Innovation Council (DIISR Chaired)** – Over-arching Industry, Union and Academic group, meets two times per annum. Little traction to date.
- **Steel Advocates Program (DIISR led)** – Now 2 years old+, initial advocate contract not renewed, position now vacant for nearly 9 months. Little traction.
- **Various State Local (Australian) Content Policies** – These have been reviewed and updated in recent years, mainly due to industry pressure. Some are better than others. Consistency of approach is needed through COAG. Federal Government should provide harmonization similar to OH&S.
- **Industry Capability Networks (ICN)** – State based national networks funded by State and Federal Governments. Previous conflict of interest in preparation of AIP Plans and information for use in EPBS applications. This compromises and dilutes their major goal of increasing local content and confuses their priorities between building relationships with proponents and maximizing opportunities for local supply. We have received complaints from members on the potential mixed allegiances of the ICN. Suggest a



review of the ICN Charter and prioritise on maximising Australian Content 'at all costs'.

- **Enterprise Connect (DIISR program)** – Strong links with ICN. Set up to assist SME's with business improvement services. Some good work and information shared, but not assisting greatly in our push into major projects.

As can be seen from our brief comments above most of these programs are not addressing the major goal for the steel industry in achieving a greater share of the domestic demand available for steel products and services, especially from major projects for, resources and infrastructure, both public or private.

**Summary:**

*ASI acknowledges that the Australian Government has a genuine interest to ensure that Australian suppliers have a better chance of benefiting from participation in Australia's major projects. However the existing programs outlined above, are not doing the job for the Australian steel industry. In the following sections the ASI makes a number of suggestions to stimulate the local industry through attracting industry development commitments from major project investors, centered around better use of the AIPP.*

**PROPOSED ARRANGEMENTS**

The ASI wants to stimulate Australian Industry participation through the development of a "Major Projects Industry Participation Scheme". The ASI is aware of Governments' responsibilities in line with WTO guidelines and does not propose any form of mandates or other conditions that would contravene WTO guidelines or principles.

Under the proposed arrangements, all companies or Government agencies seeking development approval for new resources or infrastructure projects in excess of \$100m in Australia, including those requiring FIRB approval or seeking EPBS, will need to enter into the Scheme. This will require the development of an Australian Industry Participation Plan, similar to the one in current use by AusIndustry. These AIPP's will be compulsory and form an integral part of the approvals process, similar to and treated with the same importance as current Environmental and Indigenous / Land Rights approvals.

**Essentially, unbuckling the current AIPP from the EPBS with stronger guidelines, aspirations and transparency and making this compulsory for all projects over \$100m in Australia.**

We will use the analogy of a Green, Black and Blue 'vest'. Green being Environmental, Black being Indigenous / Land Rights and Blue being Australian Industry Participation. We maintain that Australian Industry Participation should be treated with the same importance and rigour as the other two examples shown.

*We would like to stress that we in no way intend to demean or trivialise the importance of the Environmental or Indigenous approvals processes, we simply highlight that the Australian Industry Participation Approval is just as important.*

**Environmental Approval**

-Water use / protection  
 -Land use / protection  
 -Wildlife/Habitat protection  
 -Air quality / Carbon abatement

**Indigenous / LR Approval**

-Indigenous Community Support  
 -Land Rights (LR)  
 -Indigenous jobs / skills devp.  
 -Respect for traditional owners

**Australian Ind Participation Approval**

-Skills Development / Transfer  
 -Jobs creation; training  
 -Value-Added Industry benefits  
 -Contestable Australian Content

The key to the success of this scheme will be the criteria that are set and the reporting, audit and follow-up structures put in place to ensure that it happens. These industry development plans will require major project owners and their contractors (at various levels) to meet a number of criteria prior to obtaining approval to develop the project and/or invest in a project in Australia. Plans should be re-evaluated during various stages of the project including FID, FEED, sub-contract works and construction.

Criteria should include (but not be limited to):

- **Skills development / job creation** / Traineeship and Apprenticeship creation.
- Concept of '**Value for Money**' should look beyond 'least cost'. Consideration should be given to whole-of-life costs, including maintenance, quality and ongoing domestic supplier relationships.
- Identifying Australian companies that the investors will **partner** with and who will provide inputs into the build and construction phases of the projects.
- Analyse major project components and demonstrate how these components will **match the project requirements** with the capacity, competency and capabilities of the Australian Industry.
- **Assist the Australian Industry** to improve their capability and capacity in line with proponents future requirements.
- Facilitate **technology transfer**
- '**Contestable**' **Australian content** to be identified and reported separately (e.g. steel). Content that must be local by its very nature include activities such as, civil works (e.g. earth-moving), logistics contracts, accommodation, etc., should not be labeled 'Contestable'.
- Sub-Contract component build phase, Site Construction phase and Operations phase to be identified and **reported separately**.
- **Accountability and consequences** for non-compliance to be clearly outlined and enforced.
- The concept of '**Full, Fair and Reasonable**' should be redefined and more rigorously

tested throughout the project reporting process. Examples of lack of opportunity and design in foreign standards and materials are commonplace.

- Projects should be designed conforming to all relevant **Australian Standards** and with no preferential treatment to offshore suppliers.
- AIP Plans to be made public, **full transparency** to be adopted, giving due consideration to any 'commercial in confidence' areas. However we feel that this has been used as a 'smoke screen' in the past and must be closely monitored as this is a key element in establishing accountability.
- **AIP Plans should be integrated** with State Local Content Policies and State Agreements and Indentures applicable in each State.
- **Detailed progress reports** (suggest quarterly) should be the responsibility of the Federal and State Ministers for Industry and coordinated through an independent body.
- Conduct a **post-project review** of each AIP Plan, including identified areas of improvement from both Industry's and Proponents' perspectives. Importance should be given to skills and job creation and value-added benefit to Australian Industry.

This policy and its administration should be the responsibility of the Federal Minister for Industry and have full support of the various State Industry Ministers. A separate independent Body should be set up to monitor the progress of the Scheme and report back to the various Ministers outlined above. The Independent Body should include representatives from Government, Industry (Proponents and Suppliers), Unions, and the ICN.

### **OTHER POLICY SUGGESTIONS / RECOMMENDATIONS**

The following recommendations are in line with previous comments made above and are intended to support the central theme of our recommendations for adoption of **"Compulsory use of AIP Plans for all major projects (resources and infrastructure, public and private) valued at over \$100m"**

#### **Foreign Investment Review Board:**

- As part of the approval process, Investors must agree to the use of the 'Major Projects Participation Scheme' and the use of AIP Plans.
- Reinforce the clear distinction between Investment in a project and the supply to a project and that these should be mutually exclusive.
- Review of and alignment with other resource rich countries rules on foreign investment.

#### **Skills Development / Compact:**

- Major Project proponents and Industry to work closely with DIISR and the DEEWR to take advantage of all Government Skills programs including the recently announced 'National Workforce Development Fund'.
- Co-ordinate with Skills Australia to ensure the enhancement of the skills required to

- support major projects into the future.
- Embed plans for skilled Australian jobs and apprenticeships within the AIP Plan.

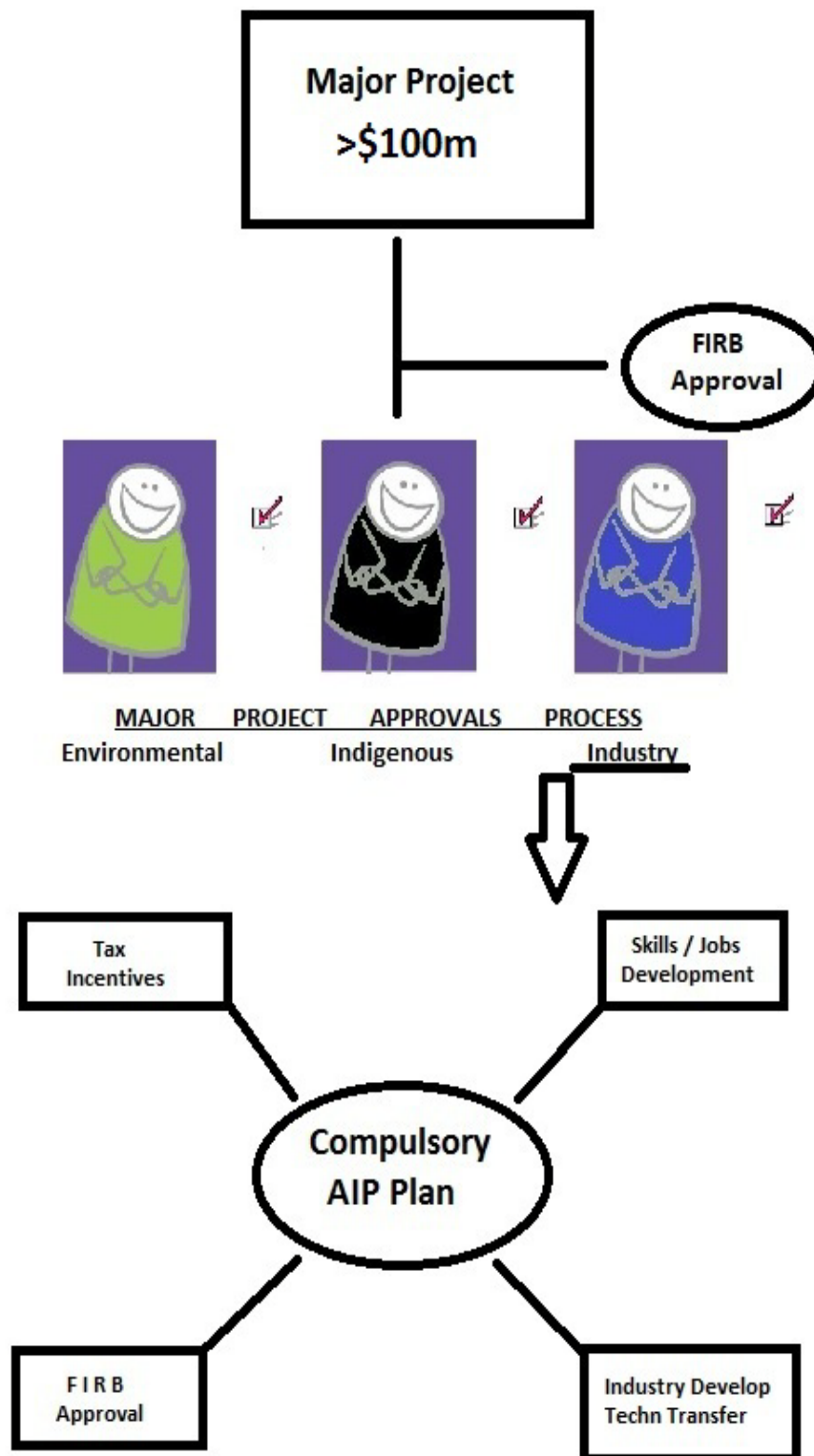
#### Tax Incentives for Proponents:

- Government to provide tax incentives for increased use of ‘Contestable’ Australian content in major projects.
- The tax incentive approach could be adopted to offer increased tax concessions and/or resource rent tax (RRT) discounts. This approach is intended to be cost neutral to project proponents.
- A tax advantage in the form of accelerated tax depreciation on major project assets for greater use of ‘contestable’ Australian Content should also be considered
- Independent analysis by National Institute of Economic and Industry Research (NIEIR) in their report ‘Maximising Australia’s Resources Boom..!’ indicates that, although the provision of tax concessions are at a revenue cost to the Commonwealth budget, this cost would be more than compensated through the taxes generated by increased levels of “net national product” – plus the benefits of increased employment and incomes. (Report provided to MP’s and Senators separately)

#### Industry Development / Technology Transfer:

- Industry and proponents to work closely with each other and Government to build the knowledge, innovation and ideas required to satisfy the needs of all parties and facilitate greater value-added benefits to Australia from major projects into the future.
- Government programs to be tailored to suit the necessary requirements of proponents and Industry participating in major projects.





## CONCLUSION

Under the arrangements proposed, unique opportunities will be opened up to stimulate local demand, help alleviate some of the crowding out impacts from resources boom and maintain and enhance important Australian capability and capacity.

The ASI calls for the Government to adopt these recommendations immediately and move quickly to implement them as the industry is in urgent need of greater demand and there is a large pipeline of major project work underway right now.

There is a clear and urgent imperative for Government leadership and whole-of-government approach, backed up by a range of policy measures proposed herein, to address the dire plight of our industry which is caused by lack of demand. Government has the responsibility to stimulate the economy in sectors being crowded out by the resources boom. The ASI is proposing a very effective and immediate stimulus plan to stop the export of real jobs and production offshore. Every dollar spent offshore is a dollar not being spent in the Australian economy.

*Further information on the ASI can be found by following the web link below.*

[www.steel.org.au](http://www.steel.org.au)

*For further information on this document, please contact:*

*Either:*

***Don McDonald – Chief Executive***

*or*

***Ian Cairns – National Manager – Industry Development***

*Australian Steel Institute*

*PO Box 6366, North Sydney, 2060 NSW*

*Level 13, 99 Mount Street, North Sydney, 2059 NSW*

*Telephone: 02 9931 6666*

End.....