

The Parliament of the Commonwealth of Australia

AUSTRALIAN IRON AND STEEL INDUSTRY

Report of the House of Representatives Standing  
Committee on Finance and Public Administration

November 1987

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## Terms of Reference of the Committee

That the Standing Committee on Finance and Public Administration inquire into and report on any matters referred to it by either the House or a Minister including any pre-legislation proposal, Bill, motion, petition, vote or expenditure, other financial matter, report or paper.

## Terms of Reference of the Iron and Steel Sub-Committee

That the Sub-Committee inquire into and report upon the efficiency and effectiveness of Commonwealth Government expenditure and taxation measures related to the Australian Steel Industry Plan.

## Membership of the Committee

Chairman	Mr S. P. Martin, M. P.
Deputy Chairman	Hon. I. B. C. Wilson, M. P.
Members	Mr K. A. Braithwaite, M. P. Mr R. I. Charlesworth, M. P. Mr M. R. Cobb, M. P. Mr B. W. Courtice, M. P. Mr G. Gear, M. P. Dr. J. R. Hewson, M. P. Mr H. S. Jenkins, M. P. Mr F. S. McArthur, M. P. Mr J. Saunderson, M. P. Mr D. W. Simmons, M. P.
Secretary	Mr P. F. Bergin

## Membership of the Sub-Committee

Chairman	Mr S. P. Martin, M. P.
Members	Mr D. W. Simmons, M. P. Mr M. R. Cobb, M. P.
Secretary	Ms M. C. Telesny
Inquiry Staff	Mr I. D. Glasson (Esso Australia secondee) Mr P. Ratas Ms K. Edwards Ms K. Freer

## ABBREVIATIONS

ACS	Australian Customs Service
ACTU	Australian Council of Trade Unions
AMWU	Amalgamated Metalworkers' Union
ANI	Australian National Industries Ltd.
BHP	Broken Hill Proprietary Company
CPI	Consumer Price Index
CRA	Conzinc Rio Tinto Australia
ERA	Export Restraint Agreement
FIA	Federated Ironworkers' Association
GATT	General Agreement on Tariffs and Trade
IAC	Industries Assistance Commission
OECD	Organisation for Economic Co-operation and Development
SIA	Steel Industry Authority
SIP	Steel Industry Plan
SRAP	Steel Regions Assistance Program
TAA	Temporary Assistance Authority
tepa	Tonnes per employee per annum
USA	United States of America

## FORWARD

This inquiry has weathered a double dissolution, new Parliamentary administrative arrangements in the form of the new "super ministries" and a restructuring of the House of Representatives Committee System.

The inquiry was started by the House of Representatives Standing Committee on Expenditure and completed by its successor, the House of Representatives Standing Committee on Finance and Public Administration. The original Committee had completed its scheduled hearings and inspections in May 1987 and the draft report was well underway.

The new Committee decided to finalise the report as soon as possible. It was resolved not to take further evidence, not to have further hearings or to recall witnesses who had already spent considerable time in preparing their submissions and attending hearings. The Committee thought it would be of more value to update the report and to table it while it was still relevant and could be used as an adjunct to the Steel Industry Authority's review of the steel industry, due to begin in November 1987. It must be emphasised, however, that the report was written before BHP's latest announcements concerning future employment levels within the Steel Industry Group.

A report such as this involved the work and co-operation of many. I would like to thank members of the original Expenditure Committee for their efforts and contribution, the new Committee and the Committee staff who have been involved throughout the inquiry. I would like to particularly thank Ms Monica Telesny, the inquiry secretary, and Mr Ian Glasson, a secondee from ESSO Australia, for their excellent work in preparing briefings, public hearings and drafts of the report.

The iron and steel industry is the backbone of Australia's industrial base and essential to Australia's economy. The work practice changes brought about under the Steel Industry Plan will influence the future of the industry for several years to come. Only 14 months of guaranteed government support under the Plan remain for the industry. It is absolutely crucial to the industry and the economy that the steel industry emerge from its current downturn and take its place as one of the most competitive producers in the world.

I trust this report will assist the steel industry in overcoming many of its current problems, as well as providing guidance to other industries and subsequent government industry assistance packages.

Stephen Martin, MP  
Chairman

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## RECOMMENDATIONS

The Committee recommends that:

1. the ACTU accept ultimate responsibility for overall union commitment to the Plan and take whatever action it feels appropriate to obtain a greater commitment from its members at the shop floor level.  
(Paragraph 4.48)
2. at the expiry of the current Export Restraint Agreement with the USA, the Minister for Foreign Affairs and Trade and the Minister for Industry, Technology and Commerce co-operate in reassessing the necessity for Australia entering into another agreement restraining its exports to the USA and, if another agreement is unavoidable, recalculate the export level based on a more appropriate base year. (Paragraph 5.14)
3.
  - a) the roles of the Steel Industry Authority and the Australian Customs Service be clearly delineated;
  - b) a clear set of administrative and policy guidelines be developed by the Australian Customs Service to ensure systematic investigation procedures and to assist the industry in preparing its prima facie case in a dumping complaint; and
  - c) priority be given to implementing the recommendations of the Gruen Report, particularly clarification of the Customs Tariff (Anti-Dumping) Act 1987 and the implementation of strict deadlines for completion of preliminary and final findings.  
(Paragraph 5.36)

4. the matter of secondary dumping of steel feed be immediately referred to the Industries Assistance Commission for advice on whether longer-term anti-dumping action is desirable. (Paragraph 5.38)
5. the Developing Country preference for the Republic of Korea's remaining eligible steel imports be removed. (Paragraph 5.43)
6. the Department of Industry, Technology and Commerce reassess Developing Country preferences in relation to steel imports, removing preferences for those countries which possess advanced and subsidised steel industries and where preferences are clearly not warranted. (Paragraph 5.44)
7.
  - a) exclusive responsibility for the approval, implementation and expenditure for the Steel Regions Assistance Program, with the exception of the tourism component, be given to one Federal department;
  - b) the criteria and priorities which determine a project's approval be clearly documented and published by the responsible department; and
  - c) the lines of authority between Federal, State and Local Governments be clearly delineated. (Paragraph 6.15)
8. responsibility for determination of priorities and allocation of funds for tourism projects under SRAP (tourism) be vested in the Minister for Arts, Sport, the Environment, Tourism and Territories and that a firm commitment on the allocation of these funds be obtained. (Paragraph 6.17)

## CHAPTER 1

### INTRODUCTION

#### Background to the Committee

1.1 On 21 May 1986 the House of Representatives Standing Committee resolved to inquire into the Australian iron and steel industry. The double dissolution announced on 5 June 1987 meant that the inquiry, by then in its final stages, was suspended until the formation of a new Parliament. In the new Parliament the House of Representatives Standing Committee on Finance and Public Administration succeeded the Expenditure Committee and decided to finalise the inquiry as soon as possible. The inquiry was formally referred to the Finance and Public Administration Committee on 30 October 1987.

#### Background to the Inquiry

1.2 The iron and steel industry is receiving assistance under the Steel Industry Plan and the steel regions receive funding under the Steel Regions Assistance Program. Although the Steel Industry Plan was the primary target of the Committee's efficiency review, the performance of the Steel Regions Assistance Program came under repeated criticism. The Committee felt it necessary to briefly address these concerns, since the assistance given to revitalise the steel industry regions runs in parallel to the Steel Industry Plan.

1.3 The Steel Industry Authority is scheduled to undertake a review of the Steel Industry Plan in November 1987. The Committee's inquiry does not seek to pre-empt the Steel Industry Authority's review of the Plan, which will report on the extent to which the Plan has achieved its objectives and what special arrangements are required for the steel industry post-1988. The Committee's inquiry examines whether Commonwealth expenditure on the Plan has been spent efficiently and effectively.

### Scope of the Inquiry

1.4 The industry and its regional centres receive substantial Commonwealth funding under the Steel Industry Plan and the Steel Regions Assistance Program. In reviewing the effectiveness of this assistance, the Committee concentrated on the following areas:

- (i) the overall performance and effectiveness of the Steel Industry Plan and resulting benefits to steel producers and downstream users;
- (ii) each party's adherence to its original commitments and the role played by the Steel Industry Authority;
- (iii) industry improvement as a direct result of the Plan in the areas of new technology, industry revitalisation and international competitiveness, thereby isolating improvements due to non-Plan factors, such as dollar devaluation and the worldwide recovery; and
- (iv) the future of the iron and steel industry beyond 1988.

### Establishment of the Steel Industry Plan

1.5 The iron and steel industry is an essential part of Australia's industrial base and is strategically and economically important to the economy. The industry's output covers almost the entire range of basic iron and steel products.

1.6 The Steel Industry Plan was formulated in response to a severe deterioration in the competitive position of the Australian steel industry during 1982 and early 1983. Production, sales, profits and employment in the industry all fell

dramatically below the levels recorded during the 1970's. BHP incurred heavy losses in 1981-82 and 1982-83. Between May 1982 and May 1983 BHP incurred a loss of \$94.3 million and steel capacity was reduced from around 9 million to 6.8 million tonnes per annum.<sup>1</sup> Employment over an 18 month period was reduced by approximately 15,000 persons<sup>2</sup>, which represented approximately 30% of the workforce.

1.7 A number of factors contributed to the deterioration of the industry's international competitiveness:

- . a marked decline in steel demand associated with the economic recession;
- . an oversupply in world steelmaking capacity;
- . overseas government involvement in and assistance to their steel industries which has inhibited exports and enabled imports to enter Australia at non-competitive prices; and
- . declining productivity of the local industry.

1.8 During the industry's dramatic downturn between 1980 and 1983, five inquiries were held into the Australian iron and steel industry, recommending various changes in assistance levels.

1.9 In 1980 the Industries Assistance Commission (IAC) recommended significant tariff reductions for categories such as coated products and high alloy steel products to be phased in over a number of years.<sup>3</sup> The Government accepted the majority of the recommendations and in addition announced the formation of the Iron and Steel Dumping Evaluation Committee.

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1. Submission No 9 (BHP). Figures are restated in terms of the current structure of BHP Steel International.  
 2. Steel Industry Authority, Annual Report 1985-86, p.6.  
 3. Industries Assistance Commission, Iron and Steel Industry (Report No 249), AGPS, 1980.

1.10 In 1982, the Temporary Assistance Authority (TAA) recommended additional temporary duty of 10% on imports of small diameter pipe and tube (other than stainless steel) and that the Republic of Korea not be granted Developing Country preference pending the outcome of an IAC inquiry.<sup>4</sup> The TAA's recommendations were rejected and tariff quotas were introduced to restrain imports of certain hot and cold rolled products and pipe and tube. Later in 1982, the TAA recommended that bounty be temporarily paid on certain high alloy steel products to assist local production.<sup>5</sup> The Government introduced the Bounty (Steel Products) Act 1983 as a result.

1.11 Even though an interim report in 1983 by the IAC recommended no further assistance to certain flat steel products or to pipe and tube pending its final report<sup>6</sup>, the Government announced additional assistance and extended existing import restrictions. In its final report in 1983, the IAC recommended no additional assistance to the steel industry, despite requests from BHP for substantially increased assistance and a guaranteed domestic market share in exchange for a massive investment program by BHP.<sup>7</sup> The Government did not accept this recommendation and subsequently announced the Steel Industry Plan in August 1983. The Plan incorporates much of the assistance requested by the industry.

1.12 The Plan sought to address the industry's structural problems and other factors inhibiting an improvement in efficiency. The key factors in achieving the Plan's aims were cost reductions and quality improvements through new investment in the upgrading of steelmaking facilities, tighter management control, improved productivity, improved work practices, and containment of labour costs and State Government charges.

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4. Temporary Assistance Authority, Certain Flat Steel Products, Pipes and Tubes of Iron or Steel (Report No 55), AGPS, 1982.

5. Temporary Assistance Authority, Certain High Alloy Steel Products (Report No 57), AGPS, 1982.

6. Industries Assistance Commission, Certain Iron and Steel Products (Interim Report) (Report No 312), AGPS, 1983.

7. Industries Assistance Commission, Certain Iron and Steel Products and Certain Alloy Steel Products (Report No 321), AGPS, 1983.

1.13 The Government's initial objective in formulating the Plan was to create a long-term viable steel industry providing job security for its employees and inputs to a wide range of metal and engineering industries at internationally competitive prices.

1.14 The Plan involved contributions from each of the interested parties: the Commonwealth Government, the industry, the unions and the relevant State Governments. The commitments of each of the parties are discussed in Chapter 2.

1.15 An assistance package involving commitments from each interested party is the first of its kind; and steel is the first major industry the Labor Government has reviewed, making the Plan's success crucial to the steel industry as well as having implications for other industries.

1.16 In addition to the assistance provided to the steel industry, the Government addressed the impact of the industrial recession on the regions by announcing the Steel Regions Assistance Program. The dramatic workforce reductions within the steel industry during 1982-83 caused high unemployment levels in the major steel regions of Wollongong, Newcastle and Whyalla. All the centres were experiencing high rates of unemployment, reduced retail spending and reduced building activity. Wollongong City Council statistics show local unemployment in May 1983 at 16% compared to the 10.8% NSW average and the 10% national average.<sup>8</sup> Strains were being placed on agencies providing emergency assistance, crisis centres, emergency accommodation centres, counselling and other support services.

1.17 To address the regional concerns, the Government announced the Steel Regions Assistance Program in 1983 with the objective of diversifying the regional economies away from reliance on the steel industry and broadening employment prospects. The Program is discussed in Chapter 6.

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8. Submission No 3 (Wollongong City Council), p.4.

## Industry Profile

1.18 Within the current industry structure, BHP is the dominant iron and steel producer. There are only two exceptions to BHP's local dominance: Smorgon Consolidated Industries now trading as Humes Smorgon Steel which operates a steel mini-mill in Laverton, Victoria; and Comsteel (owned by ANI) which produces speciality and alloy steels. Comsteel was formerly partially owned by BHP.

1.19 BHP operates integrated steel-making facilities in three separate locations - Port Kembla, Newcastle and Whyalla - each facility combining the activities of iron and steel making with subsequent rolling and other finishing activities. Port Kembla, the largest, produces predominantly hot and cold flat rolled products. Newcastle produces small shapes and sections ('merchant' bar), light structurals and rod for wire drawing. Whyalla, the smallest, produces mainly heavy structurals and rails.

1.20 Following an extensive organisation study in 1983, BHP steel interests were rationalised and restructured into the BHP Steel International Group, which now consists of seven operating divisions.<sup>9</sup> These are the slab and plate division; coated products division; rod and bar products division; long products division; wire products division; trading services; and collieries. Australian Industrial Refractories is also contained within the BHP Steel International Group. The roles and products of the major divisions are briefly outlined at Appendix IV.

1.21 Humes Smorgon Steel, an independent steel producer located in Melbourne, commenced steel production at its mini-mill in 1983 with the first rolling in 1984. The plant produces basic rod and merchant bar principally for the construction industry. The mill's existing 200,000 tonne annual capacity is currently being expanded to 300,000 tonnes. Raw feed for the mini-mill is scrap, sourced locally from Victoria.

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9. BHP Steel International Group - Public Affairs Publication.



1.22 The Commonwealth Steel Company Limited (Comsteel) is the other significant independent steel producer. Previously 85% owned by BHP, Comsteel was acquired by the ANI Corporation in February 1986. Comsteel's current principal steelmaking works is located at Waratah, Newcastle and produces a wide range of products including special stainless and alloy steels, grinding media and abrasives. Its steelmaking capacity is currently being raised from 120,000 tonnes to 160,000 tonnes per annum.

1.23 BHP also has significant ownership in some of the downstream steel industries. Tubemakers, the largest producer of pipe and tube in Australia, is 49.75% owned by BHP Petroleum. Tubemakers acquired full control of another major pipe and steel fabricator, Steel Mains Pty Ltd in 1986 when it purchased the 2/3 interest held by Humes Limited. Other major independent pipe and tube makers include the new facilities of Palmer Tube Mills in Queensland, and Australian Tube Mills Pty Ltd in Victoria.

1.24 Other major steel users include the various manufacturers within the automotive industry, the fastener industry and heavy engineering industries. Submissions have been received from a range of firms within each of these industries and their comments as steel users are included in the analysis of the Plan's performance.

CHAPTER 2THE STEEL INDUSTRY PLAN

## Introduction

2.1 When announcing the Plan on 11 August 1983, the Minister for Industry and Commerce, Senator Button, stated that the Governments' objective was the creation of a long-term viable steel industry, providing job security for its employees and inputs to a wide range of metal and engineering industries at internationally competitive prices. The Minister told the industry that in order to regain an internationally competitive position, relative production costs would need to be significantly reduced.<sup>1</sup> The Government believed that without any further assistance, as the 1983 IAC report had recommended, there would be a rundown of the local industry resulting in further severe social and economic disruption to the three steel regions.<sup>2</sup>

2.2 The Steel Industry Plan commenced on 1 January 1984 to run for a period of five years. The Steel Industry Authority will review the Plan at the end of the fourth year, 1987, after which the Government will decide whether, and under which conditions, the Plan should be extended after 1988.

2.3 The Plan came after discussions between the Government, BHP, unions, State Governments and some non-participant bodies such as the Hunter Development Board.<sup>3</sup> However, the Plan most closely follows the industry's proposal as presented to the 1983 IAC inquiry into certain iron and steel products and certain alloy steel products. In its December 1982 submission to the IAC, BHP requested an average of 85% of the domestic market share for

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1. Minister for Industry and Commerce, Press Release 77/83, dated 11 August 1983.
  2. House of Representatives, Parliamentary Debates (Hansard), Canberra, AGPS, 30 November 1986, p.3031.
  3. Evidence, pp.57, 58.

Australian producers, immediate expensing of all capital expenditure (BHP envisaged a \$2.8 billion investment plan over 10 years) for taxation purposes and group taxation to make this concession meaningful.

2.4 The assistance was requested for 10 years. In return, BHP recognised the need to develop the industry efficiently and that some form of monitoring progress and performance might be requested by the Government. Steelmaking was to continue at Port Kembla, Newcastle and Whyalla, but with emphasis on the future development of the flat products centre at Port Kembla.<sup>4</sup>

#### Contributions by Each Party

2.5 The four parties to the Plan have each made specific commitments. Each party's contributions are listed and then discussed below.

#### Commonwealth Contribution

2.6 The Commonwealth Government was to provide:

- . bounty assistance on four product categories to a ceiling of \$71.6 million per annum;
- . bounties were complemented by a safety mechanism providing for a review of assistance if domestic producers' market share fell below 80% or rose above 90%;
- . a fast track anti-dumping system, an effective early import warning system and quotas on reduced-tariff imports from developing countries; and
- . creation of the Steel Industry Authority to monitor the Plan and advise on the need for additional assistance.

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4. Barber J.N., 'An Assessment of the Government Steel Plan', Economic Papers, V3, No 1, March 1984, p.15.

2.7 The Steel Industry Authority was established to monitor and analyse the steel industry and the Plan's performance. The Authority's functions are outlined in the Steel Industry Authority Act 1983. Through a sunset clause in the Act, the Authority's role is terminated in December 1988. The Authority consists of three part-time members serviced by a secretariat provided by the Department of Industry, Technology and Commerce. The partnership concept of the Plan is reflected in the Authority's membership, where industry, unions and government each have a representative.

2.8 Bounty is the major form of assistance to the industry provided by the Government and administered by the Australian Customs Service. Bounty assistance has an annual ceiling of \$71.6 million with provision for annual adjustments in accordance with steel price movements. The bounties were designed to enable the industry to undertake a modernisation program and to become competitive at long-term tariff rates by the end of the Plan. The four categories to which bounty assistance applies are:

- . hot rolled strip (for use in cold rolled products);
- . hot rolled strip (not high alloy) for pipes and tubes;
- . hot rolled plate for use in quenched and tempered steel products; and
- . high alloy steel bar and stainless steel flat products.<sup>5</sup>

2.9 The level of bounty payable reduces on a sliding scale as production increases. The bounty levels were initially set at a maximum of between 17% and 20% of the supply price and declined on a sliding scale. Bounties were cut by 20% in the 1986-87 budget. The cut has been criticised by both the industry and

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5. During 1986 this category was divided into 2 categories - high alloy steel bar and stainless flat products - following separate production and marketing of these products upon Comsteel's change of ownership.

unions. Appendix V shows original and current levels of bounty. Bounty payments are governed by the Bounty (Steel Mill Products) Act 1983 and the Bounty (High Alloy Steel Products) Act 1983.

2.10 To the end of June 1987, total bounty payments under the Plan reached \$117.6 million, well below the possible maximum of around \$250 million.

2.11 The safety mechanism on imports complements the bounty payments. The safety mechanism provides for a review of the assistance arrangements whenever the local industry's market share, in 10 designated product categories, falls below 80% or rises above 90% in any three month period. A change in assistance is not, however, automatic and all the factors that may have contributed to the change in market share are closely examined by the Steel Industry Authority.<sup>6</sup> As at June 1987, the safety mechanism had not been invoked, despite the coated and uncoated cold rolled category regularly falling below the 80% market share. There is also an option of referring assistance changes to the Industries Assistance Commission or the Temporary Assistance Authority.<sup>7</sup> The product categories covered by the safety mechanism are listed at Appendix VI.

2.12 Quotas were introduced for imports which received reduced duty rates under the Developing Country preference rates of duty. The quota was set at the average annual volume of these imports over the 5 years to June 30 1983. Imports above the quota level would attract general rates of duty. The customs tariffs varied from 0-15% on a long-term basis depending on the category of product and a further temporary tariff of up to 10% would still apply in some cases. Where the tariff exceeded 10%, a Developing Country preference (reduction in tariff), of 10% applied. The Republic of Korea was to continue to be included as a Developing Country although its inclusion was controversial. Additional temporary duties of up to 150% also applied on selected imported steel products, although most have now expired

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6. Submission No 13 (SIA), p.3.

7. Minister for Industry and Commerce, Press Release 77/83, dated 11 August 1983, p.5.

following recommendations in earlier IAC and TAA inquiries. Under the Plan the Government has kept the existing tariff levels and agreed to continue phasing them out as recommended by IAC. Details of the tariffs are given at Appendix VII.

2.13 An import watch system and 'fast track' dumping mechanism for steel products was also announced as part of the Plan, although details were not available at the time of the announcement. Further details were not announced. The Steel Industry Authority advised the Committee that the fast-track dumping system "in principle, allows the industry to take quick action against countries seeking to gain unfair access to the Australian market".<sup>8</sup> Witnesses strongly supported the introduction of anti-dumping measures, but either felt that the system had never been properly implemented or that the existing mechanism was not effective due to lengthy delays. The effectiveness of the fast-track anti-dumping system is discussed in Chapter 5.

#### BHP's Contribution

2.14 The industry's contribution was to:

- . ensure continued operation of the three integrated steel plants (Port Kembla, Newcastle and Whyalla);
- . provide job security for the period of the Plan, provided the Plan is successful;
- . adopt an \$800 million investment plan and to implement it over the first four years (including blast furnace relines and capital improvements aimed at improving hot metal quality and production cost); and
- . keep price increases in line with the CPI.

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8. Submission No 13 (SIA), p.4.

2.15 In 1982, BHP believed that the interests of its shareholders may be better served by withdrawing from the steel industry and ceasing steel making at Newcastle in 1985 and Whyalla in 1986. Alternatively, BHP could concentrate on finishing operations only, or continue primary steelmaking on a survival basis with minimum capital expenditure.<sup>9</sup> Massive capital would need to be invested to upgrade facilities at all the plants, if BHP was to continue to operate all 3 steelworks. Under the Plan, BHP ensured the continuation of the three integrated steelworks at Port Kembla, Newcastle and Whyalla.

2.16 BHP adopted an \$800 million investment program to be undertaken over the first 4 years of the Plan. Around \$500 million of this was considered firm and a substantial part was to be undertaken at an early date, however, each project would be subject to a normal commercial evaluation. The \$500 million expenditure was to be directed towards a number of blast furnace relines and capital improvements aimed at improving hot metal quality and production cost. Rolling mill developments were designed to improve product quality and market servicing. Labour productivity and energy efficiency were expected to improve with the installation of the new equipment. The \$300 million incremental expenditure included a second continuous slab caster at Port Kembla and investment to improve productivity at Newcastle.

2.17 Job security for the period of the Plan and a commitment to no compulsory redundancies was pledged by BHP providing the Plan was successful. The commitment to no further compulsory redundancies followed BHP's massive workforce reduction, approximately 10,000 employees, between May 1982 and May 1983. BHP claimed that it was forced to make that reduction to restore productivity, irrespective of being granted assistance.<sup>10</sup>

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9. Industries Assistance Commission, Certain Iron and Steel Products and Certain Alloy Steel Products (Report No 321), pp.143, 144.

10. IAC, Report No 321, pp.143, 144.

2.18 Domestic steel prices would as part of the Plan be monitored by the Steel Industry Authority. The objective was for the Authority's surveillance of prices to take account of changes in the CPI and changes in domestic steel prices in overseas countries. Although duplicating the role of the Prices Surveillance Authority in this matter, the Steel Industry Authority monitors steel prices and reports on the movements quarterly and annually. In 1986, the Steel Industry Authority prepared a report on Australian steel prices under its legislative requirements under the Act.<sup>11</sup>

#### Unions' Contribution

2.19 The unions agreed to:

- . ensure that wage increases are in accordance with the Prices and Incomes Accord and kept within community standards;
- . re-establish an initial productivity level of 250 tonnes per employee per annum; and
- . strictly adhere to established grievance settlement procedures.

2.20 Labour costs in the steel industry had been moving ahead of the CPI and represented BHP's major cost increase between 1978 and 1982.<sup>12</sup> During this period hourly earnings increased by 47%. Labour cost increases represented about half of the total increase in input prices; if labour had increased in line with the CPI, BHP's total costs would have been 10% less during the period 1978-82. Under the Plan, the unions accepted that they would not use the protection accorded under the Plan to establish wages or conditions above those of prevailing community standards.

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11. Steel Industry Authority, Australian Steel Prices, June 1986.

12. BHP's submission to the 1983 IAC inquiry (Report No 321).



2.21 As well as establishing an initial productivity target of 250 tonnes per employee per annum in the major steelworks, the Plan indicated that progressive increases in productivity would be sought. The objective of the progressive increases was that steel industry increases would be higher than the trends in national productivity. In the period 1974-1980 Australia's steel industry productivity had declined and by 1980 was less than half the Japanese productivity and considerably less than the United States. It was also below that for EEC countries (except UK) and below the OECD aggregate.<sup>13</sup>

2.22 The agreed dispute settling procedures are contained in the 1982 Steel Award reduced hours agreement.<sup>14</sup> Although not expressed as part of the Plan, the unions have expected BHP to consult on work practice changes and that the roles of union delegates would continue to be recognised.

#### State Governments' Contribution

2.23 The relevant State Governments are NSW and SA. Their contribution is principally in the containment of State charges. On behalf of the NSW Government, the Hon. N.K. Wran Q.C. wrote to the Prime Minister, advising that NSW would endeavour to minimise rises in State charges to the steel industry.<sup>15</sup> The South Australian Government saw its role primarily under the Steel Regions Assistance program, in providing an improved industrial climate and employment opportunities.<sup>16</sup>

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13. IAC, Report No 321, p.14.

14. Submission No 8 (Newcastle Branch FIA), p.2.

15. Submission No 22 (NSW Government), p.2.

16. Submission No 20 (SA Government), p.13.

## CHAPTER 3

### THE STEEL INDUSTRY AUTHORITY

#### Introduction

3.1 Established by legislation as part of the Steel Industry Plan, the primary function of the Steel Industry Authority (SIA) is to monitor and analyse the steel industry.<sup>1</sup> The Authority advises the Government on the provision of assistance to the steel industry and regularly reports to the Minister on matters affecting the industry and the extent to which the Plan has met its objectives.

3.2 Despite some differences in attitudes and opinions between the Steel Industry Authority and some sectors of the steel industry, generally witnesses expressed support for the Authority and were in favour of the Authority's role continuing until 1988. Some differing opinions were expressed.

3.3 The Nissan Motor Manufacturing Company criticised the SIA for its lack of understanding of the steel industry's needs and for its dictatorial attitude.<sup>2</sup> Nissan also questioned the need for an authority such as the SIA. Comsteel, Australia's major producer of high alloy and stainless steels, told the Committee that it had considerable difficulty dealing with the SIA, because of Comsteel's relatively lowly position compared to BHP.<sup>3</sup>

#### Role and effectiveness

3.4 The Steel Authority's role and functions are fully defined in the Steel Industry Authority Act 1983. In its 1985-86 Annual Report, the Authority perceives its role in three parts: firstly, to monitor and analyse activities within the steel

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1. Steel Industry Authority Act 1983 and also Senator Button's press release dated 11 August 1983.
  2. Submission No.4 (Nissan), p.6.
  3. Evidence, p.92.

industry; secondly, to encourage co-operation between various parties to the Plan; and thirdly, to promote a better understanding of each party's obligations under the Plan.<sup>4</sup>

3.5 During its three and a half year lifetime, the Authority claims to have maintained close contact with all parties, developed a comprehensive data base on the steel industry; arranged meetings on areas of concern; and participated in seminars at the steel centres. It has regularly reported on its activities through quarterly and annual reports.

3.6 The Federated Ironworkers' Association (FIA) and the Amalgamated Metal Workers' Union (AMWU) appeared before the Committee at national and local level. Both unions described their relationship with the SIA as good and emphasised the importance of the Authority's role in promoting consultation. According to the unions, the consultative arrangements between management and unions have been the highlight of the Plan.<sup>5</sup> Despite the increased consultation, security and stability, there is still union suspicion due to the fact that the changes are occurring so quickly. This is where the unions believe that the SIA has a strong role. The unions feel there is a need for some form of government monitoring after the Plan ends in 1988.<sup>6</sup>

3.7 BHP has often acknowledged the support and assistance of the SIA. The only area in which it seems that BHP perceives a greater role for the SIA is in the dumping area. The SIA could have "more of an advisory role to Customs"<sup>7</sup> rather than each operating under its own Act. It has been claimed that BHP is in a privileged position. Comsteel alleges that BHP receives too much support from the SIA at the expense of smaller producers in the industry. Tubemakers of Australia (49.75% owned by BHP), feels that the SIA has played a "positive role", but does not see a need for government involvement after 1988.<sup>8</sup>

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4. Steel Industry Authority (Aust.) Annual Report 1985-86, Canberra p.7.

5. Evidence, pp.44,115.

6. Evidence, p.189.

7. Evidence, p.129.

8. Evidence, p.165.

3.8 The two government departments who have responsibility for the Plan both gave glowing credit to the role played by the Steel Industry Authority. The Department of Industry, Technology and Commerce believes that the SIA has been very effective, its main purpose being to oversight the market sharing device.<sup>9</sup> The Department of Employment and Industrial Relations told the Committee that the SIA had been instrumental in negotiating work practices, particularly at Port Kembla. Both departments supported the fact that the Steel Industry Authority was an independent body, which ensured there was a "public forum where people could come and put both sides of the case".<sup>10</sup> The Department of Employment and Industrial Relations stressed the importance of an independent, creditable and knowledgeable body.

3.9 Despite the general support for the SIA, none of the witnesses desired the continuation of the SIA beyond 1988. The unions, whilst preferring some sort of government role, did not necessarily see this being performed by the SIA. BHP would like ongoing co-operation, but not in the form of a Plan and preferably without government involvement. The SIA itself is convinced that any extension to the Plan after 1988 would indicate the Plan's failure.<sup>11</sup> It sees itself presiding over its own demise.

3.10 Results directly attributable to the efforts of the SIA were more difficult to obtain. Although the SIA's role in bringing various parties together was acknowledged, much of the co-operation and improvement was due to management/union efforts. To complicate matters, the SIA was unwilling to give quantitative answers on a number of questions.

#### Roles of the Department of Industry, Technology and Commerce and the Department of Employment and Industrial Relations

3.11 Most of the Plan's implementation and industrial relations has been left with the Steel Industry Authority.

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9. Evidence, p.225.

10. Evidence, p.224.

11. Steel Industry Authority Annual Report 1985-86, p.4.

3.12 The Department of Industry, Technology and Commerce advised the Minister on policy options prior to the implementation of the Plan, and currently still maintains a watching brief on the state of the steel industry. Upon completion of the Plan in 1988, the Department envisages the role of advising the Minister on the state of the industry, the mechanism for which is already in place.<sup>12</sup>

3.13 The Department of Employment and Industrial Relations told the Committee that the Authority has provided a lot of impetus for workplace change, particularly at Port Kembla.<sup>13</sup> However, the Department itself has not given any thought to what will happen after 1988 to ensure that continued dialogue and a co-operative environment continues.<sup>14</sup> Since the Authority's role is scheduled to terminate in 1988, it will be the Department's responsibility to oversight the industrial relations situation in the steel industry. The Department should begin to formulate strategies now, based on the experience of the Plan.

3.14 The evidence indicates that the two relevant departments have played only a minor role in the implementation of the Steel Industry Plan. The main role was given to the Steel Industry Authority as an independent, impartial body. Both departments prefer this arrangement.

#### Conclusion

3.15 The area in which most witnesses thought the Steel Industry Authority most successful was that of promoting dialogue and bringing the various parties under the Plan together.

3.16 Although the Steel Industry Authority was initially keen to give evidence before the Committee, during its appearance the Committee found the Authority unnecessarily bureaucratic in approach and unwilling to answer many questions on the grounds of "modesty" or prematurity. Although the Authority does have

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12. Evidence, p.229.

13. Evidence, p.256.

14. Evidence, p.261.

discretion to supply information under Section 33 of the Act, the Authority repeatedly told the Committee that its duty was to report to the Minister, not to the Committee.

3.17 When pressed on the SIA's role in overcoming industrial problems, particularly at Port Kembla, the Authority "did not want to go into any detail" or get any publicity, but was taking "ongoing action".<sup>15</sup>

3.18 Conflicting evidence and the SIA's reluctance to provide direct answers to questions made it difficult for the Committee to determine the effectiveness of the Steel Industry Authority, even in the role in which it appeared most effective, the industrial relations area. Whilst the SIA has been active in encouraging co-operation between the various parties to the Plan, at least some of the success is due to the changed attitudes of BHP and the unions. Faced with a serious industrial relations dispute such as Port Kembla, the SIA has not been particularly effective.

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15. Evidence, p.199.

CHAPTER 4ADHERENCE TO COMMITMENTS

## Introduction

4.1 Overall, commitments made under the Plan have been adhered to, in spirit if not to the letter. The only exception to this was the unions' inability to adhere to the grievance settling procedures. Many witnesses expressed dissatisfaction about the unions' commitment in the area of industrial disputation. Each party, however, was satisfied that it had met its commitments under the Plan. Discussion in this chapter will concentrate on each party's adherence to commitments. The overall effectiveness and performance of the Plan is reviewed in Chapter 5.

## Commonwealth Government

4.2 The Commonwealth's commitments are principally in the areas of bounty payments, a safety mechanism to protect local market share, a fast-track anti-dumping mechanism, quotas on reduced tariff imports and the creation of the Steel Industry Authority.

4.3 The Government has adhered to its commitment of creating a Steel Industry Authority to monitor and analyse the progress of the steel industry and to report to and advise the Minister on any changes in assistance to the industry. The role and effectiveness of the Steel Industry Authority has been discussed in Chapter 3 and will not be discussed further here.

**Bounty Payments**

4.4 Although the Government has met its commitment by providing bounty assistance on the designated product categories, bounties were cut by 20% in the 1986 budget. Reduction in the bounty rate has been criticised by the industry and unions as a

reduction in the Government's commitment. BHP questioned "the extent of the Government's resolve to fulfill its commitments"<sup>1</sup> and the AMWU believed "the commitment... should not be in any way further reduced."<sup>2</sup> Palmer Tube Mills compared the reduction to "moving the goal posts during the game".<sup>3</sup>

4.5 The Department of Industry, Technology and Commerce told the Committee that the adjustment to bounties was "an overall policy measure, but not ... resiling from the commitment".<sup>4</sup> Despite industry protestations, the effect of the 20% bounty cut has been small and the industry appeared more concerned about the possibility of further cuts in the bounty in the 1987 Budget. The industry's fears were unfounded, since the bounty remained unchanged in the recent Budget.

4.6 In terms of expenditure, the bounties have cost the Commonwealth considerably less than the \$71.6 million maximum annual limit set under the Plan. Total bounty payments to the steel industry since the beginning of the Plan until the end of June 1987 have been \$117.6 million,<sup>5</sup> compared with a possible maximum of around \$250 million if all allocated money were to be expended. When annualised, bounty payments for financial years 1984-85 1985-86 and 1986-87 were \$53.9 million, \$21.1 million and \$33.2 million, respectively.<sup>6</sup> There were no suggestions that this saving was in any way a decrease in the Government's commitment.

#### Safety Mechanism

4.7 The Government's commitment was to review the level of assistance if the market share for certain products fell below 80% or rose above 90% in any three month period. A change in the level of assistance is not, however, automatic - all factors which may have contributed to the change are closely examined by

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1. Submission No.9 (BHP) p.3.
  2. Evidence, p.51.
  3. Submission No.14. (Palmer Tube Mills)p.1.
  4. Evidence, p.231.
  5. Steel Industry Authority, Quarterly Report, June 1987, p.8.
  6. BHP Submission, p.3. and updated to 30 June 1987.



the Steel Industry Authority, which then makes a recommendation to the Minister. On the occasions when market share has fallen below 80% or risen above 90%, the Steel Industry Authority has submitted reports to the Minister recommending no change in assistance levels.<sup>7</sup> As at June 1987, except for temporary removal of developing country preferences, the safety mechanism has not been invoked.

4.8 BHP has criticised the Government's response to market share concerns, despite admitting that the Government has technically met its commitment under the Plan. Although BHP's overall market share was well above 80% and often exceeding 90%, this performance was not uniform. Some products fell below 80% on a number of occasions and a number of products were regularly above 90%.<sup>8</sup> BHP's market share averaged 88.2% in 1984, 89.5% in 1985 and 89.9% in 1986. Despite the high overall performance, BHP criticised the Steel Industry Authority's basis for not recommending additional assistance for cold rolled strip and plate products which fell below 80% market share in each quarter for 1984 and for most of 1985.

4.9 In making its recommendation on coated and uncoated cold rolled products, the Steel Industry Authority criticised the quality, delivery performance and cost of that product, recommending no change in the assistance level so that the producer would be encouraged to "lift his game".<sup>9</sup> BHP said that this attitude did not reflect the spirit of the Plan and that when the safety mechanism was originally negotiated, BHP had been frank about the quality problems being experienced.<sup>10</sup> Further aggravating BHP was the fact that during this period, imports from Developing Countries were entering Australia at double the rate set for the quota.

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7. Steel Industry Authority, Annual Report 1984-85, pp.6,12.

8. Submission No.9 (BHP), p.4.

9. Evidence, p.207.

10. Evidence, p.130.

## Quotas

4.10 The Government has altered its original commitment to impose quotas on reduced-tariff steel imports from Developing Countries. On 1 July 1986, the Government eliminated Developing Country preference quotas and reduced the Developing Country preference to 5% or below the general tariff rate on all imported products.<sup>11</sup> On cold rolled products, the preference was completely removed for the duration of the Plan. At the same time, the value of the Australian dollar was further reduced, taking away much of the concern over Developing Country imports.<sup>12</sup> Tubemakers warned against placing too much reliance on the devalued dollar, saying that in the long term, the devaluation has little to do with the setting of normal import values.<sup>13</sup>

4.11 The Developing Country preference has been a controversial issue from the outset of the Plan. The existence of Developing Country preferences continues to concern the industry, particularly in the case of the Republic of Korea, which boasts some of the most modern and productive steel making facilities. This issue is discussed in more detail in Chapter 5.

## Fast-Track Anti-Dumping Mechanism

4.12 Most witnesses expressed dissatisfaction with the present anti-dumping provisions. The main concern was in relation to the lengthy delays between lodgement of a claim and a decision being reached by the Australian Customs Service (ACS).

4.13 The Government's commitment to the anti-dumping mechanism must be questioned. At the time of the Steel Industry Plan's announcement, details of the fast-track dumping mechanism were still being developed, but it was announced that close

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11. Department of Industry, Technology and Commerce, Press Release No.3/86, 3 January 1986.

12. Evidence, p.126.

13. Evidence, p.164.

liaison would occur between the Steel Industry Authority and appropriate areas of the Department (presumably the Australian Customs Service). No further details were ever announced and there is no evidence to suggest that this mechanism was ever properly developed or implemented.

4.14 Neither the Steel Industry Authority nor the Australian Customs Service were willing to accept responsibility for the fast-track mechanism, even though Senator Button specified that the "fast-track" component referred to the Steel Industry Authority's role in assisting the industry in making its prima facie case to the Australian Customs Service. The ACS would then take over and follow the normal dumping procedure. In fact, the Steel Industry Authority repeatedly told the Committee that any questions on dumping should be directed to the ACS. The effectiveness of the anti-dumping mechanism is discussed in Chapter 5 and a recommendation is made there.

BHP

4.15 BHP's commitments were to ensure continued operation of the three integrated steelworks, provide job security, keep price rises in line with the CPI and to adopt an \$800 million investment plan.

#### Continued Operation of Integrated Steelworks

4.16 BHP has met this commitment, continuing to operate the integrated steelworks at Port Kembla, Newcastle and Whyalla. Despite adverse publicity forecasting the future closure of Newcastle,<sup>14</sup> evidence presented by BHP and the unions indicates the continuing operation and development of all three centres in the foreseeable future, providing productivity and industrial relations continue to improve.<sup>15</sup>

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14. Submission No.2 (Hunter Development Board), refer "Newcastle Morning Herald", 10 March 1987 Press Clipping.  
15. Evidence, p.155.

### \$800 Million Investment Program

4.17 BHP has exceeded its capital investment commitment. Authorised expenditure was \$1.27 billion and actual expenditure \$1.228 billion at the end of June 1987.<sup>16</sup> Projected total expenditure is \$1.4 billion over the five years of the Plan, which is 75% greater than the original \$800 million committed. Investment allowance taxation incentives probably explain the high proportion of expenditure authorised only half-way through the Plan.

4.18 The purpose of the investment program, according to BHP, is to improve cost structure, quality and service, rather than to make more tonnes of steel.<sup>17</sup> The majority of the capital investment has been concentrated on upgrading facilities at Port Kembla. Although Newcastle and Whyalla are also being upgraded, the proportion of funds allocated is relatively small, particularly at Whyalla which produces non-bountiable products, predominantly for export. The very high capital expenditure program, however, is creating short term difficulties for BHP in meeting its steel production targets.

4.19 Simultaneous investment in the upgrading of facilities is occurring in other areas of the industry. Tubemakers and Comsteel will have made substantial capital investment in new plant and equipment by the end of the Plan period. Smorgon, which does not receive bounty, is also embarking on a major expansion of furnace capacity and product range at its Melbourne mini-mill. All these changes are beneficial to the Australian industry because they will improve overall product quality and range.

### Job Security

4.20 In line with commitments, employment levels in the steel division have stabilised since the commencement of the Plan. BHP has met job security commitments and ensured no compulsory redundancies. Although BHP made 4 retrenchments in

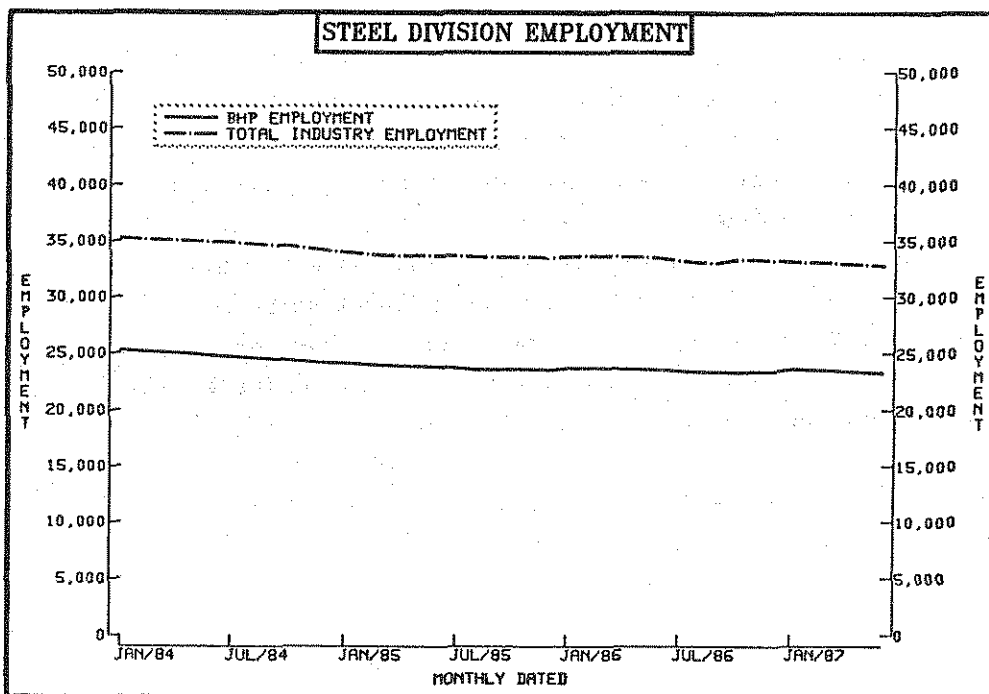
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16. Steel Industry Authority, Quarterly Report, June 1987, p.2.

17. Evidence, p.123.

1986, the Steel Industry Authority explains that 3 were foreign employees in BHP's overseas operations and 1 was a dismissal when an employee refused to obey a directive considered to be in his best interests (to take sick leave).<sup>18</sup> By the end of the June quarter 1987, BHP had made no involuntary retrenchments. Recent announcements by BHP however, whilst not breaking the Plan have been criticised as breaking its spirit.

GRAPH 1



Source: SIA Quarterly Report, June 1987.

4.21 Amongst non-BHP steel producers the picture is quite different. Since the commencement of the Plan to the end of June 1987, there were 423 involuntary retrenchments,<sup>19</sup> reflecting the ongoing rationalisation and mergers among the small producers. The Steel Industry Authority attributes the non-BHP

18. Steel Industry Authority, Quarterly Report December 1986. Refer to Table 6 & p.3.

19. Steel Industry Authority, Quarterly Report, June 1987, Table 7.

retrenchments during 1986, which total 350, to the rationalisation of Steel Mains and to Tubemakers' dismissal of tradespeople and ironworkers at the completion of pipeline contract projects. Graph 1 shows total steel industry employment compared to BHP employment. It must be remembered however, that BHP accounts for 70% of employment in the steel industry.

4.22 The current relative stability within the BHP workforce is in stark contrast to the employment situation prior to the Plan. BHP was forced to make massive workforce retrenchments between 1981 and 1983, in order to remain competitive. Employment over an 18 month period was reduced by approximately 15,000 persons, which represented approximately 30% of the workforce.

4.23 Employment at BHP steel has declined by approximately 4.7% since the beginning of the Plan, compared to approximately 4% in the industry.<sup>20</sup> BHP's reduction has occurred through natural attrition, voluntary early retirements and lower recruitment levels. Regionally, Port Kembla, which accounts for just under 60% of BHP's steel employment, has had the least proportionate employment loss at 2.4%. Newcastle and Whyalla have experienced a decline of 9.2% and 9.6% respectively. Employment changes by plant since the commencement of the Plan are shown in Table 1.

TABLE 1

BHP Steel Employment Changes By Plant

	1984	1987	Change	%
Port Kembla	13,330	13,012	-318	-2.4
Newcastle	6,828	6,197	-631	-9.2
Whyalla	4,374	3,956	-418	-9.6

Source: BHP Data

4.24 The Committee was surprised by one anomaly in the overall employment reduction trend. During its visit to the Humes Smorgon mini-mill at Laverton, the Committee was told that Humes Smorgon Steel continues to have considerable difficulty in recruiting semi-skilled staff. This is despite newspaper, radio and television advertisements as far afield as Brisbane, Adelaide and Hobart and assistance from the national Commonwealth Employment Service.<sup>21</sup> The Department of Employment and Industrial Relations told the Committee that geographic location was the major cause of the problem.<sup>22</sup> However, as the Committee pointed out to the Department, Westernport which is similarly located outside Melbourne, is experiencing no recruitment difficulties.

4.25 For the future BHP has foreshadowed further employment reductions if the company is to survive.<sup>23</sup> These reductions are anticipated to be achieved without alteration of the original commitment, through voluntary retirement schemes and lower recruitment levels. As a result of the industry being more competitive, however, BHP believes that total employment in steel and steel-related industries will increase. Promotion of steel intensive user industries and creation of regional assistance programs were two areas specified by BHP.<sup>24</sup>

#### Steel Prices

4.26 The commitment to keep steel price increases in line with the Consumer Price Index (CPI) has been honoured by BHP. Over the 2 calendar years 1984 and 1985, the weighted average price of Australian steel was 8.24%, compared with a CPI increase of 13.87%.<sup>25</sup> Westernport experienced a weighted average increase of 7.3% during the same period. In real terms the weighted average price of steel has fallen substantially since 1984, now approaching 1980 levels.

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21. Submission No.24 (Smorgon), p.9.

22. Evidence, p.273.

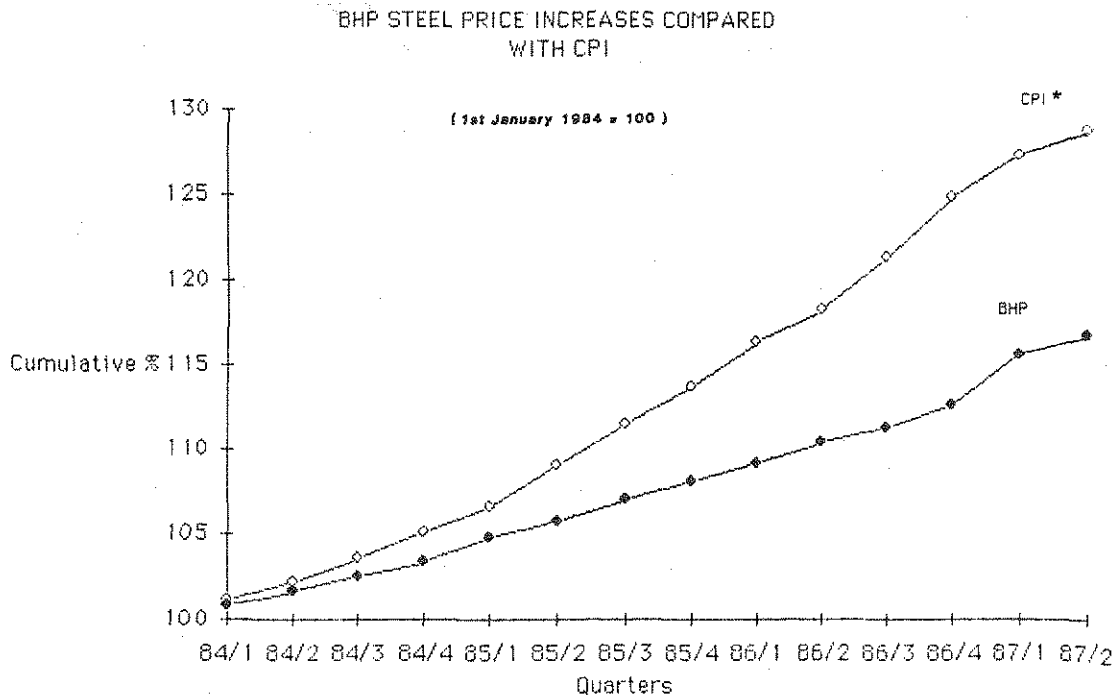
23. Evidence, p.152.

24. Evidence, p.153.

25. Steel Industry Authority, "Australian Steel Prices", 25 June 1986, p.5.

4.27 The SIA's March 1987 figures show that for the first time during the Plan, BHP's average price increases were greater than the CPI increase. During the March 1987 quarter, the weighted average price increase across BHP's product range was 2.7% compared to the CPI of 2.0% for the same period.<sup>26</sup> During the June quarter BHP's weighted average price increase was again below the CPI, at 1.2% compared with the CPI of 1.5%. Despite the March figure, overall steel price increases since the start of the Plan have been below the CPI.

GRAPH 2



\* CPI figure excludes Medicare component

Source: SIA Quarterly Report, June 1987, Table 13.

26. Steel Industry Authority, Quarterly Report, March 1987, p.7.

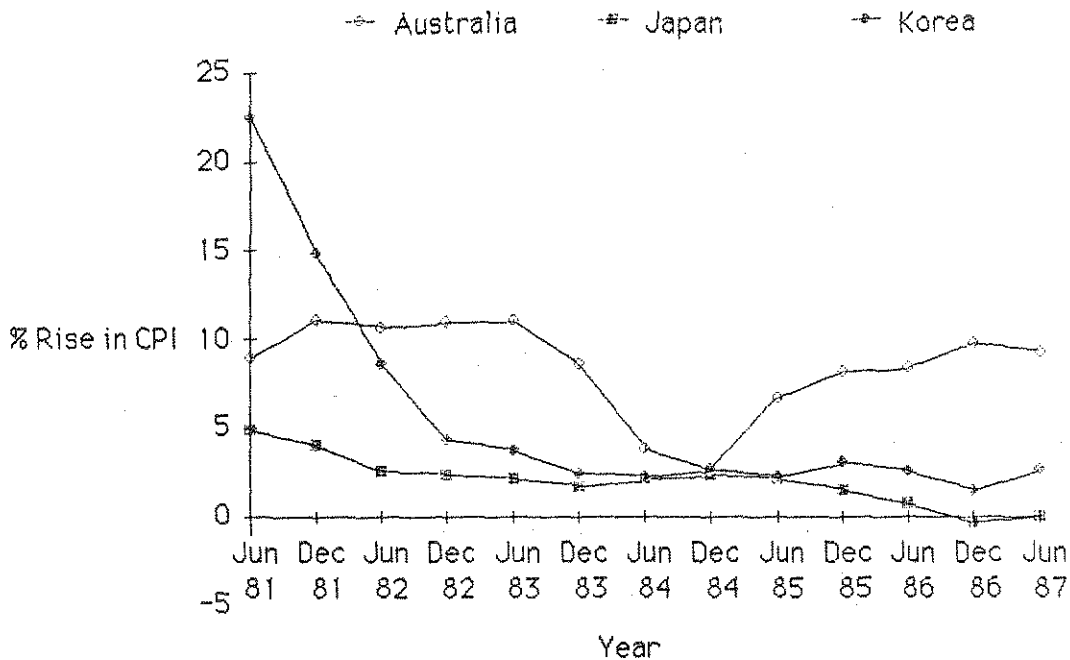


4.28 The SIA attributes the containment of price increases mainly to the bounty payments and improved productivity by BHP, although pointing out that the productivity improvement started from a poor base and large improvements in efficiency were initially easy to achieve. The devaluation of the Australian dollar has also been a strong factor in achieving greater competitiveness.<sup>27</sup>

4.29 Although price charges have varied for the different steel products, and on occasions price increases have moved ahead of the CPI, until 1987 no product category had price increases which overran the CPI. Although BHP's price increases were greater than the CPI during the March 1987 quarter, overall steel price increases have been below the CPI. Graph 2 compares BHP's average weighted domestic steel price increases with CPI movements.

GRAPH 3.

## COMPARATIVE INFLATION RATE



Source: Parliamentary Legislative Research Service,  
Statistics Group data

27. Steel Industry Authority, "Australian Steel Prices". 25 June 1986, p.8.

4.30 Although Australia's domestic steel prices are increasing at a slower rate than the CPI, the Steel Industry Authority warns that overseas producers have also reduced their prices in real terms. In the opinion of a number of witnesses, simply controlling price rises in line with Australia's CPI was not sufficient, since increases in the Australian CPI were far greater than many of Australia's trading partners. Some of Australia's trading partners have been experiencing negative inflation in recent years. Graph 3 compares Australia's inflation rate with the rate of various trading partners.

### Unions

4.31 The unions' major commitments are in the areas of wages, productivity and dispute settlement. In its March quarterly report, the Steel Industry Authority questioned whether the steel unions were really willing and capable of honouring their commitments under the Plan, despite the best intentions.<sup>28</sup> In the June quarter the SIA again drew attention to the "very disappointing" level of industrial disputation. A great deal of the evidence received by the Committee related to the industrial relations area.

### Industrial Disputation

4.32 One of the key features of the Plan is the dispute settling procedure designed to reduce the level of industrial unrest. The effectiveness of the dispute settling procedure and the unions' commitment in the area of industrial relations must be questioned in the light of the recent industrial situation. Although the overall trend had been very encouraging until the end of 1985, experience over the past year indicates that problems are still seething just below the surface. Considerable gains were made in the 5 years from 1980-81 to 1984-85. Manhours lost through industrial disputes compared to total possible

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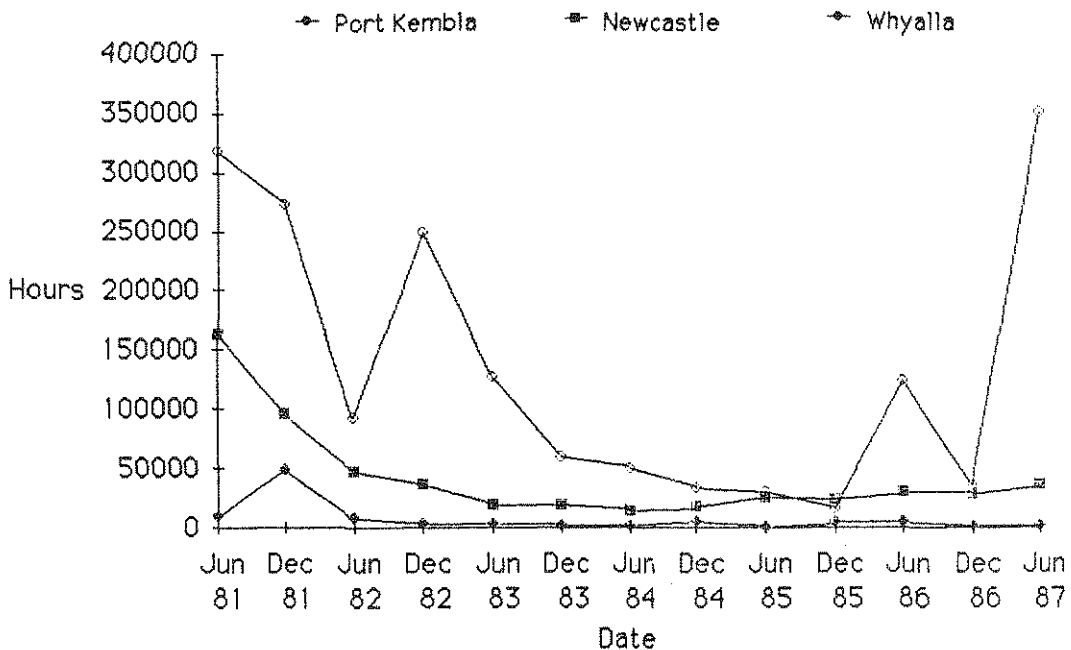
28. Steel Industry Authority, Quarterly Report, December 1986, p.2.

manhours fell from 3.0% to 0.4%,<sup>29</sup> a tribute to all in the industry. However, between May 1986 and May 1987 percentage manhours lost had returned to 1.5% with the Port Kembla steelworks at 2.5%.<sup>30</sup> Manhours lost in 1986, exceeded the total manhours lost during the preceding two years.

4.33 Graph 4 demonstrates total manhours lost during the period January 1981- June 1987 inclusive. The dramatic rise in disputation during 1986 and 1987 is of serious concern. The graph also shows that the level of industrial disputation was already declining during 1981-83, prior to the implementation of the Plan. It would appear that part of the improvement can be attributed to environmental forces independent of the Plan.

GRAPH 4

#### BHP MANHOURS LOST BY STEEL CENTRES



Source: BHP Central Industrial Relations statistics.

29. Steel Industry Authority, Annual Report 1984-85. AGPS Canberra, p.19.

30. Source: BHP Company Statistics, May 1982 - May 1987.

4.34 Graph 4 also shows that the major industrial problem is at Port Kembla. Newcastle and Whyalla in comparison have remained below the 1981/82 industrial downtime levels. Manhours lost at Port Kembla in the 6 months to June 1987 is greater than the level experienced in 1981 prior to the Plan.

4.35 The unions' commitments under the Plan have been questioned by the Steel Industry Authority and BHP. According to BHP, most of the strikes occurring in Newcastle and Port Kembla have involved blatant breaches of the grievance procedures agreement given by the unions under the Plan. BHP accuses the unions of contravening the spirit of the Steel Industry Plan.<sup>31</sup>

4.36 BHP claims that lost time and lost production statistics do not give the full picture. Relatively small employee groups taking part in selective strike action have caused BHP major market problems. The high levels of industrial action together with disruption flowing from the construction program have seriously impaired BHP's financial earnings. Steel imports have been necessary to cover the shortfalls and keep faith with customers.<sup>32</sup>

4.37 Much of the current industrial disputation is occurring at Port Kembla. When comparing manhours lost to total possible manhours worked for the period May 1986 - May 1987, Port Kembla lost 2.51%, compared with 0.88% at Newcastle and 0.07% at Whyalla.<sup>33</sup> During the June 1987 quarter, Port Kembla alone was responsible for over 90% of the total manhours lost at BHP. Due mainly to this industrial disputation, BHP is reviewing its investment plans for the Illawarra region, and has announced that it will not proceed with the \$160 million rebuild of its No.4 Blast Furnace at Port Kembla.<sup>34</sup>

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31. BHP, "The Steel Industry Plan - Half Way", p.7.

32. Submission No.9. (BHP), p.9.

33. Source: BHP Company Statistics, May 1982 - May 1987.

34. Steel Industry Authority, Quarterly Report, June 1987, pp.5,6.

4.38 When translated into costs, the loss of one day's steelmake at Port Kembla means a current account deterioration of about \$3 million for Australia.<sup>35</sup> Table 2 shows BHP's estimation of the cost of industrial unrest from 1981-1987.

TABLE 2.

Estimated Cost of Industrial Unrest  
(Year ended May)

	1987 (9mths)	1986	1985	1984	1983	1982	1981
Estimated raw steel production lost ('000 tonnes)(1)	96	115	56	55(2)	231	505	401

1. The three integrated steelworks only.
2. Includes first 5 months of Steel Plan.

Source: BHP submission, p.9.

4.39 The Steel Industry Authority, whilst previously very positive about the improving industrial relations, views the escalation in industrial disputation very seriously. The extent of the SIA's concern is evident from its comments in the December 1986 quarterly report. "The Authority questions whether the commitments made by the unions under the Plan are capable of being honoured, despite the best will and intention of the ACTU and senior union officials. The Authority is of the view that unless employees on the shop floor can be better informed on the effects of their actions on the overall performance of the industry and encouraged to exercise restraint in the use of strike action in the settlement of disputes, the gains made in the industry to date will be quickly eroded. The Authority therefore strongly urges BHP and the unions to increase efforts to keep employees and union

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35. BHP, "The Steel Industry Plan - Half Way", p.8.

members better informed on the prevailing conditions within the industry and fully explore all avenues in the resolution of disputes before strike action is pursued."<sup>36</sup>

4.40 In its March and June 1987 quarterly reports, the SIA again expressed concern over the level of industrial unrest, identifying industrial disputation as the major problem confronting the steel industry.<sup>37</sup> Although the SIA convened meetings in November 1986 and March 1987 and obtained a re-affirmation of commitment to the Plan from BHP and the unions, the industrial situation has not improved.

4.41 During the Inquiry the Committee either took evidence from or had informal discussions with steel union representatives from each of the three steelmaking centres. The Committee conducted inspections at Port Kembla, Newcastle, Whyalla and Westernport steelworks to familiarise itself with the problems occurring at the shop floor level. The representatives with whom the Committee met were most willing to co-operate with the Committee and seemed genuinely committed to the goals of the Plan. Unfortunately, despite this attitude and the best intentions, the unions' record has been less positive.

4.42 The two major steel industry unions are the Federated Ironworkers' Association (FIA) and the Amalgamated Metal Workers' Union (AMWU). The unions told the Committee that the gains made in reducing industrial disputation since the Plan has been in force have been "dramatic" and would not have occurred without the Plan. Both unions agreed that stoppages had occurred far less frequently since the inception of the Plan and that without the Plan there would have been far greater difficulty in implementing any changes and that the extent of union co-operation would have been much less. The FIA pointed out that even the 1986 figures, when compared to days lost prior to the Plan, represent a dramatic change.<sup>38</sup>

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36. Steel Industry Authority, Quarterly Report, December 1986, p.4.

37. Steel Industry Authority, Quarterly Report, March 1987, p.1.

38. Evidence, p.182.

4.43 The increasing industrial disputation at Port Kembla was a "temporary aberration"<sup>39</sup> according to the AMWU. The FIA told the Committee that the statistics did not accurately reflect the situation and that one major 24 hour stoppage contributed many hours to the statistics. If that one stoppage, involving well over 10,000 workers, had been isolated then "perhaps the picture would not have been as bad as the Steel Industry Authority concluded."<sup>40</sup>

4.44 In relation to the dispute settling procedure, the FIA was satisfied that the procedure had worked to a large degree and was responsible for the elimination of many strikes which would have otherwise occurred.<sup>41</sup> The AMWU did not want to go too deeply into the dispute settling procedures, saying only that "every dispute settling procedure has got its limitations. The limitations are determined by the attitude that the companies and the unions develop in the workplace."<sup>42</sup>

4.45 The Committee was also told that although there has been improvement over the last 10 years, "BHP has never been the most enlightened employer in the country". Despite the Plan, 50-60 years of history could not be undone over the space of 3 or 4.<sup>43</sup> According to the FIA, union officials play a strong role from plant to plant. This comment has been supported by other witnesses in relation to Port Kembla where officials have been criticised for political power play.

4.46 Although all parties agree that the unions' performance in relation to strike action in 1984 and 1985 was excellent, during 1986 and 1987 the level of industrial disputation again became a major problem. The major area of concern is Port Kembla which was responsible for over 90% of manhours lost at BHP in the June 1987 quarter and where industrial disputation is apparently

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39. Evidence, p.46.

40. Evidence, p.33.

41. Evidence, p.34.

42. Evidence, p.111.

43. Evidence, p.183.

due to sectional interests and involves selective action. Much of the Newcastle and Port Kembla action is claimed to be in breach of the dispute settling procedure. The Committee must conclude that the unions are no longer meeting their commitments in the industrial relations area. If the highlight of the Plan for the unions has been increased consultation between unions and management and a greater role in decision making, the unions must be prepared to meet their side of the commitment in dispute settlement procedures. The effectiveness of the Steel Industry Authority in alleviating the industrial problems has been negligible.

4.47 The effectiveness of the Steel Industry Plan in the industrial relations area must be questioned. As shown in Graph 4, the level of industrial disputation was showing a downward trend during 1981-83, prior to the start of the Plan, and the level of disputation during 1986 approached 1983 levels. Manhours lost at Port Kembla to June 1987 exceeded manhours lost in 1981 during the same period and is well above the disputation levels in 1982 and 1983.

4.48 The hard won gains of the first half of the Plan cannot afford to be threatened by falling commitment or sectional interests. Whilst the Committee accepts that there are still many problems between unions and management, the unions must make more effort in meeting their commitments under the Plan. A breakdown in union commitment can only lead to breakdowns in other areas. One body should take responsibility for maintaining union cohesion and preventing sectional and regional breakdowns. The Australian Council of Trade Unions (ACTU) is the most appropriate and probably the only body capable of this task. The Committee therefore recommends that:

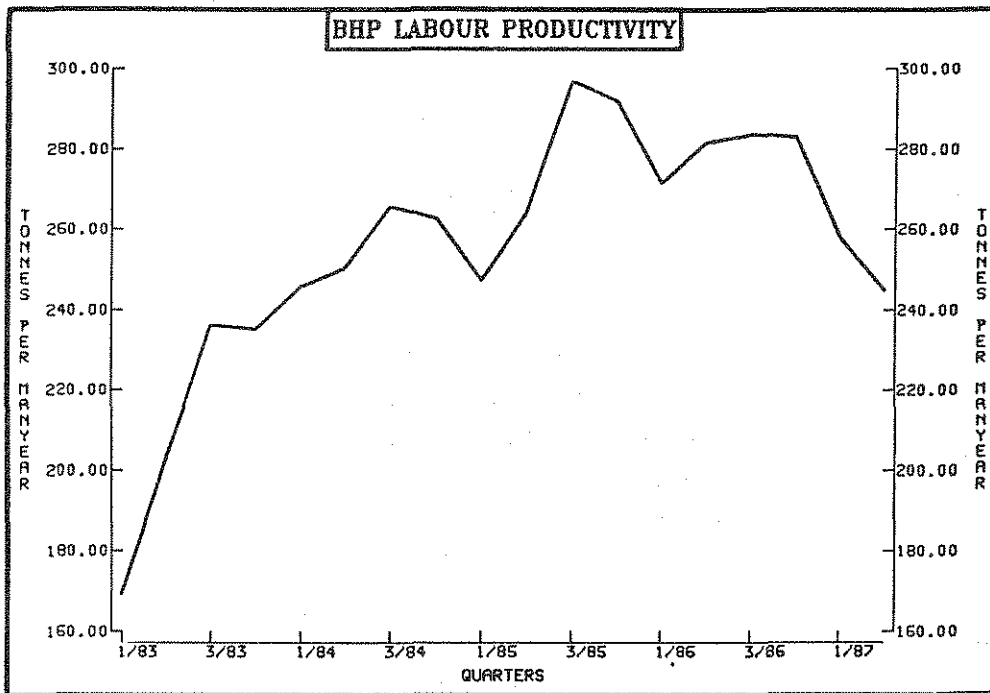
the ACTU accept ultimate responsibility for overall union commitment to the Plan and take whatever action it feels appropriate to obtain a greater commitment from its members at the shop floor level.



### Productivity

4.49 Labour productivity is closely related to the level of industrial harmony; industrial unrest will adversely affect productivity gains. Although productivity showed consistent improvement until 1986, worsening industrial disputation and some technical problems during 1986 and 1987 have culminated in the March 1987 quarter representing BHP's lowest level of raw steel production for 2 years. A further 6% reduction in production occurred in the June 1987 quarter. During the March and June 1987 quarters, BHP's overall productivity had fallen to 1985 levels. The trend is represented on a quarterly basis in Graph 5.

GRAPH 5



Source: SIA Quarterly Report, June 1987.

4.50 The Steel Industry Plan set an initial productivity target of 250 tonnes per employee per annum (tepa). This target was achieved early in the life of the Plan and BHP has now set a target of 350 tonnes per employee per annum. Under the Plan "progressive increases in productivity would be sought with the objective being for those increases to be higher than the trend rates in national productivity."<sup>44</sup>

4.51 The highest productivity level achieved under the Plan was 349 tonnes per employee at the Newcastle plant during October 1985. Whyalla, which has had the lowest level of productivity for the 3 centres, increased its productivity by 10% between June 1984 and June 1986. During the same period, Port Kembla achieved an overall improvement of only 2.7% which was the result of a 12% improvement to December 1985, followed by an 8.6% decline.<sup>45</sup>

4.52 Overall productivity during the first quarter of 1987 fell to 258 tepa, the level initially targeted and achieved during 1984. Overall productivity early in 1987, was down 8.8% on the preceding quarter. Such a drop in productivity effectively takes the Australian steel industry back 3 years. This is a major problem to the industry, particularly when overseas integrated mills are already achieving productivity levels of 350-400 tepa.

4.53 BHP sees a need for much more improvement in productivity if Australia is to remain competitive, and admits that Australia's productivity has been static while overseas countries have been improving. BHP is seeking ways to inject initiative to further improve productivity.<sup>46</sup> BHP hopes to achieve its target of 350 tepa by 1990 in order to compete internationally. Currently, the "best integrated mill in the world produces probably a little over 400 tonnes per man per year" and "most mini-mills will be up in the 1,000 tonnes per man range" with the labour content of less than half that of the integrated

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44. Press Release by Senator John Button, dated 11 August, 1983, p.6.

45. Source: Steel Industry Authority, Annual Report, 1985-86.

46. Evidence, p.151.

mills.<sup>47</sup> BHP has criticised the unions for a lack of commitment to achieving productivity gains, saying that "while in general there has been acceptance of the need for changes associated with new capital equipment, progress since the start of 1986 in productivity enhancements, particularly changing work practices has been slow. Any changes that have been made have invariably faced union opposition, contrary to undertakings embodied in the Steel Plan and superannuation agreements."<sup>48</sup>

4.54 Tubemakers of Australia believes that overseas productivity gains must not be underestimated. Industry, government and unions must realise that the challenge is coming from without, not from within.<sup>49</sup>

4.55 The Steel Industry Authority attributes much of the productivity gains to date to the significant reduction in workforce size prior to the Plan and to the new capital investment. Further progress needs to be made to improve productivity by instituting changes to management and work practices. The SIA believes that the progress made has been a result of changes that have been relatively easy to implement, but that the remaining core of entrenched management and work practices will be more difficult to correct.<sup>50</sup> The Authority says that removal of the remaining practices will significantly improve productivity.

4.56 The unions believe that they have done a lot to change work practices, particularly in the light of radical changes in employment numbers, manning, supply and countless work practices. The NSW AMWU told the Committee that the Newcastle mill "is going from one success to another as regards productivity", and believes 350 tepa is quite achievable within the life of the Plan.<sup>51</sup> The FIA at Port Kembla said that the result of the Plan ought to be

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47. Evidence, p.146.

48. Submission No.9. (BHP), p.9.

49. Evidence, p.165.

50. Steel Industry Authority, Annual Report 1985-86, p.18.

51. Evidence, p.108.

measured by the level of productivity, in which the unions have played a positive role.<sup>52</sup> The problem is that productivity is not at a good level at which to measure results, due to the serious industrial disputation.

4.57 The Committee found Westernport to be a model of productivity and work practices, which is hardly surprising since Westernport leads Australia in the industrial relations area. There has not been a strike in Westernport for over 7 years. Senior staff take turns in visiting a Japanese plant to assess the technology and work practices overseas. Westernport is currently implementing a new award wage system for its plant, reducing the 78 existing job classifications to 6 classifications based on skills and knowledge.<sup>53</sup> Negotiation and consultation have occurred throughout the process and neither BHP nor the unions expect any industrial problems in relation to the changes.

4.58 The Committee was extremely impressed by the attitudes, co-operation and work practices at Westernport. Much of Westernport's success has been attributed to the fact that it is a relatively new and technologically advanced plant. It has not had to cope with the work practice changes associated with the introduction of new technology and historically entrenched work practices. The Committee also noted the differences in attitude of the union officials.

4.59 Unfortunately for the steel industry, Westernport is the exception to the rule. Many deeply entrenched work practices must still be overcome at Port Kembla and Newcastle, before nearing the stage attained at Westernport, and as the SIA has pointed out, the hardest battle is yet to come.

4.60 Much progress must still be made in the area of productivity. Although productivity is steadily increasing in Australia, productivity overseas is also improving. Some steel

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52. Evidence, p.33.

53. Submission No.17 (DEIR), p.4 and informal discussion with BHP at Westernport.

plants in the USA, Japan, Korea and the UK are already running at between 370 and 420 tonnes per man a year.<sup>54</sup> BHP's target is 350 tonnes per man by 1990.

4.61 It is obvious that Australian industry cannot afford to relax its efforts or to be complacent about the gains made to date - they have shown to be quite tenuous and are small when competing with overseas countries like Korea.

4.62 Further changes in work practices and increased productivity are imperative if Australia is to be competitive. The changes should take place before the Plan ends in 1988, while there is a safety net and while there is an Authority which can monitor the gains in Australia and overseas.

#### Wage Settlements

4.63 The unions have committed themselves to wage increases in line with the Prices and Incomes Accord. The unions agreed not to use the protection under the Plan to establish wages and/or conditions above that of community standards.

4.64 The Steel Industry Authority reported no wage settlements outside the guidelines during the year ended 30 June 1985.<sup>55</sup> The SIA has not reported on wage settlements in either annual or quarterly reports since 1985. The SIA says it is approaching the changes in work practices, skill levels and productivity claims with "caution" and has decided to cease monitoring wage settlements.<sup>56</sup> Nevertheless, the SIA confirmed that there was one productivity claim during 1986 which went to the Conciliation and Arbitration Commission. The Commission's finding was against the unions.

4.65 The unions' commitment in this area is not being monitored and a satisfactory explanation has not been given. If there is an agreement between the SIA and the Minister that wage settlements should not be monitored, the Committee is unaware of

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54. Submission No. 13 (SIA), p.5.

55. Steel Industry Authority, Annual Report, 1984-85, p.18.

56. Informal discussion with SIA secretariat, (3 July 1987).

it. Unless there is such agreement, the Committee believes the SIA should perform its role of monitoring commitments under the Plan.

4.66 Although the unions are not required under the Plan to keep wage increases in line with the Consumer Price Index, it is interesting to note that since the Plan's inception, iron and steel employees' wages were 4% ahead of the CPI and 7% above the manufacturing industry's wages.<sup>57</sup>

## State Governments

### Containment of Charges

4.67 The State Governments' commitments are basically in the containment of State charges. The relevant State Governments have largely met this commitment.

4.68 In addition to the development of a strategy to contain charges across the State, the South Australian Government said that it had provided specific assistance to BHP in the area of water charges.<sup>58</sup> The New South Wales Government has been able to keep power cost increases at 3% between October 1983 and December 1986, compared to a CPI increase of 25% during that period.

4.69 BHP is satisfied that the relevant State Governments have met their commitments, but points out that major increases in charges were made just prior to the Plan.<sup>59</sup> BHP's power costs per tonne increased from \$29 to \$39 between 1982 and 1985, rising to \$44 per tonne in May 1986.<sup>60</sup> BHP is reasonably satisfied with the level of the recent increases.

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57. See Appendix IX.

58. Submission No.20. (SA Government), p.14.

59. Evidence, p.148.

60. Submission No.9. (BHP), p.9.

4.70 Increases in NSW rail charges were a matter of concern to Palmer Tube Mills. Palmer Tube Mills was concerned with both the level and frequency of the increases. Charges have allegedly increased from \$32 to \$41 per tonne between October 1986 and February 1987, a 28% increase in 4 months.<sup>61</sup>

#### Conclusion

4.71 With the exception of the recent attitude of the unions, commitments made under the Plan have largely been adhered to. BHP has exceeded its original capital investment commitment and adhered to all its other commitments. Improvement is still required, however, in BHP's product quality and customer relations. Whilst the Commonwealth Government has adhered to the majority of its commitments, it has altered its quota commitment and failed to implement the effective fast-track anti-dumping mechanism announced in the Plan. The State Governments have been successful in containing water and power charges.

4.72 It is of serious concern to the Committee that the unions have not adhered to the agreed dispute settling procedures and that the level of industrial disputation is rising, particularly at Port Kembla. Although the unions met their commitments during 1984 and 1985, the level of industrial disputation has now reached pre-Plan levels at Port Kembla. The Committee is also concerned that the unions' adherence to the wage settling commitment is no longer being monitored by the Steel Industry Authority and that the Authority has not been effective in alleviating the escalating level of industrial disputation. The Committee believes that union officials must make more effort in encouraging commitment and understanding at the shop floor level, otherwise falling commitment and sectional interests can easily undermine the still shaky Plan foundation.

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61. Submission No.14. (Palmer Tube Mills), p.1.

4.73 Although productivity is improving, it is imperative that further productivity increases are made if Australia is to attain long-term international competitiveness. Future productivity improvements, however, will entail the removal of deeply entrenched work practices and necessitate co-operation and flexibility by both management and unions. Overseas countries are already achieving or bettering BHP's 1990 productivity goals.



CHAPTER 5EFFECTIVENESS OF THE PLAN

## Introduction

5.1 The effectiveness of the Steel Industry Plan must be judged in terms of the extent to which the Plan has been instrumental in achieving its original objective: the creation of a long-term viable steel industry which is internationally competitive. Achieving international competitiveness required a significant reduction in the industry's relative production costs. The Plan sought to do this by encouraging a massive capital investment program by BHP to upgrade facilities, thereby improving product quality, energy efficiency and productivity. The Plan's effectiveness is also reliant on the adherence of each party to its original commitments. Factors such as improved management control, improved work practices, containment of labour costs, containment of state charges, bounty payments, effective anti-dumping measures and other taxation incentives are crucial in reducing production costs.

5.2 According to the Steel Industry Authority, the industry has overcome many of the difficulties that it faced in the years immediately preceding the Plan. The extent to which the Plan has contributed to the industry's improvement is the crux of this Committee's review.

5.3 Most witnesses agreed that the Plan has been effective and believe it has provided the framework for the industry's recovery. A number of problems, however, still need to be overcome. These were identified as: quality, delivery and customer relations problems by BHP; industrial disputes by unions which were hindering productivity; and inadequate Government action on imports.

5.4 It is also evident that influences external to the Plan have aided the industry's recovery, particularly the various available taxation measures, the devaluation of the Australian dollar and the worldwide steel industry recovery since 1982-83.

## Industry's Return to Profitability

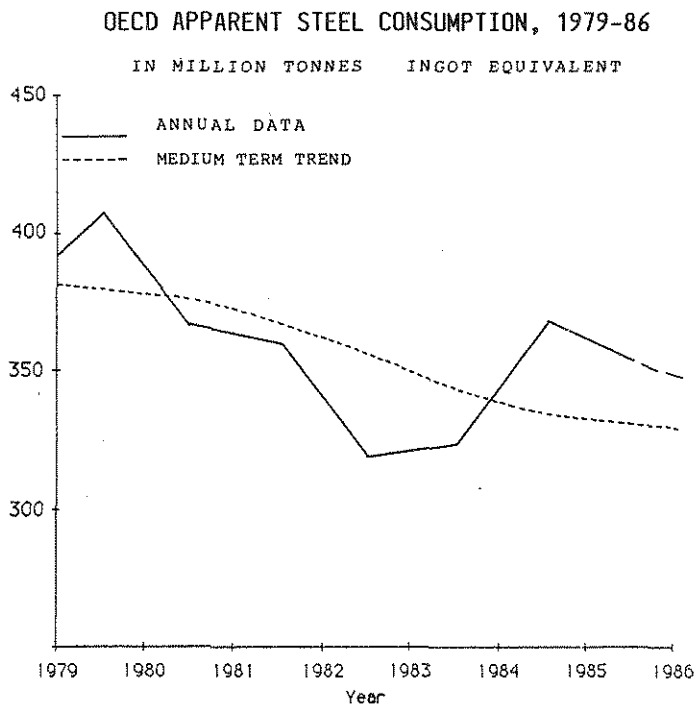
5.5 During 1985-86, BHP became the second most profitable steel company in the world after Nippon Steel, according to the Steel Industry Authority. The SIA attributes the return to profitability to overall improvements in BHP's operations, combined with the effects of the devaluation of the Australian dollar.<sup>1</sup> BHP's profits have increased in 1984, 1985 and 1986. Net profit for the BHP Steel International Group was \$253.9 million in 1986 and \$200 million in 1987, compared to an \$84.3 million loss in 1983.<sup>2</sup> During 1986-87, a weakening of profits and a negative cash flow of around \$600 million as the capital investment program reaches its peak, are reflected in the lower profit figure. Whilst the investment will cause a short-term strain, in the long-term it will place BHP in a better competitive position in relation to overseas steel makers.<sup>3</sup> BHP recognises that continual upgrading of its facilities is essential if it is to become and remain international competitive.

5.6 Other firms in the steel industry have also shown improved profit performance. Comsteel expects to declare a modest profit in 1986/87 after a series of losses over the last 4 financial years.<sup>4</sup> Tubemakers' profit has also increased steadily to reach \$29 million in 1986, compared to a low of about \$12 million 1983.<sup>5</sup>

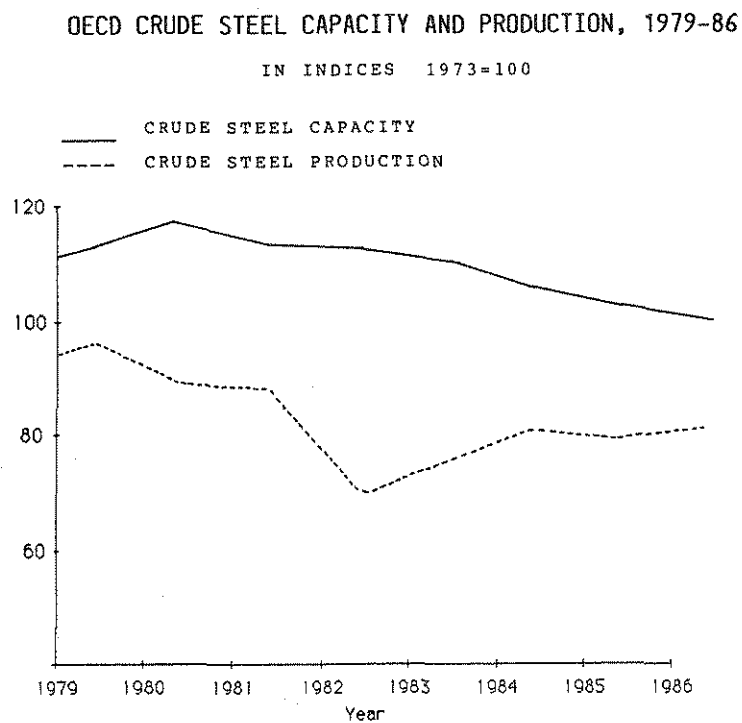
5.7 The industry's return to profitability coincides with the worldwide recovery in steel demand since 1982-83. Graphs 6A and 6B demonstrate the OECD recovery since 1982. Graph 6A shows that OECD countries experienced a marked improvement in steel consumption between 1982 and 1984 followed by a small decline in 1985. Graph 6B shows the OECD improvement in steel production during the same period.

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1. Steel Industry Authority, Annual Report 1985-86, p.1.
  2. SIA, Annual Report 1985-86, p.1. and BHP Steel International Group statistics.
  3. SIA, Annual Report 1985-86, p.29.
  4. Evidence, p.30.
  5. Tubemakers of Australia Company brochure.

GRAPH 6A



GRAPH 6B



Source: OECD - The Steel Market in 1985  
and the Outlook for 1986.

5.8 During 1985 and 1986, world crude steel production was experiencing virtual stagnation. During the same period, Australia experienced moderate growth in steel consumption and a modest increase in crude steel production. Steel consumption amongst OECD countries during 1985 has declined 1-2% since 1984. In contrast to the trend, China experienced a 20% growth in steel consumption and the Republic of Korea also experienced strong growth. Crude steel production in these countries increased by 6-8% during 1985.<sup>6</sup>

### Industry's Cost Competitiveness

5.9 According to the Department of Industry, Technology and Commerce, Australian Steel producers are now generally competitive with international prices; steel prices having fallen over the life of the Plan. The Department attributes this to three factors:

- . the devaluation of the Australian dollar;
- . industry rationalisation and modernisation, by way of efficiency and productivity improvements; and
- . the benefits of the Steel Industry Plan, including the containment of price increases through bounty assistance.<sup>7</sup>

5.10 Although steel prices have fallen in real terms and BHP's average weighted price increases have been kept at approximately half the rate of the domestic CPI, most witnesses, including BHP, believe that this is not enough. They believe that in order to be competitive, Australia must compete with the growth rates of other countries, some of which have been negative in recent years. Nevertheless, the SIA believes that BHP has done well to keep price increases below the CPI, particularly in light of the inflationary environment in Australia over the past few years.

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6. Organisation for Economic Co-Operation and Development, The Steel Market in 1985 and the Outlook for 1986, Paris 1986, pp.6-9.

7. Submission No.10 (DITAC), Attachment 5, p.4.

5.11 The role of the devalued Australian dollar in assisting exports and competitiveness over this period has been considerable. There was general consensus amongst witnesses that the devalued dollar had considerably enhanced the competitive situation for Australian steel producers. Most witnesses preferred the value of the dollar to remain under 70 cents against the American dollar. Tubemakers drew attention to the fact that Australia's inflation rate is approximately fourfold that of its competitors and that the increasing productivity of these countries can very easily dissipate the effect of the devaluation in a very short time.<sup>8</sup>

#### Export Restraint Agreement

5.12 In a revitalised and competitive domestic steel industry, Australian steel imports can be expected to increase. General dissatisfaction was expressed in relation to the limitation placed on exports to the USA, by a formal Export Restraint Agreement (ERA). Witnesses believe that this agreement, effective for a period of 5 years from 1 October 1984, was cutting back potential exports. BHP claims that when the export levels were determined, many sectors of the industry were disadvantaged because an unfortunate base year was chosen when figures were fairly low.<sup>9</sup>

5.13 Although the limitations under the agreement are not currently affecting BHP, due to current production difficulties as a result of their capital investment program, companies such as Tubemakers and Bunge Industrial Steels believe that their exports could be substantially increased without this restriction. Tubemakers expects to be able to virtually double the level of its pipe exports to the USA without the voluntary Export Restraint Agreement, from 17,500 tonnes in 1984 to a potential 30,000 tonnes.<sup>10</sup>

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8. Evidence, p.161.

9. Evidence, p.133.

10. Evidence, p.177-8

5.14 A review of the agreement is required in 1989, so that the Australian industry is not disadvantaged. The Committee recommends that:

at the expiry of the current Export Restraint Agreement with the USA, the Minister for Foreign Affairs and Trade and the Minister for Industry, Technology and Commerce co-operate in reassessing the necessity for Australia entering into another agreement restraining its exports to the USA and, if another agreement is unavoidable, recalculate the export level based on a more appropriate base year.

5.15 The Department of Industry, Technology and Commerce has encouraged the Committee by saying that whether Australia enters into another agreement post 1989, will depend upon the level of confidence within the industry without attracting dumping or countervailing measures.<sup>11</sup>

#### Effect of Bounty Payments

5.16 One of the aims of the bounty payments was to enable the industry to undertake a modernisation program, thereby becoming competitive at long-term tariff rates by 1989.<sup>12</sup> Assessing the effect of the bounties at the midpoint of the Plan, BHP concluded that "bounty payments accruing to BHP Steel International Group amounted to \$43.1 million which is approximately one half of one percent of total Steel Group sales revenue and 5.5% of capital expenditure".<sup>13</sup>

5.17 Bounty payments amounting to 5.5% of BHP's capital expenditure cannot have assisted BHP's modernisation scheme in any meaningful way. Instead, BHP has put the bounties towards retaining its market share. Even then, BHP claims that its bounty payments were of such small magnitude that "BHP steel rebates paid to its Australian customers in order to retain market share have substantially exceeded Government bounty payments".

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11. Submission No.10 (DITAC), p.9.

12. Submission No.10 (DITAC), p.3.

13. BHP, "The Steel Industry Plan - Half-way", p.4.

5.18 Comsteel told the Committee that the bounty would have been better utilised if it were specifically allocated as capital assistance rather than "doling out a bounty which in many cases has been used only to subsidise downstream producers or an inefficient operation."<sup>14</sup> Comsteel believed that smaller players in the industry were disadvantaged in the bounty system. Despite a restructuring of the bounty, effective from 1 July 1985, to accommodate Comsteel's change of ownership and subsequent product separation, Comsteel still found that the bounty levels were insufficient. During a visit to Comsteel's plant, the Committee gained the impression that Comsteel's problems are not bounty-related, but due rather to management, costing and efficiency problems. It appeared to the Committee, to use Comsteel's own words, that the bounty was being sought to "subsidise an inefficient operation."

5.19 Tubemakers said that the bounty level was geared towards the competitiveness faced in 1983 and that changes in bounty levels can have a dramatic profit effect, impacting largely on only one segment of the industry chain. Tubemakers' point was that the incidence of the bounty was with the converter of the steel.<sup>15</sup> Nevertheless Tubemakers has benefited from direct bounty payments. For Tubemakers, the bounty has been a contributing factor in alleviating the burden of high interest rates associated with the financing of capital expenditure. As market share improved, the bounty assisted Tubemakers with the investment program necessary to become internationally competitive.<sup>16</sup>

5.20 Many witnesses told the Committee that the Government received considerable rewards from the Plan. Tubemakers claims that through import replacement alone, the current account deficit has been reduced by \$400 million over a 3 year period.<sup>17</sup> The Federated Ironworkers' Association said that the price the Government has paid to maintain the steel industry has been cheap.<sup>18</sup>

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14. Evidence, p.93.

15. Evidence, p.160.

16. Submission No.15 (Tubemakers), p.4.

17. Submission No.15, p.5.

18. Evidence, p.180.

5.21 The Steel Industry Authority was reluctant to comment on the effectiveness of the bounty payments. It felt that answers on the cost effectiveness of the bounty were premature and that only after an in-depth survey would it be able to answer such questions.<sup>19</sup>

5.22 Although the bounties have been a visible form of Government assistance, their effectiveness is hard to quantify. BHP considers their impact minimal, however, downstream users have derived considerable benefits from the bounties and steel prices have been kept down as a result of the bounties. To be truly effective in the short-term, bounty must bridge the import price gap, otherwise importers will simply transfer their business to the cheaper source. Bounties complemented by a strong anti-dumping procedure should be sufficient to control this. However, in light of BHP's comments regarding the bounties and the largely ineffective anti-dumping procedure (discussed later in this chapter), the devaluation of the dollar has had a much stronger influence on the import market than the bounties. The effect of an increase in the value of the Australian dollar remains to be seen.

5.23 The safety mechanism, designed to complement the bounty, has not been invoked during the life of the Plan. As discussed in the previous chapter, after taking all relevant factors into account in its examination of each case, the Steel Industry Authority recommended no change in assistance levels. Conversely, assistance levels were not changed even when market share rose above 90% and should have been removed.

5.24 Despite BHP's criticism of the Government's inaction on the safety mechanism, it points out that favourable economic circumstances and low import penetration have meant that this has not been a major problem.<sup>20</sup>

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19. Evidence, p.194.

20. BHP, "The Steel Industry Plan - Half Way", p.5.



5.25 In assessing the effect of the bounty and safety mechanism, it must be remembered that when compared to the levels of Government assistance to steel industries overseas, Government support for the Australian steel industry is quite small. Most overseas countries provide some form of financial assistance to their steel industries, ranging from direct ownership and control to loans, grants, loan guarantees, interest rate subsidies, loan repayment deferrals, conversion of debt to government equity, and so on. Assistance is often provided through the taxation system, for example, the Accelerated Cost Recovery System introduced in the United States provides enhanced depreciation allowances for investment, which is of particular significance to the steel industry. Some countries also impose controls such as production quotas, quantitative import restrictions, voluntary trade agreements and tariffs to protect their local steel industry.<sup>21</sup>

#### Effect of the Fast-track Anti-dumping Mechanism and the Reduced-tariff Import Quotas

5.26 A large part of the evidence presented to the Committee concerned the anti-dumping mechanism. Dumping occurs where a nation supplies its domestic market at a substantially higher price than its export price. All industry witnesses believed the present anti-dumping mechanism was ineffective. The two major criticisms were the long delays in reaching a decision and the increasingly legalistic nature of the whole anti-dumping process.

5.27 Under the Plan, close liaison should occur between the Steel Industry Authority and appropriate areas of the Department of Industry, Technology and Commerce, to ensure that timely and effective action is taken against dumped imports. The "fast-track" mechanism was to assist the Australian Customs Service (ACS) to speed up the process of determining whether there was a prima facie case of injury from dumping. To speed up the process, the SIA was to assist the industry in preparing its case, since one of the main causes of delay was the industry's inability to establish its prima facie case.<sup>22</sup>

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21. Department of Industry and Commerce, Report of the Steel Advisory Council, August 1983, AGPS Canberra, pp.44-47.

22. Exhibit No.2, p.1.

5.28 The "fast-track" concept referred to the SIA's "ability to be in possession of all the information concerning local production, imports, et cetera and was in a position to assist the industry in making its prima facie case".<sup>23</sup>

5.29 It became obvious during evidence, however, that the Steel Industry Authority does not fulfil this role. When questioned on anti-dumping procedure, the Authority said, "That should be addressed to the department that administers it; we do not. We do not administer dumping at all" and added that "Customs is responsible for the mechanism, not us".<sup>24</sup> This is in conflict with the Minister's original announcement that the SIA should play an active role in assisting the industry to prepare its case.

5.30 BHP alleges that neither an effective anti-dumping system, nor an effective early import warning system were implemented as an outcome of the Steel Industry Plan.<sup>25</sup> BHP quotes anti-dumping complaint delays of up to 2 years.<sup>26</sup> The same concerns were expressed by Tubemakers of Australia, who stressed the importance of a fast and effective anti-dumping mechanism being in place by 1988.<sup>27</sup> All industry witnesses expressed dissatisfaction with the current anti-dumping procedures. The Committee is very concerned that a system specifically designed to provide fast anti-dumping protection has been so ineffective, particularly when the Government and industry agree on its importance.

5.31 In February 1986 Professor F.Gruen undertook an urgent inquiry into the whole issue of anti-dumping at the request of the Minister for Industry, Technology and Commerce. The Gruen Report<sup>28</sup> was presented to the Minister on 27 March 1986. Even though the Government has accepted the majority of Professor Gruen's recommendations, as yet none have been implemented. The

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23. Evidence, p.233.

24. Evidence, p.205.

25. Submission No 9 (BHP), p.5.

26. Submission No.9 (BHP), p.6

27. Evidence, pp.163, 168.

28. Gruen, Professor F.H., Review of the Customs Tariff (Anti-Dumping) Act 1975.

Committee has been told that legislation is required to change the Act, before any of the changes can be made. Whilst not a recommendation of the Gruen report, the Government decided to establish an anti-dumping tribunal to make recommendations to the Minister, but this is also awaiting legislation before it can be established.

5.32 Effectively, nothing has been done since the Gruen Report, and as pointed out by witnesses, the situation regarding dumping is unsatisfactory and the delays still exist. The Australian Customs Service admits that there are delays in the Australian system, but argues that despite this Australia's response rates on preliminary positive findings compare favourably with other countries,<sup>29</sup> particularly the United States, Canada and the European Economic Community. The delays are attributed to 2 main factors: a resources problem which has led to a backlog of review cases; and the increasingly complex, legalistic nature of review cases which has led to prolonged technical and legal argument.

5.33 Political pressures are also delaying or preventing anti-dumping action. In the words of Mr Laver "...We are, as a country and company, somewhat schizophrenic on this particular subject".<sup>30</sup> The major difficulty is that the countries most prone to be selling steel at dumped prices are those who are the best customers for steel-making raw materials and other exported goods.

5.34 The Australian Customs Service has been trying to overcome the delays by carefully training staff and by screening cases so that cases with little chance of success can be eliminated early in the process, leaving more resources to deal with the remaining cases.<sup>31</sup> A consultant has been employed to examine the systems and resources available to the dumping and

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29. Evidence, p.236.

30. Evidence, p.121.

31. Evidence, p.242.

operations area.<sup>32</sup> The legislation is being re-drafted and policy guidelines are being updated so that they are not as open to legal interpretation challenges.<sup>33</sup>

5.35 Despite the actions taken by the ACS to remedy the situation, the Committee believes that action against dumping is currently inadequate. Given the precarious state of the steel industry, priority should be given to implementing a fast and effective anti-dumping mechanism. When the Plan ends in 1988, it will be even more crucial that an anti-dumping mechanism is in place. The Committee believes that the SIA has been given a role to play in assisting the industry to prepare its prima facie case, and should perform this role.

5.36 The Committee therefore recommends that:

- a) the roles of the Steel Industry Authority and the Australian Customs Service be clearly delineated;
- b) a clear set of administrative and policy guidelines be developed by the Australian Customs Service to ensure systematic investigation procedures and to assist the industry in preparing its prima facie case in a dumping complaint; and
- c) priority be given to implementing the recommendations of the Gruen Report, particularly clarification of the Customs Tariff (Anti-Dumping) Act 1987 and the implementation of strict deadlines for completion of preliminary and final findings.

5.37 One witness, Tubemakers of Australia, expressed serious concern about the incidence of secondary dumping. Secondary dumping is a complaint of downstream industry. It occurs where steel feed is imported at dumped prices by the pipe maker and

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32. Evidence, p.237.

33. Evidence, p.238.

then re-exported as pipe at low prices to a third country such as Australia. Tubemakers was concerned that government agencies do not recognise this form of dumping.<sup>34</sup>

5.38 The problem is that secondary dumping is almost impossible to prove, involves a lot of work and has little chance of success, according to the Steel Industry Authority.<sup>35</sup> Steel buying prices by country are very difficult to compare, involving labour costs per unit and all the additional costs. The Gruen Report suggests 2 logical answers - "take duties off imports or put higher duties on outputs."<sup>36</sup> The report's final conclusion is that secondary dumping should not be a legislative matter under the Act, but rather should be referred to the Industries Assistance Commission which would report on the desirability of longer-term anti-dumping action. The Committee agrees with this conclusion and recommends that:

the matter of secondary dumping of steel feed be immediately referred to the Industries Assistance Commission for advice on whether longer-term anti-dumping action is desirable.

5.39 The issue of quotas on reduced-tariff imports from developing countries has been controversial throughout the inquiry. The countries of major concern to the industry were Korea, Brazil and Taiwan. These countries are classified as developing, but each have very modern steel industries, usually heavily supported or controlled by government and usually funded by grants or low interest loans from American banks.<sup>37</sup> BHP's comment that "to give a 5 per cent preference to brand new steel plants financed in unusual sorts of ways just seemed a little odd",<sup>38</sup> accurately reflected industry sentiment.

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34. Submission No.15 (Tubemakers), p.9.

35. Evidence, p.206.

36. Gruen Report, p.45.

37. Evidence, pp.130, 131.

38. Evidence, p.131.

5.40 Industry opinion was particularly strong against Korea receiving developing country preference for its steel. Tubemakers said that "for the Koreans in steel and pipe manufacture to be considered in anyway inferior to anybody is really ridiculous", and that "reinstating the preference to Korea is a ridiculous situation".<sup>39</sup> The fact that both Korea and Taiwan have tied their currencies to the American dollar gave them an additional 40% devaluation, according to Tubemakers.

5.41 The Department of Industry, Technology and Commerce was the only witness who disagreed that the Korean steel industry was more efficient than the Australian steel industry.<sup>40</sup> The Department added that very few steel imports from Korea are currently eligible for a preference and that on the items where Korea still receives preference, a decision was made that these products did not cause injury to the Australian industry.<sup>41</sup>

5.42 Korea's classification as a developing country is a policy issue based on the GATT definition of a developing country, not on the efficiency of its steel industry. Both Tubemakers and BHP acknowledge political pressures to adhere to developing country classifications under GATT. Tubemakers, however, suggests that preferences should be examined on the basis of a developing industry rather than a developing country.<sup>42</sup>

5.43 The Committee is cognisant of the pressures leading to the retention of the developing country preference for Korean steel imports, but cannot see any justification for retaining a preference for a steel industry which is so technologically advanced and which is heavily protected by its own government. It is recommended that:

the Developing Country preferences for the Republic of Korea's remaining eligible steel imports be removed.

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39. Evidence, p.172.

40. Evidence, p.251.

41. Evidence, p.253.

42. Evidence, p.174

5.44 The Committee also recommends that:

the Department of Industry, Technology and Commerce reassess Developing Country preferences in relation to steel imports, removing preferences for those countries which possess advanced and subsidised steel industries and where preferences are clearly not warranted.

#### Effect of Industry Investment and Rationalisation

5.45 The Department of Industry, Technology and Commerce attributes much of the steel industry's improvement to the hard decisions taken by the industry to quickly rationalise and modernise plant and bring production into line with market demand.<sup>43</sup> The Steel Industry Authority has said that BHP's return to profitability is due to improvements in BHP's operations, combined with the devaluation of the Australian dollar.<sup>44</sup>

5.46 The Steel Industry Plan has coincided with BHP's recognition, prior to the Plan's inception, that the industry required major restructuring and investment if it was to survive. In its December 1982 submission to the IAC, BHP was already proposing a massive investment plan totalling \$2.8 billion over 10 years and asking for government market share and taxation assistance. With this assistance, BHP was prepared to continue steelmaking at the 3 major centres. In essence, this is the backbone of the Steel Industry Plan.

5.47 Isolating the effects of the capital investment program at this point in time is difficult, since many of the proposed facilities have not yet been commissioned. It is obvious, however, that without the confidence provided by the Plan, the massive expenditure program by BHP and other steel companies would not have occurred. From BHP's viewpoint, the key element of the Plan has been the need to underpin a major investment program primarily devoted to quality and cost improvement measures.<sup>45</sup>

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43. Submission No 10 (DITAC), Attachment 5, p.1.

44. Steel Industry Authority, Annual Report 1985-86, p.1

45. BHP, "The Steel Industry Plan - Half Way", p.8.

5.48 The proposed facilities are expected to produce cost savings exceeding \$100 million per annum. As a result of new continuous casting facilities, yield improvements of around 80% should increase finished product output by around 6%. BHP is confident that its investment program should place it and its technology amongst the world's leading steel companies by 1989.<sup>46</sup>

5.49 Simultaneous upgrading of facilities at BHP and in other sectors of the steel industry will be beneficial to the industry as a whole. Apart from BHP, several companies have embarked on investment programs to upgrade facilities so that they can improve product quality and remain competitive. Investment is also planned in sectors of the industry which do not receive assistance under the Plan, such as the Humes Smorgon mini-mill.

5.50 Quantification of the effect of the industry-wide investment program will not be possible until the major work has been completed. Efficiency and quality improvements, the primary aims of the investment, are yet to be fully realised. BHP anticipates further productivity gains when the facilities are fully commissioned, and its competitive position continues to improve. The effect of BHP's investment program is expected to significantly help downstream users, according to Tubemakers, particularly those who have undertaken complementary capital investment.<sup>47</sup>

5.51 Even with the substantial capital investment into the latest technology in steel production by the Australian industry, there are many areas in which the industry will still be behind the world trends. This is due, in part, to the relatively small size of the Australian industry; Australia produces 6 million tonnes of steel per annum, compared to over 100 million tonnes by Japan.<sup>48</sup> Continuous upgrading is essential to the industry's

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46. BHP, "The Steel Industry Plan - Half Way", p.9.

47. Evidence, p.176.

48. Evidence, p.210.



long-term survival, particularly once the Plan ends. BHP recognises that it should be reinvesting about 4% of the cost of each tonne back into its plant.<sup>49</sup>

5.52 Rapid technological improvements are constantly being made overseas. Improvements made in arc furnace technology overseas include continuous casting, reduced power loss, improved heat times and changes in refractory design. Although Australia has introduced continuous casting in steel production, the Japanese technology of continuous annealing and continuous batching gives it quality advantages over the domestic product.<sup>50</sup> Despite the fact that BHP's product quality is improving consistently, it has not reach comparable quality to Japan. BHP believes that its product quality is now very comparable to that of most other countries, except Japan. Japan is the benchmark quality.<sup>51</sup> Its quality is consistently high, whereas the Australian product has differing quality and pressing characteristics.

5.53 Electric arc furnace technology, which is used in mini-mills, is increasing in overseas countries. Electric furnaces now account for between 25% and 55% of steel production in most of the overseas steel producing countries.<sup>52</sup> Countries such as the United States, Italy and Spain already have large mini-mill sectors. Mini-mills have already been operating in the USA for over 20 years. Australia has only one mini-mill at present owned by Humes Smorgon in Victoria. BHP has not broken into this market in Australia, although it is contemplating construction of 2 mini-mills to service the capital city rod and bar markets.

5.54 Mini-mills, which utilise scrap rather than being direct producers of steel from raw materials, enjoy numerous advantages over their integrated rivals. Advantages include higher productivity (half the manhours in many products), product specialisation, geographic specialisation, low cost, low scrap

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49. Evidence, p.154.

50. Evidence, p.210.

51. Evidence, pp.135, 136.

52. Barnett, DF and Crandall, RW, Up from the Ashes, Brookings, Washington 1986, p.109.

and ever improving technology.<sup>53</sup> The cost savings made by mini-mills are sufficient to justify the capital expenditure necessary to modernise them.

5.55 Another area of new technology not yet in Australia is the direct reduction process, already being used in integrated steel mills overseas. During informal discussions with the Committee, Conzinc Rio Tinto Australia (CRA) indicated that the future of the iron and steel industry was in the direct reduction of iron ore. Although not currently making steel, CRA is examining possible applications for the direct reduction process to West Australian iron ore. The Steel Industry Authority was not enthusiastic about the prospects of direct reduction technology,<sup>54</sup> even though it is already being used in New Zealand. BHP was aware of the process, but felt it had no application in Australia given the low grade quality of Australian iron ore.<sup>55</sup>

#### Effect of Taxation Benefits and the Devalued Australian Dollar

5.56 It is evident that investment allowances and accelerated depreciation tax concessions have been a major factor in encouraging capital expenditure. To the end of 1986 (which was the end of BHP's financial year), BHP's total bounty payments amounted to \$49 million, which after tax represents approximately \$27 million. As mentioned previously, neither BHP nor Tubemakers used the bounty payments to undertake its modernisation program. BHP has used its bounties to retain domestic market share. Tubemakers has used the bounties primarily to offset the interest costs of the capital investment. In BHP's case, the value of other concessions is at least equivalent to the amount of bounty received.

5.57 Due to BHP's major investment program, the investment allowance and accelerated (3/5) depreciation concessions appear to have been of much greater financial benefit than the direct bounty payments. BHP did not reveal the extent of benefit it has

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53. Up from the Ashes, pp.20-25.

54. Evidence, p.212.

55. Evidence, p.148.

derived from taxation measures. The Department of Industry, Technology and Commerce, whilst admitting it had no factual knowledge, indicated to the Committee that the steel industry has made significant use of taxation assistance measures.<sup>56</sup>

5.58 Based on BHP's actual capital expenditure, on an 18% taxation rate and a number of assumptions, the value of the investment allowance to BHP is roughly estimated to be around \$80 million over the period of the Plan until December 1986.<sup>57</sup> Accelerated depreciation of plant over 3 or 5 years, rather than the conventional 10 or 20 year depreciation period, is certain to have had substantial cash flow benefits for BHP. Accelerated depreciation benefits may have resulted in a tax saving as high as \$90 million during the 1986-87 financial year, although this is also just an estimate. Nevertheless, the taxation benefits will greatly exceed the \$27 million net value of the bounties.

5.59 In its 1986-87 annual report, the IAC estimates that the accelerated depreciation allowance represents after-tax assistance to BHP in present value terms of about 12% of the investment.<sup>58</sup>

5.60 In the case of Comsteel, the bounties appear to be a critical factor in its ability to modernise its plant. Comsteel seeks a 5 year extension of the Plan. The intention of the Plan, however, is to promote a long-term viable steel industry and the Committee is concerned at Comsteel's apparent dependence on the Plan and other Government assistance programs. Other sectors of the steel industry do not want ongoing assistance, because they feel they will be more highly regarded by their competitors if they are competitive without assistance. Humes Smorgon, a company which has only recently entered the industry, is expanding its facilities without Government assistance.

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56. Evidence, p.249.

57. Refer Appendix VIII for method of calculation.

58. Industries Assistance Commission, Annual Report 1986-87, AGPS, Canberra, p.99.

5.61 The evidence indicates that the Australian dollar devaluation in 1985 has contributed a great deal to the success of the industry. BHP believes that the factor that "really underpinned the steel plan was the major devaluation of the Australian dollar ... which obviously changed the world competitive situation".<sup>59</sup>

5.62 A considerable part of the industry's increased competitiveness is due to the dollar devaluation. The Steel Industry Authority has said that "the decrease in imports can be attributed to the devaluation of the Australian dollar which has made imported steel relatively more expensive than domestic steel".<sup>60</sup> The Department of Industry, Technology and Commerce also attributed the falling domestic steel prices, in part, to the devaluation of the Australian dollar.<sup>61</sup> Comsteel agreed that the falling dollar had improved its market share of alloy and stainless steel bar.<sup>62</sup> The national FIA representative suggested that the success of the steel industry was to some extent due to the value of the dollar.<sup>63</sup> In its recently released 1986-87 annual report, the IAC reached the same conclusion, noting that the depreciation of the Australian dollar has been a significant factor in the improved competitive position in the Australian steel industry in both domestic and export markets.<sup>64</sup>

5.63 Products very susceptible to imports, for example cold rolled products, regained a market share above 80% by the end of 1985, following the devaluation of the dollar earlier that year.

#### Quality Improvements as a Result of the Plan

5.64 Although BHP has overcome many of its quality and delivery problems, some areas of concern remain. One of the Plan's major benefits to all parties, has been the improved consultation between BHP, its employees and its customers.

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59. Evidence, p.126.

60. Steel Industry Authority, Annual Report 1985-86, p.14.

61. Submission No 10 (DITAC), Attachment 5, p.4.

62. Evidence, p.89.

63. Evidence, p.189.

64. IAC, Annual Report, p.99.

5.65 The most vocal criticism of BHP's quality and delivery has come from the automotive industry. The Nissan Motor Manufacturing Company and Holden's Motor Company have both experienced quality problems with BHP in the past. Due to quality problems, Nissan does not allow BHP steel to be used for external body panels on its cars.<sup>65</sup> Holden's believes that BHP is improving its delivery and quality, but claims that the improvements are achieved by overproduction and stockholding. Holden's does not see this as a long-term solution, preferring BHP to strive for correct times, amounts and quality.<sup>66</sup> Overall, Holden's believes that BHP's Coated Products Division has improved during the existence of the Steel Industry Plan.

5.66 Both Nissan and Holden's agree that BHP's delivery and quality is improving. Nissan has said that BHP's previously "adversarial" attitude has changed to a more sympathetic attitude towards its customers. At senior levels, however, Nissan claims that some lack of understanding still exists and also criticises BHP for its unsympathetic attitude towards smaller customers' needs.<sup>67</sup> Transfield's Steel Division suggested that the overall efficiency of the Plan could be enhanced if BHP channelled more effort into responding to market forces and its customers.<sup>68</sup>

5.67 BHP admits that quality problems still exist, but says it is "certainly working on them".<sup>69</sup> BHP is now working together with those customers who are experiencing quality problems. The company believes it has already overcome many of the quality problems and is confident that by the time the capital investment program is completed, most of the problems will have been addressed.

5.68 Despite BHP's improvements, steel users continue to complain about quality. The Steel Industry Authority is monitoring the quality issue, believing it to be one of the most important issues at present. Inconsistent product quality and

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65. Submission No.4 (Nissan), p.3.

66. Submission No.12 (Holden's), p.2.

67. Submission No.4 (Nissan), p.5.

68. Submission No.6 (Transfield), p.2.

69. Evidence, p.142.

cleanliness problems are the two issues currently being examined.<sup>70</sup> Remedial action, the SIA believes, is a question of technology and the size of the market. In light of these considerations, the cost may be prohibitive. The Committee was told that the best answer "might even be to do nothing."<sup>71</sup> The SIA is currently encouraging companies to specify their requirements more clearly.

5.69 The Committee believes that quality problems must be adequately addressed, particularly since the primary purpose of BHP's capital investment program was to improve cost structure; quality and service.<sup>72</sup> The SIA should continue to closely monitor product quality and to formulate a number of constructive solutions. The Committee will continue to watch the quality issue with interest, particularly towards the end of the Plan when the investment program is complete. Quality, cost and service will be the keys to BHP's international competitiveness beyond the Plan.

#### Conclusion

5.70 A combination of elements has contributed to the recovery of the Australian steel industry:

- . the worldwide steel industry recovery;
- . BHP's massive capital investment program and corresponding investment by other sectors of the industry;
- . the assistance and security provided by the Plan; and
- . factors outside the Plan, such as taxation measures and the devaluation of the Australian dollar.

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70. Evidence, p.208.

71. Evidence, p.209.

72. Evidence, p.123.

5.71 The Committee finds difficulty in quantifying the extent to which the Plan itself has contributed to the recovery. The Committee recognises, however, that without the Plan the industry would not have had the confidence to embark on its capital investment program and that BHP would probably have closed at least one of its major plants.

5.72 The industry recovery is a remarkable achievement, particularly when considering its poor base in 1982-83 and when comparing the Government assistance to the Australian industry with the assistance of overseas governments to their steel industries. The bounties are a highly visible form of assistance to the industry and have assisted in containing steel price increases as well as providing significant benefits to downstream users.

5.73 The Plan is supported by all sectors of the steel industry, who regard it as providing the framework for the industry recovery. There is no doubt that the Plan should continue for its full 5 year term. Nevertheless, the recovery is still quite precarious and any faltering in commitment or significant rise in the value of the Australian dollar could reverse the industry's relatively prosperous position quickly and dramatically.

5.74 It is generally recognised that some areas remain which require further attention, the major ones being quality of the domestic product and industrial relations, the latter having been discussed at length in the previous chapter. The Committee is satisfied that all efforts are being made to rectify these problem areas, but time will tell whether these problems can be reduced to an acceptable level.

## CHAPTER 6

### THE STEEL REGIONS ASSISTANCE PROGRAM

#### Introduction

6.1 The dramatic workforce reductions in the steel industry during 1982-83 caused high unemployment levels in the three major steel regions - Wollongong, Newcastle and Whyalla. The downturn led to reduced retail and building activity and placed strains on regional support services. The Government responded to the effects of the industrial recession on the steel regions by announcing the Steel Regions Assistance Program (SRAP) in September 1983. Although separate from the Steel Industry Plan, SRAP has been implemented in conjunction with the Plan.

6.2 The Program is providing \$102 million over a period of 5 years to assist the major steel regions in economic diversification and to expand employment opportunities. Support is being provided for the upgrading of infrastructure, expansion of training facilities and further development of the tourism industry.<sup>1</sup> Of the total amount of \$102 million, \$92 million was earmarked for projects in the Hunter and Illawarra regions and up to \$10 million for projects in Whyalla. By the end of May 1987, projects to the value of \$89 million had been approved for the regions.<sup>2</sup>

6.3 Commonwealth funding is provided by Section 96 Grants to the States. Decisions on the broad structure of priorities are made initially by the Commonwealth and State Governments after some local consultation. Although primary responsibility for the program rests with the Department of Employment and Industrial Relations, several other Commonwealth Departments have responsibility for specific aspects of the Program and receive separate Commonwealth appropriations. For example, the Department of Sport, Recreation and Tourism has responsibility for tourism

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1. Submission No. 17 (DEIR), p.6.

2. Submission No. 17, p.7., updated by evidence, p.256.



projects; the Department of Transport for roads infrastructure; the Department of Primary Industry for a grain handling project; and the Department of Education for TAFE projects.

6.4 Responsibility for project development lies with the State Governments. The current situation is that relevant State departments and agencies, local governments, and other interested organisations are involved in the preparation of project proposals. SRAP proposals which receive State Government endorsement are submitted to the Minister for Employment and Industrial Relations for consideration by the Commonwealth. In deciding whether proposed projects should be funded under the Program, the Minister consults as appropriate with other Commonwealth Ministers and with local members from the steel regions concerned.<sup>3</sup> At local Government level, regional management committees were established to advise on suitable priorities in relation to tourism projects.

6.5 Local government representatives in each of the major steel regions criticised the administration of the program, particularly in relation to the tourism component. Witnesses believed that: there was inadequate local consultation on projects; there was a lack of readily available information on the allocation and expenditure of funds; and there were long delays in evaluation of projects, particularly in the tourism area.<sup>4</sup> The major hindrance was perceived to be a lack of co-ordination within the Federal bureaucracy and between the State and Federal bureaucracies.<sup>5</sup> Political pressures were also perceived to influence the approval process.

#### Performance of SRAP

6.6 Apart from the tourism component of the Program, funding for SRAP is almost complete. Outstanding tourism expenditure in the Illawarra represents approximately

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3. Department of Employment and Industrial Relations, Annual Report 1985-86, AGPS, pp.145-6.

4. Evidence, pp.20, 72, 73.

5. Evidence, p.75.

\$6.7 million and in the Hunter represents \$6.3 million. The major categories of projects in each region and the amounts funded to March 1987, are shown in table 3.

TABLE 3

Project Approvals	Hunter Region \$M	Illawarra Region \$M	Whyalla Region \$M
Skills training and upgrading	7.9	7.6	3.3
Technology centre	5.0	5.0	-
Roadworks	3.9	8.0	-
Industry development and assistance	16.5	18.7	0.53
Tourism	4.0	3.9	4.46
<b>TOTAL</b>	<b>37.3</b>	<b>43.2</b>	<b>8.29</b>

(Note: Additional amounts for some projects were funded by the State Governments as follows: \$6.4 million and \$131.3 million for industry development and assistance in the Hunter and Illawarra respectively; and \$0.7 million for skills training in Whyalla.)

Source: Department of Employment and Industrial Relations, Submission No. 17, Table 5 (updated to June 30, 1987 and still current as at November 1987).

6.7 Regional representatives told the Committee that the overall assistance provided by the Program has been very beneficial to the regions. However, the Wollongong City Council believes that despite the considerable funding and support provided by the Program, the region's industrial and longer-term economic problems are not yet over.<sup>6</sup> The Hunter Development Board finds the regional assistance under the Program difficult to assess due to delays in its implementation and the need for some time to pass before the effects of the Program can be

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6. Submission No. 3 (Wollongong City Council), p.27.

reviewed.<sup>7</sup> Whyalla is primarily concerned at its smaller share of assistance and over the many difficulties which have been experienced in the Program's implementation.<sup>8</sup>

6.8 Tourism is considered to be the most important part of SRAP - the project with the greatest potential for industry diversification in the region. Hunter and Illawarra regional representatives expressed most concern in relation to the administration of the tourist component of SRAP. The Hunter Development Board expressed "great disappointment... that the project approvals have not been completed and that there is talk of further reduction in the total to be allocated".<sup>9</sup> Between the announcement of the program in 1983 and March 1987, only \$2.7 million of the \$9 million total tourism allocation for the Hunter region had been approved. By 30 June 1987, \$4.0 million had been approved for tourism projects.<sup>10</sup>

6.9 Tourism projects in the Illawarra are facing similar difficulties. To the end of June 1987, tourism projects amounting to \$3.9 million of the \$9 million tourism allocation had been approved.<sup>11</sup> The Wollongong City Council told the Committee that the tourism component is the area where SRAP has been least successful.<sup>12</sup> Like the Hunter Development Board, the Wollongong City Council was most critical of the tourism component, saying that it was disappointed that the allocated money had not been spent in this important area and that the desired projects had not come to fruition.<sup>13</sup>

6.10 Criticism of the tourism component focussed on 2 major areas: delays due to the extensively bureaucratic process involved in the final project approval; and lack of information regarding extent or availability of funding for tourism.

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7. Submission No. 2 (Hunter Development Board), p.4.  
8. Submission No. 5 (Whyalla City Council), p.1.  
9. Submission No. 2, p.11.  
10. Submission No. 17 (DEIR), Table 6, updated by evidence, p.256.  
11. Submission No. 17, Table 6, updated by evidence, p.256.  
12. Evidence, p.5.  
13. Evidence, p.25.

6.11 The complex bureaucratic process leading up to the final approval of tourism projects was perceived as the major problem. Whilst recognising that a system of checks is necessary when Commonwealth funds are spent, the Hunter Development Board was most critical of the unco-ordinated bureaucratic process. It criticised the lack of co-ordination between various departments within the Federal bureaucracies.<sup>14</sup> The lack of consultation at the regional level was seen to compound the problem and specially formed regional committees were often not consulted on expenditure priorities.

6.12 The Department of Employment and Industrial Relations denied that the bureaucratic network was the primary factor causing the problems. The major hindrance, it argued, was "the lack of money".<sup>15</sup> The Department told the Committee that from an administrative viewpoint the approval of funds is a straightforward process, which has been caught in the budgetary processes.<sup>16</sup>

6.13 The evidence suggested, however, that the convoluted approval process was indeed causing much of the difficulty. Not only did the approval process pass through a chain of Local, State and Federal Government, but even at Federal Government level, appropriation for different projects was emanating from 5 different departments. In relation to tourism, there have been lengthy delays as the Department of Sport, Recreation and Tourism and the Department of Employment and Industrial Relations have discussed and assessed projects. The entire approval process can also be open to political and sectional pressures.<sup>17</sup> The Committee concluded that the process was excessively complicated and should be simplified.

6.14 However, Section 96 of the Constitution, under which special purpose grants are made to the States, requires the co-operation of State and Federal Governments. Where payments are

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14. Evidence, pp.75-78.

15. Evidence, p.282.

16. Evidence, p.283.

17. Evidence, p.281.

made to individual projects in programmes such as SRAP, the full co-operation of State Governments is required. Whilst the Commonwealth is able to place guidelines and its own terms and conditions on such grants, the Program cannot proceed if the States do not accept these conditions. In relation to tourism, this means that the prime responsibility rests with the State and Local Government authorities.<sup>18</sup>

6.15 Within this constitutional constraint, the way to expedite the process is to decrease the number of Federal departments involved in the process. A single department should be given exclusive responsibility for project approval and expenditure. It is therefore recommended that:

(a) exclusive responsibility for the approval, implementation and expenditure for the Steel Regions Assistance program, with the exception of the tourism component, be given to one Federal department;

(b) the criteria and priorities which determine a project's approval be clearly documented and published by the responsible department; and

(c) the lines of authority between Federal, State and Local Governments be clearly delineated.

6.16 The other major criticism of the tourism component of the program concerned the lack of information regarding the extent or availability of funding. All the regions were unsure whether the full project allocation would be forthcoming. The Committee heard that with regard to the tourism component in particular, "just finding out what is going on and monitoring it has been a major problem".<sup>19</sup> The Hunter Development Board believes that "effectively... something like \$6.5 million of the original figure will be taken right out of that [tourism] scheme".<sup>20</sup>

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18. Letter from Department of Sport, Recreation and Tourism, dated 25 May 1987.

19. Evidence, p.20.

20. Evidence, p.72.

6.17 There is clearly a need for more information to flow back to the regional authorities. The Government should immediately make an announcement regarding the extent of funding remaining for the tourism component of the Program, so that regional bodies can reorganise their priorities to fit this budget. The Committee therefore recommends that:

responsibility for determination of priorities and allocation of funds for tourism under SRAP (tourism) be vested in the Minister for Arts, Sport, the Environment, Tourism and Territories and that a firm commitment on the allocation of these funds be obtained.

#### Conclusion

6.18 Whilst the Steel Regions Assistance program has been instrumental in assisting the economic diversification of the major steel regions, the tourism component of the Program, generally considered the most important area of the Program, has been inefficient. The problems caused by inadequate consultation at the local level can easily be overcome by increased consultation with and greater information flow to the regional authorities. The Committee finds the current approval process in relation to the tourism component of SRAP too complicated and involving too many Federal departments. Streamlining the process, increasing local consultation, and giving exclusive responsibility for Program approval and funding, with the exception of tourism projects, to one department, should greatly simplify the process. This does not mean however, that the responsible department should not consult with relevant departments if it feels this will be beneficial or necessary.

CHAPTER 7CONCLUSIONS

7.1 The Committee finds that the Steel Industry Plan has contributed to the recovery of the Australian steel industry and recognises that without the Plan the industry would not have had the confidence to embark on its capital investment program. The industry recovery is a remarkable achievement considering the industry's poor economic base in 1982-83. Without the Plan, BHP would probably have closed at least one of its integrated plants.

7.2 The bounty payments have been a highly visible form of assistance, helping to contain steel prices as well as providing significant benefits to downstream users. Considering that the bounty payments have cost the Government far less than originally envisaged and the fact that the level of Government assistance to the Australian industry is far less than the assistance of overseas governments to their steel industries, the industry's recovery has been stimulated efficiently and effectively.

7.3 The precise extent which the Plan itself has contributed to the industry's recovery was unable to be quantified. The Committee concludes that the steel industry recovery has been due to a combination of factors including: the assistance and security provided by the Plan; BHP's massive capital investment program and corresponding investment by other steel producers and users; and factors outside the Plan such as the worldwide steel industry recovery, taxation measures and the devaluation of the Australian dollar. Although the steel industry's recovery was clearly stimulated by the Plan, greater financial benefit seems to have been derived from taxation measures and the devalued Australian dollar than from the relatively small amount of Government assistance.

7.4 Apart from recent union faltering, each party has adhered to its commitments, in spirit if not always to the letter. BHP has adhered to all its commitments, even though quality and delivery performance still require improvement. The Government has adhered to the majority of its commitments, however its alteration to quota commitments and failure to implement an efficient fast-track anti-dumping mechanism has disappointed the Committee and the industry. Although the unions' industrial relations performance was excellent during 1984 and 1985, the Committee must conclude that the unions are no longer meeting their commitments. The unions have not adhered to the agreed dispute settling procedures and industrial disputation has reached pre-Plan levels at Port Kembla. The effectiveness of the Steel Industry Authority in this area has been negligible. Much progress must also still be made by unions regarding productivity, further increases being imperative if Australia is to attain long-term international competitiveness.

7.5 Unless the unions are prepared to meet their commitments, the benefits of the Plan can quickly be eroded. It is now up to the national union bodies to become more involved and to obtain greater commitments from its members. The Committee identified two other major areas which need to be addressed: firstly, the implementation of an effective fast-track anti-dumping mechanism, particularly if the Australian dollar rises in value against the Japanese and American currencies; and secondly, an effective solution to BHP's remaining quality and delivery problems.



7.6 The Committee believes that the Plan should continue until 1988, hopefully with the immediate implementation of an effective anti-dumping mechanism and greater union commitment. Although another Plan of the same nature does not appear to be the best solution, a continued union/industry agreement is essential.

STEPHEN MARTIN, MP  
Chairman

November 1987

## APPENDIX 1

## Conduct of the Inquiry

On 21 May 1986 the House of Representatives Standing Committee on Expenditure resolved to inquire into the Australian iron and steel industry.

The inquiry was advertised in relevant regional newspapers on 6 or 10 June 1986 and advertised nationally on 7 June 1986. Due principally to the sub-committee Chairman's commitment to another parliamentary committee, the inquiry was unavoidably delayed until February 1987, when the Committee re-approached state governments, relevant Commonwealth departments, industry bodies and those who had previously made submissions. Submissions were received from steel producers, manufacturers, users and unions, as well as federal, state and local government bodies. A list of the 25 submissions authorised for publication is given at Appendix II.

Commencing on 11 March 1987, the Committee conducted inspections at each major steel producing centre - Wollongong, Newcastle and Whyalla - as well as visiting BHP at Westernport, Tubemakers of Australia and the Commonwealth Steel Company at Newcastle, Bunge Industrial Steels at Unanderra and the Humes Smorgon mini-mill at Melbourne. During visits to each of the major steel producing centres, the Committee spoke to regional management, union officials and local government representatives.

A total of 5 public hearing were held in Wollongong, Newcastle and Canberra between 12 March 1987 and 27 May 1987, 285 pages of evidence were taken and 29 witnesses appeared before the Committee. A list of witnesses who gave evidence at the hearings is given at Appendix III. The Committee was unable to table its report before the double dissolution was announced on 5 June 1987. The inquiry was completed by the House of Representatives Standing Committee on Finance and Public Administration.

Evidence given at public hearings and the submissions authorised for publication are available for inspection at the Committee Office of the House of Representatives and at the National Library of Australia.

## APPENDIX II

## Index of Submissions

SubmissionNo.From

- |    |  |
|----|--|
| 1  | Messrs. O'Brien and Payne<br>Delegates of the FIA BHP Newcastle,<br>received 2 December 1986 |
| 2  | Hunter Development Board,<br>dated 19 March 1987   |
| 3  | City of Wollongong Council,<br>dated 12 March 1987   |
| 4  | Nissan Motor Manufacturing Co.<br>(Australia) Ltd.,<br>dated 10 March 1987                   |
| 5  | Corporation of the City of Whyalla,<br>dated 12 March 1987                                   |
| 6  | Transfield (Steel Division),<br>dated 25 March 1987  |
| 7  | ROH Industries Pty Ltd,<br>dated 27 March 1987   |
| 8a | Federated Ironworkers' Association<br>(Newcastle Branch),<br>dated 30 March 1987             |
| 8b | Federated Ironworkers' Association<br>(Whyalla Branch),<br>received 8 April 1987             |



83.

- 18 Mitsubishi Motors Australia Ltd,  
dated 15 April 1987
- 19 Fasteners Institute of Australia,  
dated 15 April 1987
- 20 South Australian Government,  
dated 4 May 1987
- 21 Amalgamated Metal Workers' Union,  
dated 14 May 1987
- 22 New South Wales Government,  
dated 25 May 1987
- 23 Wollongong Community Transport  
Concern,  
received 10 April 1987
- 24 Humes Smorgon Steel (Aust.) Pty Ltd,  
received 17 June 1987
- 25 Australian Independent Steel  
Association,  
dated 16 June 1987

## APPENDIX III

## List of Witnesses

- ADAMSON, R.M. State organiser,  
Amalgamated Metal  
Workers' Union, Beresford  
Lane, Newcastle West, New  
South Wales, (14 April  
1987) pp. 107-118.
- AINSWORTH , W.E. Manufacturing Manager,  
Commonwealth Steel  
Company, Maud Street,  
Waratah, New South Wales,  
(14 April 1987) pp.  
84-106.
- BROWN, R. President, Chemical  
Workers Branch, Federated  
Ironworkers' Association,  
685 Spencer Street,  
Melbourne, Victoria (1  
May 1987) pp.180-189.
- BURTON, B. Member, Steel Industry  
Authority, Canberra,  
Australian Capital  
Territory (26 May 1987)  
pp.193-215.
- CANE, M.R. Assistant Secretary, Job  
Creation Branch,  
Department of Employment  
and Industrial Relations,  
Canberra, Australian  
Capital Territory (27 May  
1987) pp.255-285.
- CASTLEMAN, A.J. General Manager,  
Finance, BHP Steel  
International Group, 140  
William Street,  
Melbourne, Victoria  
(1 May 1987) pp.121-157.
- COLLOPY, G.J. Acting First Assistant  
Secretary, Heavy Industry  
Sectors Division,  
Department of Industry,  
Technology and Commerce,  
Canberra, Australian  
Capital Territory (27 May  
1987) pp.219-254.

- COONEY, J.M. Manager, Government Affairs, Tubemakers of Australia Ltd, 1 York Street, Sydney, New South Wales (1 May 1987) pp.158-179.
- DANIELS, A.B. Executive General Manager, Steel Pipe Division, Tubemakers of Australia Ltd, 1 York Street, Sydney, New South Wales, (1 May 1987) pp. 158-179.
- DICKSON, G. Assistant Director, Iron and Steel Section, Department of Industry, Technology and Commerce, Canberra, Australian Capital Territory (27 May 1987) pp. 219-254.
- DOLAN, C.O. Member, Steel Industry Authority, Canberra, Australian Capital Territory (26 May 1987) pp.193-215.
- FULLER, J.A. General Manager, Hunter Development Board, 418 Hunter Street, Newcastle, New South Wales (14 April 1987) pp. 57-83.
- HALL, C. Principal Executive Officer, Job Creation Branch, Department of Employment and Industrial Relations, Canberra, Australian Capital Territory (27 May 1987) pp.255-285.
- ILLY ,G. Consultant, Wathens Consulting Services, Barton, Australian Capital Territory, (14 April 1987) pp.84-106.
- JOHNSON, R.R. Executive General Manager, Finance and Corporate Affairs, Tubemakers of Australia Ltd, 1 York Street, Sydney, New South Wales (1 May 1987) pp.158-179.

- LAMBERT, D.M. Principal Executive Officer, Industrial Relations Operations Division, Department of Employment and Industrial Relations, Canberra, Australian Capital Territory (27 May 1987) pp.255-285.
- LAMBERT, J.D. Assistant Comptroller-General, Dumping Operations Branch, Australian Customs Service, Canberra, Australian Capital Territory (27 May 1987) pp.219-254.
- LAVER, P.J. General Manager, BHP Steel International Group, 140 William Street, Melbourne, Victoria (1 May 1987) pp.121-157.
- LELLI, F. Secretary, Federated Ironworkers' Association, Port Kembla Branch, 325 Crown Street, Wollongong, New South Wales (12 March 1987) pp.32-42.
- LYNE-BROWNE, R. Principal Executive Officer, Programs Division, Department of Employment and Industrial Relations, Melbourne, Victoria (27 May 1987) pp.255-285
- MCDONALD, R. Executive officer - Commercial, BHP Steel International Group, 140 William Street, Melbourne, Victoria (1 May 1987) pp.121-157.
- MURPHY, M. Director, Working Environment Branch, Department of Employment and Industrial Relations, Canberra, Australian Capital Territory (27 May 1987) pp.255-285.



QUINN, S.M.

State Organiser,  
Wollongong Office,  
Amalgamated Metal  
Workers' Union, 26 Auburn  
Street, Wollongong, New  
South Wales (12 March  
1987) pp. 43-53.

READER, W.H.

Assistant City Planner -  
Economic Development,  
Wollongong City Council,  
P.O. Box 21, Wollongong  
East, New South Wales  
(12 March 1987) pp. 4-31.

ROBERTS, M.J.

Chairman, Steel Industry  
Authority, Canberra,  
Australian Capital  
Territory (26 May 1987)  
pp.193-215.

SANSOM, G.C.

Deputy City Planner and  
Manager - Community  
Services, Wollongong City  
Council, P.O. Box 21,  
Wollongong East, New  
South Wales (12 March  
1987) pp.4-31.

WILLIAMS, R.

Principal Executive  
Officer, Industry  
Analysis Branch,  
Department of Employment  
and Industrial Relations,  
Canberra, Australian  
Capital Territory (27 May  
1987) pp.255-285.

WINTERBOTTOM, D.

City Planner, Planning  
and Development  
Department, Wollongong  
City Council, P.O. Box  
21, Wollongong East, New  
South Wales (12 March  
1987) pp. 4-31.

YOUNG, A.W.

Chairman,  
Hunter Development Board,  
418 Hunter Street,  
Newcastle, New South  
Wales (14 April 1987)  
pp. 57-83.

## APPENDIX IV

## Major Divisions of BHP Steel International

Slab and Plate Division. Based at Port Kembla some 80 kilometres south of Sydney, the division produces flat products of slab, plate, hot rolled strip and steel strapping for packaging. Port Kembla is the largest of BHP's three integrated steelworks, responsible for over half of Australia's total steel production.

Coated Products Division. A major portion of the slab and plate steel production is sold to the Coated Products Division for further processing into hot and cold rolled strip, galvanised, coated and plated strip. The Division operates two major plants; Port Kembla in NSW and Western Port in Victoria. BHP claims its operations rank it amongst the world's four largest galvanisers and amongst the world's five largest coil coaters. The coated products division was known as John Lysaght Australia (JLA) prior to its restructuring in 1985.

Rod and Bar Products Division. The Newcastle integrated steelworks is the production centre for BHP's rod and bar products. Newcastle also manufactures a range of small shapes and sections known as merchant bar. A high proportion of the products are low alloy special steels used in various bar shapes by the engineering, automotive and similar industries, which require specific metallurgy and tolerances. BHP has announced its intention to construct a 250,000 tonne per annum capacity mini-mill in Sydney, although the \$160 million capital funding has not yet been approved. The mini-mill is expected to produce basic rod and merchant shapes, while leaving additional capacity for value added products from the Newcastle steelworks. A new merchant rolling mill is also under construction in Brisbane which will use feed billets from the Newcastle works.

Long Products Division. The Long Products Division at Whyalla produces a range of heavy structural sections, rails and rail track accessories as well as semi-finished billets. Approximately 50% of Whyalla's production is currently being exported.

Wire Products Division. Located in various centres around Australia, the Wire Products Division is a major supplier of wire, wire rope, wire products, steel fibre, fence posts and droppers. Manufacturing centres are in Newcastle, Geelong, Sydney, Brisbane, Darwin, Hobart and Kwinana.

Source of data: BHP Steel International - Public Affairs  
Brochure, Submission No. 10 (DITAC) and  
BHP press release dated August 1986.

## APPENDIX V

REVISED BOUNTY RATESBOUNTY (STEEL MILL PRODUCTS) ACT 1983Bountiable Plate

<u>Tonnes</u>	1 Jan 1984 to 19 Aug 1986	20 Aug 1986 to 31 Dec 1988
	(%)	(%)
5,000 or less	20	16.0
more than 5,000 but not more than 5,200	19	15.2
more than 5,200 but not more than 5,400	18	14.4
more than 5,400 but not more than 5,600	17	13.6
more than 5,600 but not more than 5,800	16	12.8
more than 5,800 but not more than 6,000	15	12.0
more than 6,000 but not more than 6,200	14	11.2
more than 6,200 but not more than 6,400	13	10.4
more than 6,400 but not more than 6,600	12	9.6
more than 6,600 but not more than 6,800	11	8.8
more than 6,800 but not more than 7,000	10	8.0
more than 7,000 but not more than 7,200	9	7.2
more than 7,200 but not more than 7,400	8	6.4
more than 7,400 but not more than 7,600	7	5.6
more than 7,600 but not more than 7,800	6	4.8
more than 7,800 but not more than 8,000	5	4.0
more than 8,000 but not more than 8,200	4	3.2
more than 8,200 but not more than 8,400	3	2.4
more than 8,400 but not more than 8,600	2	1.6
more than 8,600 but not more than 8,800	1	0.8

Bountiable Sheet

700,000 or less	17	13.6
more than 700,000 but not more than 750,000	16	12.8
more than 750,000 but not more than 770,000	15	12.0
more than 770,000 but not more than 790,000	14	11.2
more than 790,000 but not more than 810,000	13	10.4
more than 810,000 but not more than 830,000	12	9.6
more than 830,000 but not more than 850,000	11	8.8
more than 850,000 but not more than 860,000	9	7.2
more than 860,000 but not more than 870,000	7	5.6
more than 870,000 but not more than 880,000	5	4.0
more than 880,000 but not more than 890,000	3	2.4
more than 890,000 but not more than 900,000	1	0.8

Bountiable Flat Products

<u>Tonnes</u>	1 July 1986 to 19 Aug <u>1986</u>	20 Aug 1986 to 31 Dec <u>1988</u>
	(%)	(%)
10,000 or less	20	16.0
more than 10,000 but not more than 10,500	19	15.2
more than 10,500 but not more than 11,000	18	14.4
more than 11,000 but not more than 11,500	17	13.6
more than 11,500 but not more than 12,000	16	12.8
more than 12,000 but not more than 12,500	15	12.0
more than 12,500 but not more than 13,000	14	11.2
more than 13,000 but not more than 13,500	13	10.4
more than 13,500 but not more than 14,000	12	9.6
more than 14,000 but not more than 15,000	11	8.8
more than 15,000 but not more than 16,000	10	8.0
more than 16,000 but not more than 17,000	9	7.2
more than 17,000 but not more than 18,000	8	6.4
more than 18,000 but not more than 19,000	7	5.6
more than 19,000 but not more than 20,000	6	4.8
more than 20,000 but not more than 21,000	5	4.0
more than 21,000 but not more than 22,000	4	3.2
more than 22,000 but not more than 23,000	3	2.4
more than 23,000 but not more than 24,000	2	1.6
more than 24,000 but not more than 25,000	1	0.8

Above rates apply to the price paid or payable for the product.

Source: ACN 86201

Bountiable Tube

	<u>Tonnes</u>	1 Jan 1984 to 19 Aug 1986	20 Aug 1986 to 31 Dec 1988
		(%)	(%)
350,000 or less		17	13.6
more than 350,000 but not more than 370,000		16	12.8
more than 370,000 but not more than 390,000		15	12.0
more than 390,000 but not more than 410,000		14	11.2
more than 410,000 but not more than 430,000		13	10.4
more than 430,000 but not more than 450,000		12	9.6
more than 450,000 but not more than 460,000		10	8.0
more than 460,000 but not more than 470,000		8	6.4
more than 470,000 but not more than 480,000		6	4.8
more than 480,000 but not more than 490,000		4	3.2
more than 490,000 but not more than 500,000		2	1.6

BOUNTY (HIGH ALLOY STEEL PRODUCTS) ACT 1983Bountiable Bar Products

	<u>Tonnes</u>	1 July 1985 to 19 Aug 1986	20 Aug 1986 to 31 Dec 1988
		(%)	(%)
10,500 or less		20	16.0
more than 10,500 but not more than 11,000		19	15.2
more than 11,000 but not more than 11,500		18	14.4
more than 11,500 but not more than 12,000		17	13.6
more than 12,000 but not more than 12,500		16	12.8
more than 12,500 but not more than 13,000		15	12.0
more than 13,000 but not more than 13,500		14	11.2
more than 13,500 but not more than 14,000		13	10.4
more than 14,000 but not more than 14,500		12	9.6
more than 14,500 but not more than 15,000		11	8.8
more than 15,000 but not more than 16,000		10	8.0
more than 16,000 but not more than 17,000		9	7.2
more than 17,000 but not more than 18,000		8	6.4
more than 18,000 but not more than 19,000		7	5.6
more than 19,000 but not more than 20,000		6	4.8
more than 20,000 but not more than 21,000		5	4.0
more than 21,000 but not more than 22,000		4	3.2
more than 22,000 but not more than 23,000		2	1.6

. Above rates apply to the price paid or payable for the product.

APPENDIX VI

Safety Mechanism - Designated Categories

Hot rolled strip and plate for pipe and tube manufacture;

Hot rolled strip and sheet for manufacture of cold rolled strip and sheet, excluding tinplate;

Other hot rolled strip, sheet and plate;

Wire rod;

Other hot rolled bars and rods;

Angles, shapes and sections;

Pipes and tubes not exceeding 76 mm internal diameter of wall thickness not exceeding 2 mm;

Pipes and tubes not exceeding 76 mm internal diameter of wall thickness exceeding 2 mm, and pipes and tubes exceeding 76 mm but not exceeding 200 mm internal diameter;

Pipes and tubes exceeding 200 mm but not exceeding 475 mm internal diameter;

Cold rolled strip and sheet, excluding tinplate.

## APPENDIX VII

TARIFF PROVISIONS

- Note: (i) Unless otherwise indicated the General rate applies to all sources except New Zealand and Papua New Guinea.
- (ii) Goods under reference the produce or manufacture of New Zealand are free of duty except where indicated in the New Zealand Rate Schedule.
- (iii) Goods under reference the produce or manufacture of Papua New Guinea are free of duty.
- (iv) Goods under reference falling within a tariff classification set out in Column 1 at the date of the Minister's reference now fall within the tariff classification set out in Column 2

Column 1	Column 2
73.15.19	73.15.12 73.15.13 73.15.19
73.15.9	73.15.3 73.15.9

- (v) There are many Customs By-law References applicable to the goods under reference but these are too numerous to quote in these Provisions.



CUSTOMS TARIFF

Tariff Classification	Goods	General rate	Special rate
73.08	IRON OR STEEL COILS FOR RE-ROLLING	5%, and a temporary duty of 150%	DC:Free, and a temporary duty of 150%
73.09	UNIVERSAL PLATES OF IRON OR STEEL	5%, and a temporary duty of 150%	DC:Free, and a temporary duty of 150%
73.10	BARS AND RODS (INCLUDING WIRE ROD), OF IRON OR STEEL, HOT-ROLLED, FORGED, EXTRUDED, COLD-FORMED OR COLD-FINISHED (INCLUDING PRECISION-MADE); HOLLOW MINING DRILL STEEL:		
73.10.1	- Bars and rods, as follows: (a) cold-drawn; (b) cold-rolled; (c) ground; (d) turned	10%	DC:Free
73.10.9	- Other	5%	DC:Free
73.11	ANGLES, SHAPES AND SECTIONS, OF IRON OR STEEL, HOT-ROLLED, FORGED, EXTRUDED, COLD-FORMED OR COLD-FINISHED; SHEET PILING OF IRON OR STEEL, WHETHER OR NOT DRILLED, PUNCHED OR MADE FROM ASSEMBLED ELEMENTS	5%	DC:Free
73.12	HOOP AND STRIP, OF IRON OR STEEL, HOT-ROLLED OR COLD-ROLLED:		
73.12.1	- Hot-rolled, being unworked or simply polished	5%, and a temporary duty of 150%	DC:Free, and a temporary duty of 150%

TARIFF PROVISIONS (Cont'd)  
CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.12.2	- Goods, NSA, as follows: (a) plated, coated or clad with an alloy containing zinc and aluminium but not otherwise worked or decorated; (b) cold-rolled, being unworked or simply polished; (c) corrugated or galvanised or corrugated and galvanised but not otherwise worked or decorated		
		To 8 Apr 1986	10%, and a temporary duty of 150%
			DC:Free, and a temporary duty of 150%
		From 9 Apr 1986	10%
			DC:Free
73.12.3	- Goods, NSA, as follows: (a) steel containing, by weight: (i) 0.6% or more of silicon; (ii) not more than 0.08% of carbon; and (iii) no other alloy element, not being aluminium; (b) tinned, but not otherwise worked or decorated	10%	DC:Free
73.12.9	- Other		
		To 8 Apr 1983	22%, and a temporary duty of 150%
			DC:12%, and a temporary duty of 150%
		From 9 Apr 1983 to 8 Apr 1984	19%, and a temporary duty of 150%
			DC:9%, and a temporary duty of 150%
		From 9 Apr 1984 to 8 Apr 1985	16%
			DC:6%
		From 9 Apr 1985 to 8 Apr 1986	13%
			DC:3%
		From 9 Apr 1986	10%
			DC:Free
73.13	SHEETS AND PLATES, OF IRON OR STEEL, HOT-ROLLED OR COLD-ROLLED:		
73.13.1	- Hot-rolled, being unworked or simply polished	5%, and a temporary duty of 150%	FI:Free DC:Free, and a temporary duty of 150%

TARIFF PROVISIONS (Cont'd)  
 CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.13.2	- Goods, NSA, as follows: (a) plated, coated or clad with an alloy containing zinc and aluminium but not otherwise worked or decorated; (b) cold-rolled, being unworked or simply polished; (c) corrugated or galvanised or corrugated and galvanised but not otherwise worked or decorated		
		To 8 Apr 1986	10%, and a temporary duty of 150%
			FI:Free DC:Free, and a temporary duty of 150%
		From 9 Apr 1986	10%
			DC:Free
73.13.3	- Goods, NSA, as follows: (a) steel containing, by weight: (i) 0.6% or more of silicon; (ii) not more than 0.08% of carbon; and (iii) no other alloy element, not being aluminium; (b) tinned, but not otherwise worked or decorated		
			10%
			DC:Free
73.13.9	- Other		
		To 8 Apr 1983	22%, and a temporary duty of 150%
			FI:Free DC:12%, and a temporary duty of 150%
		From 9 Apr 1983 to 8 Apr 1984	19%, and a temporary duty of 150%
			FI:Free DC:9%, and a temporary duty of 150%
		From 9 Apr 1984 to 8 Apr 1985	16%
			FI:Free DC:6%
		From 9 Apr 1985 to 8 Apr 1986	13%
			FI:Free DC:3%
		From 9 Apr 1986	10%
			DC:Free

TARIFF PROVISIONS (Cont'd)  
 CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.15	ALLOY STEEL AND HIGH CARBON STEEL IN THE FORMS MENTIONED IN 73.06 TO 73.14 (INCLUSIVE):		
73.15.1	- High alloy steel:		
73.15.11	- - High speed steel, as prescribed by by-law	15%	DC:5%
73.15.12	- - Hot-rolled goods, NSA, not being of stainless steel, as follows: (a) coils for re-rolling; (b) hoop and strip; (c) sheets and plates including universal plates		
	To 8 Apr 1984	25%, and a temporary duty of 150%	DC:15%, and a temporary duty of 150%
	From 9 Apr 1984 to 8 Apr 1985	23%	DC:13%
	From 9 Apr 1985 to 8 Apr 1986	21%	DC:11%
	From 9 Apr 1986 to 8 Apr 1987	19%	DC:9%
	From 9 Apr 1987 to 8 Apr 1988	17%	DC:7%
	From 9 Apr 1988	15%	DC:5%
73.15.13	- - Goods, NSA, of stainless steel, as follows: (a) hoop and strip; (b) sheets and plates		
	To 8 Apr 1984	25%	DC:15% CAN: 18%
	From 9 Apr 1984 to 8 Apr 1985	23%	DC:13%
	From 9 Apr 1985 to 8 Apr 1986	21%	DC:11%
	From 9 Apr 1986 to 8 Apr 1987	19%	DC:9%
	From 9 Apr 1987 to 8 Apr 1988	17%	DC:7%
	From 9 Apr 1988	15%	DC:5%

TARIFF PROVISIONS (Cont'd)  
 CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.15.19	- - Other		
	To 8 Apr 1984	25%	DC:15%
	From 9 Apr 1984 to 8 Apr 1985	23%	DC:13%
	From 9 Apr 1985 to 8 Apr 1986	21%	DC:11%
	From 9 Apr 1986 to 8 Apr 1987	19%	DC:9%
	From 9 Apr 1987 to 8 Apr 1988	17%	DC:7%
	From 9 Apr 1988	15%	DC:5%
73.15.2	- Alloy steel and high carbon steel, NSA, as follows:	10%	DC: Free
	(a) bars and rods, as follows:		
	(i) cold-drawn;		
	(ii) cold-rolled;		
	(iii) ground; or		
	(iv) turned;		
	(b) hoop, strip, sheets and plates, cold-rolled or worked otherwise than simply polished;		
	(c) wire		
73.15.3	- Goods, NSA, as follows:	5%, and a temporary duty of 150%	DC:Free, and a temporary duty of 150%
	(a) coils for re-rolling;		
	(b) hoop and strip;		
	(c) sheets and plates, including universal plates		
73.15.9	- Other	5%	DC:Free
73.18	TUBES AND PIPES AND BLANKS THEREFOR, OF IRON (OTHER THAN CAST IRON) OR STEEL, EXCLUDING HIGH-PRESSURE HYDRO-ELECTRIC CONDUITS:		
73.18.1	- Welded, not being metal-cased metal tubes and pipes, of high alloy steel:		
73.18.11	- - Having an internal diameter not exceeding 15 mm or an internal cross-sectional area not exceeding 1.77 cm <sup>2</sup>		
	To 8 Apr 1984	25%, and a temporary duty of 150%	DC:15%, and a temporary duty of 150% CAN:17.5%, and a temporary duty of 150%

TARIFF PROVISIONS (Cont'd)  
CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.18.11 Cont'd	From 9 Apr 1984 to 8 Apr 1985	23%	DC:13%
	From 9 Apr 1985 to 8 Apr 1986	21%	DC:11%
	From 9 Apr 1986 to 8 Apr 1987	19%	DC:9%
	From 9 Apr 1987 to 8 Apr 1988	17%	DC:7%
	From 9 Apr 1988	15%	DC:5%
73.18.19 - - Other	To 8 Apr 1984	25%, and a temporary duty of 150%	DC:15%, and a temporary duty of 150%
	From 9 Apr 1984 to 8 Apr 1985	23%	DC:13%
	From 9 Apr 1985 to 8 Apr 1986	21%	DC:11%
	From 9 Apr 1986 to 8 Apr 1987	19%	DC:9%
	From 9 Apr 1987 to 8 Apr 1988	17%	DC:7%
	From 9 Apr 1988	15%	DC:5%
73.18.2 - Welded, not being metal-cased metal tubes and pipes, NSA, having an internal diameter exceeding 76 mm or having an internal cross-sectional area exceeding 45.38 cm <sup>2</sup>	To 8 Apr 1983	23%, and a temporary duty of 150%	DC:13%, and a temporary duty of 150%
	From 9 Apr 1983 to 8 Apr 1984	21%, and a temporary duty of 150%	DC:11%, and a temporary duty of 150%
	From 9 Apr 1984 to 8 Apr 1985	19%	DC:9%
	From 9 Apr 1985 to 8 Apr 1986	17%	DC:7%
	From 9 Apr 1986	15%	DC:5%

TARIFF PROVISIONS (Cont'd)  
CUSTOMS TARIFF (Cont'd)

Tariff Classification	Goods	General rate	Special rate
73.18.3	- Welded, NSA, not of stainless steel, with a wall thickness exceeding 2 mm	15%, and a temporary duty of 150%	DC(except RKOR):5%, and a temporary duty of 150%
73.18.9	- Other	15%, and a temporary duty of 150%	DC:5%, and a temporary duty of 150%

Source: Industries Assistance Commission, Certain Iron and Steel Products and Certain Alloy Steel Products (Report No 321), AGPS, 1983, pp.256-263.

## APPENDIX VIII

INCOME TAX CONCESSIONS POTENTIALLY AVAILABLE TO BHP GROUP OF  
COMPANIES (SINCE 1984) - ROUGH ESTIMATES AND WORKING

## 1. INVESTMENT ALLOWANCE

RATE: Rate for eligible units ordered between 1/5/81 and 30/6/85 is 18%. Item must be first used or installed ready for use before 1 July 1987.

ASSUMPTION: That all of the amount of the capital expenditure stated in the source document as actually paid, related to eligible units of property which were:

ordered within the dates stated above, and were eligible for the investment allowance

Potential income tax deduction:

Total estimated deduction - 18% of \$956m = \$172m

which could have been claimed in the following years:

	Total Deduction	Tax Saving (@46c)
ended 30 June 1984	\$5.9m	\$2.7m
ended 30 June 1985	30.0	13.8
ended 30 June 1986	72.0	33.1
period ended		
31 December 1986	<u>64.1</u>	<u>31.4</u>
	\$172.0m	\$81.0m
	=====	=====



## 2. ACCELERATED DEPRECIATION

RATE: Two rates are available, 20% or 33 1/3% prime cost. The eligible rate depends on the standard rate, which would but for this special concession, have applied. The rate adopted for this exercise is 20%.

ASSUMPTION: That accelerated depreciation rates were adopted on all plant purchased, and that all of the capital expenditure stated in the source document was expended on eligible plant.

Potential income tax deduction:

Cap Exp.	Years ended 30 June							
	1984	1985	1986	1987	1988	1989	1990	1991
\$33m	\$6.6m	6.6m	\$6.6m	\$6.6m	\$6.6m			
167		33.4	33.4	33.4	33.4	33.4		
400			80	80	80	80	80	
356				71.2	71.2	71.2	71.2	71.2
956m	\$6.6m	\$40m	\$120m	\$191.2m	\$191.2m	\$184.6m	\$151.2m	\$71.2m
====	=====	=====	=====	=====	=====	=====	=====	=====
Tax	\$3m		\$55.2m		\$93.7m		\$74.1m	
Saving		\$18.4m		\$93.7m		\$90.5m		\$34.9m

NOTE: (1) Year end for BHP Group is 31 May. 30 June has been used in this exercise because of style of information available.

(2) For the purpose of income tax calculations for years 1987 and beyond, the company tax rate of 49% has been used.

Source: Calculations have been based on interpretation of graph 6 from Steel Industry Authority quarterly report for December 1986. Figures used are actual capital expenditure.

## APPENDIX IX

INDEXES OF AVERAGE EARNINGS AND CONSUMER PRICES, 1975-76 TO 1985-86

Period	Average Annual Earnings (a) Per Employee		Average Weekly Earnings Per Male Employee (b)	Consumer Price Index (c)
	Manufacturing	Basic Iron & Steel		
	----- Index (1975-76 = 100) -----			
1975-76	100	100	100	100
1976-77	114	117	113	114
1977-78	123	132	124	125
1978-79	132	144	134	135
1979-80	146	162	147	149
1980-81	164	183	167	163
1981-82	186	209	191	180
1982-83	211	224	213	200
1983-84	221	237	231	214
1984-85	235	256	246	223
1985-86	250	281	262	242

- (a) Wages and salaries, including overtime and over-award payments, of all employees. Data prior to 1985-86 have been calculated from information obtained from annual Manufacturing Censuses. The 1985-86 Manufacturing Census has been cancelled so data for 1985-86 have been calculated using information from the quarterly Survey of Employment and Earnings.
- (b) All earnings, e.g. award and over-award payments, overtime, commissions and retainers, penalty payments etc. Data are for all male employees, data for female employees and therefore all employees are only available from September quarter 1981.
- (c) All Groups. Data to 1979-80 are a weighted average of 6 capital cities and from 1980-81 are a weighted average of 8 capital cities.

Sources : Manufacturing Establishments, Details of Operations by Industry Class, Australia (ABS 8203.0).  
Employed Wage and Salary Earners, Australia (ABS 6248.0).  
Average Weekly Earnings, States and Australia (ABS 6301.0).  
Consumer Price Index (ABS 6401.0).  
 Australian Bureau of Statistics.