ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE

Inquiry into Manufacturing in Victoria

Melbourne — 7 September 2009

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Mr S. Gregson, National Sales Manager, and

Mr D. Jenkins, Manager, Government Relations, BlueScope Steel.

The CHAIR — I welcome everyone to this afternoon's hearing of the Economic Development and Infrastructure Committee's Inquiry into Manufacturing in Victoria. All evidence taken at the hearing is protected by parliamentary privilege; however, comments made outside the hearing are not afforded such privilege. Could each of you please give your name, your position within your organisation and the business address.

Mr GREGSON — My name is Steve Gregson. I am the National Sales Manager for the manufacturing and automotive sectors within BlueScope Steel. My business address is Five Islands Road, Port Kembla.

Mr JENKINS — My name is David Jenkins. I am the Manager, Government Relations, of BlueScope Steel. The business address is level 11, 120 Collins Street, Melbourne.

The CHAIR — Over to you to make any introductory comments you would like to make.

Mr GREGSON — Thank you for giving me the opportunity to give evidence today. As you know, I have David with me as well, so we will work together as a team. I will read the opening address, and then perhaps if you have any questions David and I can try our best to answer those.

BlueScope Steel has a significant manufacturing presence in Victoria, and therefore a strong interest in public policy as it relates to the manufacturing sector. We do note the Committee's terms of reference, and today we will address our comments largely to item 2 about the factors that influence businesses in determining whether to manufacture in Australia or overseas. We will also provide some comment around the costs and benefits of importing steel compared to obtaining it from Australia, as requested by the Committee.

We would like to focus our comments on three areas: a brief overview of BlueScope's Australian and, importantly, Victorian business, just to put some context around that; the value proposition that an Australian steel supplier brings to the market; and the key factors that affect the competitiveness of Australian manufacturing, with examples.

BlueScope Steel is a Melbourne-headquartered company listed on the Australian Stock Exchange. BlueScope manufactures flat steel products in Australia for both the domestic and export markets. About half our production by volume is sold domestically, and the other half is exported.

Mr ATKINSON — What do you mean export markets? What are the main export markets for that?

Mr GREGSON — Asia and North America would be the highest volume markets. The company's Australian exports were valued at approximately $2.3 billion in the 2008 financial year. A continued ability to export is critical to maintaining our global scale of operations in Australia.

The company's integrated steelworks, which manufactures new steel using coking coal and iron ore, is located in Port Kembla in New South Wales. Port Kembla is a world-scale steelworks, manufacturing about 5.2 million tonnes of steel products per year. Port Kembla provides the feedstock for the company's second-largest Australian plant, which is located here in Victoria, at Hastings on the Mornington Peninsula. The Western Port plant takes steel slab manufactured at Port Kembla and rolls the slab into hot rolled coil. Some of this hot rolled coil is then sold externally on the export market, while the majority is further processed into coated, painted and uncoated steel products. Some of those brands include Colorbond and Zincalume steel, which you are familiar with.

Our customers include: the three auto makers, and the automotive component sector in Victoria; building products manufacturers; whitegoods makers; infrastructure applications; fabricators; mining equipment manufacturers; and steel distributors.

BlueScope has nine other sites in Victoria, including the Lysaght building products manufacturing plants; BlueScope distribution facilities; service centres at Braeside and Sunshine, which supply the manufacturing sector; and BlueScope Water rainwater goods manufacturing plants. The company employs approximately 1800 people in Victoria, including about 900 at Western Port.

Turning to the benefits and costs of using Australian steel, there are a number of elements to the value proposition that we provide to our customers as a domestic steel manufacturer in comparison to imported steel. These include proximity to market. BlueScope offers reduced freight costs. We offer a greater domestic market knowledge and the ability to react to specific and changing market requirements.

The next point is around continuity and reliability of supply, and this was never more greatly shown than throughout the early part of 2008. BlueScope Steel has a history of always being there for Australian manufacturers, not just here one day and gone the next. This allows us to offer our customers continuity and surety of supply, enabling BlueScope Steel to offer services to our customers, such as lead times and smaller order quantities, which allow customers to better manage inventories and cash flows. We manage inventories on behalf of a number of our customers.

On quality products, BlueScope is meeting Australian standards and producing world-class products that are tested and certified for local conditions. We are proactively working with industry associations, such as the Australian Steel Institute, or ASI, and promote Australian standards. BlueScope Steel is ISO accredited. BlueScope has representation on a number of national and global standards committees to ensure we adhere to and promote the use of a robust standards process.

The next item is technical support. BlueScope provides to our customers access to dedicated in-market technical experts who are supported by the full technical resources within BlueScope. These include resources in product design and development, engineering processes and manufacturing experts, research and development and product quality support.

The next important point is around relationship management from being a local supplier. We have a dedicated in-market sales force that work to design and deliver a business solution to meet our customers' needs. This is best articulated in Our Bond, which expresses the principles that guide the decisions of our business and employees. I would like to quote from the Bond:

> Our customers are our partners.
>
> Our success depends on our customers and suppliers choosing us. Our strength lies in working closely with them to create value and trust, together with superior products, service and ideas.

The next item is product warranty. We believe in our products, and as such offer extended warranties for many products. Two examples worth mentioning are the 50-year warranty associated with residential steel truss framing, and the 30-year warranty for Colorbond steel in similar applications.

The next item is product development. It is innovation in the use of steel through the development of new products and product features on behalf of the customers. Two sectors that I would like to give as examples are the automotive and building products sectors, where we have done a lot of work on product development.

With branding and marketing, in many cases customers are able to leverage our brand to assist them to sell their products, such as in the Steel By program. BlueScope is also a major sponsor of the Endeavour Awards, which celebrate and promote the successes and innovation of Australian manufacturing.

The last item I was going to mention here was business development with local customer base, and that is working jointly with customers to develop new business opportunities for both local and overseas consumption. Australian manufactured steel is internationally competitive on price. The fact is that under normal circumstances we successfully export about half of our production each year, which certainly demonstrates this fact. Our domestic pricing is benchmarked against international pricing, with the addition of a margin on certain products to reflect the additional value proposition we provide to our customers as a local supplier.

We compete head-to-head with imported steel products in a wide range of projects and applications. Recent examples include the Cape Nelson wind tower project near Portland and the Waubra project north of Ballarat, which will see 128 wind towers manufactured. Many of the large multinational distribution centres in Victoria have also been hard-fought wins for BlueScope and its manufacturing customers, competing against imported fabrication, imported pallet racking and materials handling automation.

Turning now to the key factors that are affecting the competitiveness of the domestic steel industry, as I mentioned before, while we benchmark our pricing internationally there will be occasions when we simply cannot or choose not to match import pricing. If this happens in the normal commercial course of business, then that is understandable. Where we cannot compete, however, is when imported steel is dumped — that is, when it is sold in Australia below the normal value in its home market.

There are a number of shortfalls in Australia’s anti-dumping regime, and BlueScope recently made a submission to the Productivity Commission anti-dumping and countervailing inquiry. I am not going to go into the detail about these now, but suffice it to say that one of the shortfalls here is the difficulty of proving and seeking redress against intermittent dumping that takes place over less than one year.

We also face difficulty competing when foreign governments subsidise their steel industries, which distorts the relative trade competitiveness of steelmakers. There are no steel industry subsidies and very few steel trade barriers in Australia, which is a very open market. By contrast, many of our international competitors receive significant government subsidies — for example, a recent Canadian government anti-dumping investigation identified 31 different subsidies that benefited Chinese steelmakers. These included preferential tax policies for steelmakers and exporters, local income tax exemption or reduction, grants for the purchase of equipment and even steel feedstock provided by government at less than fair market value. BlueScope does not support trade barriers and subsidies because they distort the global steel market. If such protectionism were implemented in Australia, it would inevitably invite retaliation from competitors, potentially shutting us out of markets for that 50 per cent of the production that we need to export ourselves.

This does not mean, however, that there is no role for government in industry development. We support measures to better educate major project proponents about the capabilities of Australian industry such as the Industry Capability Network and the Federal Government’s recently announced Steel Industry Innovation Council and steel supplier advocate. We have seen a number of projects where Australian steel has been specified out during the design phase, where project proponents specify types and grades of steel products that are not manufactured in Australia. What this means is that Australian steelmakers cannot even get to first base.

The CHAIR — Can I cut across? Are you talking about government specifications or are you talking about the private sector?

Mr GREGSON — No.

Mr ATKINSON — Architectural?

Mr JENKINS — Yes, engineers and designers designing major projects.

The CHAIR — Major projects but not necessarily government projects?

Mr GREGSON — They can be either, absolutely.

Mr ATKINSON — Can we just understand, too, that you mentioned price, but you have not mentioned quality.

Mr GREGSON — I mentioned it only in the area around quality where I talked about quality products under the fact that we meet Australian standards.

Mr ATKINSON — Yes. The competitive products coming in, are they also meeting Australian standards or are there issues there?

Mr GREGSON — We have some examples where they have not in recent — —

Mr ATKINSON — Which includes EastLink?

Mr GREGSON — Yes.

Mr ATKINSON — We might draw that out in questioning.

Mr GREGSON — We have seen a number of projects, as I said, where we have been specified out. Where there is a legitimate engineering reason why overseas source material is required, then of course we have no objection, but the important point here is that sometimes Australian-made product is specified out simply because the project engineers and designers are not aware of what Australian industry capabilities are. On other occasions engineers and designers are part of foreign consortia bidding for projects as well, and they may seek to favour steel supplies in their home countries. The industry itself has a role to play here in educating project proponents about our capability, and the government through the ICN and the steel supplier advocate can also assist this.

We have other issues around scale with some of our domestic manufacturing sector customers. I will not go into any more detail about that, but the obvious area is the automotive sector, whereas we have gone from manufacturing in 2008, I think, 340 000 cars and we are now down to 216 000 potentially in 2009. So we have a scale issue which obviously sees this industry being very small compared to the global giants. For your information, BlueScope Steel supplies about half the flat products that go into the Australian automotive industry; the other half is imported.

Our Western Port plant manufactures a range of specialty steel products for the automotive sector that are not made at any other plant in Australia, but unfortunately the small scale of the domestic auto industry makes it difficult to achieve adequate returns on the major capital investment that is needed to keep up with the changing requirements of the sector.

The small scale of some of our Australian markets is not helped by inconsistent regulations between states. In the residential building sector there are significant differences in the way the states regulate the installation of steel products. You may be aware of this example where in some states roof trusses can be placed up to 1500 millimetres apart but in other states the maximum spacing is only 600 millimetres apart. Due to the combination of its light weight and its structural strength, steel trusses typically have a greater spanning capacity than other materials such as timber. It is this spanning capacity that gives steel trusses a competitive edge; however, mandating smaller truss spacings that are more suited to timber blunts the competitive edge of steel.

Similarly, in Victoria only a licensed plumber can install a steel roof, but a plumber is not required to install other roofing material such as clay or concrete tiles and plumbers are not required to install steel roofs in most other states, where specialised steel roofers can do the job.

The Victorian Competition and Efficiency Commission recommended in 2005 that the Government create less restrictive pathways for the installation of metal roofing and introduce more flexible competency requirements. The Government supported this recommendation, and in 2007 the Building Act was amended to allow registered plumbers to install metal roofing under the supervision of a licensed plumber. The metal roofing industry has been working with the Plumbing Industry Commission and other bodies to implement this change, but progress has been slow. There is a real need for greater competitive neutrality in regulation.

Finally, an important point is that a key risk to the domestic steel industry is the Federal Government's carbon pollution reduction scheme. As it is currently designed, the scheme is likely to place significant costs on the domestic steel industry that are unlikely to be borne by many of our major overseas competitors such as China. BlueScope supports the Government's policy objectives and is itself working on projects to reduce CO_2 emissions. However, we believe while overseas competitors are not similarly carbon constrained the CPRS needs to be amended to lessen the impact on domestic industry.

That is all I have. Thank you again for the opportunity to present today. David and I will be happy to answer any questions you might have.

The CHAIR — The first thing I would like to pick up on is some evidence we received from Brad Crofts of the Australian Workers' Union on 18 August. He spoke about wind towers and the importance of having Australian steel in those wind towers. I will quote from his evidence. He said:

> BlueScope Steel has conveyed to us that it has an interest in being able to provide a lot of the steel that goes into the towers and potentially the other aspects of the construction of the wind tower, and the multiplier benefits of the jobs created from the extra tonnage that flows from that is quite significant. The concern is whether or not they actually will get a fair go in terms of being able to supply for those projects.

You mentioned one project where you are putting in 128 wind — —

Mr GREGSON — Yes, two actually. That was the Waubra, and Cape Nelson was another successful project.

The CHAIR — What sorts of recommendations would you be making in relation to Australian steel being provided, or what is an energy source of the future that will only expand?

Mr GREGSON — It is not just Australian steel, it is also the manufacturing of the wind towers. We have the capability here; we have a high quality product. Our wind towers are made from a steel plate material. About 150 tonnes of steel goes into a typical wind tower, and we have some fantastic companies situated here in Victoria that are very capable — in fact leading the world in a lot of ways — in making wind towers. There is nothing at all stopping us from being able to supply the steel and also manufacture the wind towers. In fact it is not just the actual structure, it is all the automation, the electrics and everything else that goes with it. This is a manufacturing sector that is fully geared in Australia to be competitive.

The CHAIR — If you were writing our report and we had a recommendation on wind towers, what would your recommendation be?

Mr JENKINS — Perhaps I could just chip in here. I think you probably have to differentiate between projects that involve public money and those that are entirely private sector. I guess where it is an entirely private sector project you probably cannot mandate content. But I certainly think where there is public money or public support for projects, making sure there is a very robust and transparent process to actually allow Australian industry to bid for the project does not mean you are favouring Australian industry, and in saying that we certainly would not support things like price premiums for local content. We would say that we will compete on price. But there needs to be a process so project designers can demonstrate that they have, if you like, exhausted the possibility of local supply or that they have looked seriously and critically at the possibility of local supply. I think that does not always happen at the moment. I think it is beholden on us to better educate project proponents, as Steve said. I think some of it is just ignorance amongst designers about local industry content. But I certainly think we would say that where there is public support for or public financing in projects there ought to at least be a requirement that the project proponents put in place a robust, transparent process to see if they can supply domestically to this project or if there is a legitimate engineering reason, as Steve said, why they need to import. I am not sure that happens currently.

Mr ATKINSON — Apart from proximity to market and, obviously, meeting quality standards set out, what do you see as your major competitive advantages as a company?

Mr GREGSON — I gave the example of 2008, which was a crazy year for us. It was the year where basically the world became short of steel. There is a really great example of us being a reliable and sure supplier. Basically all the importers walked away from Australia in 2008, so we had a period from about April through to October 2008 where there was a scarcity of steel being brought into Australia.

Australian manufacturers totally relied upon BlueScope to supply them with steel. That really bore out the point of this reliability and surety we have as a supplier. We have been there now for over 100 years, maybe under a different name or two over that time but essentially the same entity, and we have been there for our customers. I suppose that is borne out by the market share we get with some of our more iconic products and brands as well.

Mr JENKINS — I just want to add to the point you made earlier, Steve, about the ability to supply small orders. Typically people who were importing, particularly for a big project, would often need to place a large single order and pay for that order up-front. They would then need to find space to store that steel, which was imported in one hit, if you like. Part of our market offer, as Steve described, is actually to give project proponents the ability to buy in much smaller blocks. That helps their financing. In fact we even manage the supply chain for some customers, so they do not have to manage all the logistics of how to ship that steel, where to keep it et cetera. We actually manage that for them. I think that is probably a key thing we offer as well, as part of our Australian value proposition.

Mr ATKINSON — Supply chain is where I was going next. You are actually a fairly fundamental part of the supply chain for a good many companies and organisations. Do you become involved in the research and development of new products and new technologies in steel, particularly in smaller specialist manufacturing? One of the concerns that has been expressed to me over the years about BlueScope is that some of the smaller customers have to wait in line for their product to come off the assembly line because of the commitments you have. In terms of advancing our manufacturing sector, to what extent does BlueScope participate in research and development, finding new steel technologies and so forth that might support the broader manufacturing sector?

Mr GREGSON — In some ways we lead and in other ways we follow. I think the example I used around the steel building trusses is a great example of where we have led the industry into finding an alternative to timber. We have actually had to go and change the very face of the industry and the carpentry involved in manufacturing houses. We actually led that, and then we brought the trades along with us. That was a new product innovation we came along with, and we have branded that product — a residential steel frame — Truecore. That is an example of where we have led. We have probably followed more in the automotive market, where we have a global requirement to be competitive. We have developed products with automotive manufacturers to allow us to be a local supplier in that market in Australia. Again, a lot of those guys are small-to-medium enterprises as well. We are not talking about huge companies here. In both those examples you are talking about a lot of SMEs in those areas.

Mr ATKINSON — Another key area of your product is coatings. As far as you are concerned, what is the health of the industry in relation to coatings and, again, where you go into the broader manufacturing sector in a partnership with two products that come together and provide solutions?

Mr GREGSON — There is no doubt a lot of Australians are aware of our iconic coated brand, which is the Colorbond brand. That has certainly had a fairly large impact on the built environment in Australia over many years. Before that it was the galvanised iron or the Zincalume product that people were more familiar with. We have certainly played a key part there, and we continue to see a strong level of demand for that product in the built environment. We continue to research the use of different products, more corrosive and resistant products. We continue to try to lead more than follow in that area, don't we, David?

Mr JENKINS — Yes.

Mr GREGSON — In the area around metallic coated products, also an example of Colorbond, where it is the painted product. It is a key part of our value proposition. There is no doubt about it. Australian people use more steel in the building environment, particularly the residential building environment, than pretty well any other country in the world.

The CHAIR — You talked about protection and you mentioned sea air. Did Australia lead the world on steel and protection? I will say Colorbond, but there is probably something far more sophisticated that we now export. No, we do not. There are other parts around the world that do that.

Mr JENKINS — Yes. We certainly manufacture products that are warranted to a certain extent for use in environments on the sea shore, for example, for corrosion. We do not export, though, a huge volume of coated products for a number of reasons. Partly, in the US, we are shut out of that market by a longstanding anti-dumping case. Typically our exports tend to be more in the upstream part of the chain, so we export steel slab and hot-rolled coil. They are our major exports to the US and to Asia et cetera, and they are then further processed by companies in those countries, sometimes into coated products or into other downstream products. We do export some coated product, and it comes out of Western Port, but it is not a big part of our export market.

Mr GREGSON — From the point of view of the research you are talking about or the development, there is no doubt that a lot of work has been put in over many years to refine the compatibility of the steel roofing product in the Australian environment. You talked about corrosion resistance or being able to place it by the sea; there is no doubt that a lot of our work has been in that area.

Mr JENKINS — Yes, Colorbond is an Australian-developed product. It was developed here originally in the 1960s. The research for that was done by BlueScope, and there is ongoing research to keep developing that coating in terms of the sorts of properties you are talking about.

Mr ATKINSON — What about your customers? In terms of, again, your position in the supply chain, you would have been in a position to see a number of companies go overseas with their manufacturing over the years. I am thinking particularly of the white goods industry and so forth.

Mr JENKINS — Yes.

Mr ATKINSON — What is your perspective on the comparative advantages they got in moving overseas, and did they realise the benefits they expected? Are you aware of any examples of companies that have returned their manufacturing to Australia because of the availability of your products in the supply chain and other skills issues, IP and so forth, here in Australia — companies that have come back, or companies that have located their manufacturing here because of your reliability and capacity as a manufacturer of steel?

The CHAIR — You can take any of these questions on notice.

Mr GREGSON — We can. There is no doubt that scale has been an issue for some of these large white goods manufacturers, for example. They have simply just seen the scale from the development of the Third World and the lack of scale from here. We are very proud of the Australian manufacturing industry, the resilience they have shown and the innovation they continue to show. They are fantastic.

The CHAIR — We have come across some examples of companies that were going to manufacture offshore and have decided against it because of what Bruce outlined. We have had evidence from one in particular that brought their manufacturing back here because of, again, the points Bruce outlined. If you can think of any other examples — —

Mr JENKINS — I am trying to think of specific examples. It is hard to generalise, which is why I think we are struggling a bit — —

Mr ATKINSON — If you go away and think of any, please bring them back to us.

Mr JENKINS — Yes, we will.

Mr ATKINSON — We are really keen on analysing some decision-making processes with those sorts of companies. One of the things that has been put to us anecdotally is that some companies have taken their production offshore, usually contracted it out to manufacturers in China or suchlike, but then they find that the quality of the product coming back is not consistent across a range of shipments. That creates other issues for them in terms of their customer management and in terms of returns and costs and all sorts of things, so the benefit they expected was not necessarily there. We are interested in exploring those sorts of issues.

The CHAIR — Pushing that just a smidgeon further, do you have examples you could give us of companies that thought they were getting a less expensive option by using imported steel, only to find that it ended up being far more costly because the domestic product suffered as a consequence of bringing in steel that was not up to your standard?

Mr JENKINS — Again, we could probably take that on board.

Mr ATKINSON — What is your market share of the produced steel market?

Mr JENKINS — It depends on the type of product. It varies a lot across products.

Mr ATKINSON — I guess what I am trying to get at is your import competition. What is the level of import competition?

Mr JENKINS — Relatively high, and growing. It depends on the product. In many of our product segments imports would be of the order of perhaps 30 to 40 per cent of the market. Would it be something of that order?

Mr GREGSON — Yes.

Mr JENKINS — Product by product it varies.

Mr GREGSON — Again, you have got to define it down to what we call the flat products range, and you are looking at anything from hot-rolled coil to a plate product to an uncoated cold-rolled product to a coated product to a premium pre-painted product where our import competition might only enjoy about 10 per cent of the market, whereas down at the other more commoditised end of the scale that David is talking about, they could enjoy 30 per cent or 40 per cent. In fact it has been more than 50 per cent at times in areas such as plate where we have found it very difficult at times.

The CHAIR — Is that because of anything to do with government, or is it other factors?

Mr JENKINS — It think it is a commoditised part of the market as much as anything, and the sort of value proposition that Steve spoke about at the beginning of his remarks is not necessarily as compelling at that commoditised end of the market. Some of the things we can offer in terms of the after-sales service, the technical support, the small orders et cetera, is not necessarily as attractive at that commoditised end of the market.

The other thing I was going to say in relation to your previous question about factors influencing the location of manufacturing is that one of the things you have got to look at is obviously labour costs. There is a bit of a difference in steel making. Some manufacturers clearly move production offshore to access lower labour costs, and perhaps the TCF industry might be an example of that.

Steel, certainly in the upstream part of the industry, is a little bit different in that you have got to go a fair way down through your cost structure before you get to labour costs. Typically, if you are talking about Port Kembla Steelworks and you are manufacturing those upstream products, slab and hot-rolled coil, the largest proportion of costs is typically raw materials, and we are all on a level playing field. Whether we are making the steel in Australia or in China or Korea or whatever, we pretty much all purchase our raw materials on an international market at international prices, so labour is a less decisive factor in that upstream part of the steel industry in terms of determining the location of manufacturing. Probably, as you get further downstream, labour is typically a more significant component of costs and that can be more decisive. That does not give you a specific example, and we can perhaps go away and come back with that, but I think that is a general comment that applies.

Mr ATKINSON — You are a bit of a department store of steel makers. In other words you have a whole kit and caboodle of products that you supply, and I daresay some of your competitors overseas specialise in particular areas, and obviously they particularly target specific market segments when they come here. Has that caused you some headaches? Has that caused you to think about the future of your operations in terms of their scale and the diversity and whether or not you should take some of your production overseas or have collaborations overseas? What has been the challenge there?

Mr GREGSON — We see it more as an opportunity, to be honest with you. We still have a major opportunity to increase the content of Australians steel in Australia. There is a massive amount of steel that gets brought into Australia that we are capable of supplying.

Mr JENKINS — I think that generally the question for us has not been will it cause relocation offshore? There have been examples where the question has been more will we cease producing that type of steel in Australia, and tinplate is an example of that, so we manufactured tinplate in Port Kembla which went into packaging and steel cans. About two years ago or thereabouts we closed that line, and we closed it for a number of reasons. One, because frankly there was a bit of a change in consumer preferences, so you are seeing a lot of products coming in — aluminium-lined plastic bags and plastic containers et cetera.

Mr ATKINSON — Designer packs.

Mr JENKINS — Yes, all of that sort of stuff.

Mr GREGSON — In the fish market as well.

Mr JENKINS — But equally there was a lot of canned food coming into Australia which, frankly, I think was subsidised by various producers offshore which meant that Australian producers could not compete and therefore the Australian market for that packaging product declined.

The CHAIR — I want to pick up two points, and they are totally different. One is in relation to anti-dumping, and the other is increasing the opportunity for steel manufacturing in Australia and how we do it. Let us start with that one first. An example you gave was that the automotive industry at the moment uses roughly 50 per cent of Australian steel in automotive manufacturing. Is there anything in your mind that government should be doing to assist in improving that 50 per cent?

Mr JENKINS — One is the anti-dumping; I think you can tie that in there. As I said, we made a submission to the Productivity Commission's current inquiry on that. There are a number of issues there and perhaps I will not go into huge detail here and we can supply that detail if you would like it. But just to give you one example: the current anti-dumping regime means you need to prove consistent dumping typically over more than 12 months. You need to prove what is called 'sustained injury' and that the dumping was sustained over a period. Often we will see examples where we think foreign suppliers are dumping, but they will do it intermittently. It will be a month or two here and a month or two there, then maybe they pull out of this market and go to another market and come back later. The system is not structured to capture that sort of thing at the moment. That is just one example of where there are some inadequacies in the anti-dumping system that we think need to be addressed.

There are also problems just in the resourcing and administration of those laws that would provide greater confidence to maintain and invest in competitive manufacturing capacity here if you thought there was a more robust anti-dumping system.

The CHAIR — I will come back to the first question because I want to expand a bit more on anti-dumping. You mentioned trusses and different regulations. Where does Victoria fit in terms of its position? Is it current in terms of building standards, or should we be moving to different dimensions?

Mr GREGSON — I think it is more at the area of the 600-millimetre spacing — —

The CHAIR — We are?

Mr GREGSON — Yes. I think so.

Mr JENKINS — We might take that on notice, but I think that is right. It is narrower spacing here than in a couple of other states that allow — —

The CHAIR — All right.

Mr GREGSON — There is a range. To be honest, there are a couple of states that are out at 1500 millimetres, but Victoria is not one of those states.

The CHAIR — Okay. If that were addressed that would increase your market share in domestic — —

Mr GREGSON — No doubt.

The CHAIR — I would appreciate some information on that.

Mr JENKINS — There may be three or four other examples of that type of regulation. We did not labour it today for reasons of time, but we could provide those in writing.

The CHAIR — Probably diplomacy, but I am asking you the question. You are talking to a carpenter's daughter, and my son is a carpenter so I am very interested. Please give me some information on that and on any others.

Can we expand a bit on this anti-dumping legislation, which is a Federal Government responsibility not state government; I am fully aware of that.

Mr JENKINS — That is right.

The CHAIR — As a state parliamentary committee we are obviously limited in what we can do, but in terms of a recommendation we could suggest that our manufacturing minister writes to the Federal Government with supportive recommendations 1, 2, 3, 4 and 5. What would be our 1, 2, 3, 4, 5 recommendations, and could we get those perhaps from your submission to the feds and pick up the Canadian position? Do you want to give it to us now or take it on notice?

Mr JENKINS — I do not have it all in my head, I am sorry, but I would certainly be happy to take that on notice, and we could provide you with a copy of that. I think to answer your question it would be very helpful if the state ministerial counterpart was to write to his or her federal counterpart. That would be helpful.

The CHAIR — Perhaps our recommendation would be that it be raised at ministerial council as well.

Mr ATKINSON — Can I ask a couple of very quick things — easy ones too? You are an industry that depends a lot on infrastructure, on roads, on transport systems, on our port systems and so forth, and also the people infrastructure if you like — skills and so forth. Do you have any observations in terms of infrastructure deficiencies that impact on your business or those of the major sectors you supply; or whether or not our infrastructure is actually a competitive advantage? If you want, you can take it away and come back to us on it.

Mr JENKINS — Yes. I can give you one example off the top of my head. No doubt there are, and I am sure that addressing infrastructure deficiencies would also drive business for us. Perhaps we could take on notice a bit more detail on that. Just to give you one example, and I guess it relates to federal infrastructure as much as anything, but the fact that there is no standard gauge rail link to our Western Port plant means that — —

Mr ATKINSON — That would have to be made of steel too, wouldn't it?

Mr JENKINS — It would be made of steel, and not our steel unfortunately. We do not make rails. That is OneSteel; that is long products. Nevertheless it is helpful for the domestic industry — —

Mr GREGSON — There would be some sheds along the way, do not worry about that. There would be something there for us.

Mr JENKINS — That is just an example. About 10 per cent of the steel slab that is consumed at Western Port is brought down by rail. It is shipped on the standard gauge from Port Kembla to the Melbourne steel terminal in Footscray Road, and it actually has to be gauge transferred. In other words, transferred from a standard-gauge wagon to a broad-gauge wagon by crane and then sent down the Frankston island to Long Island Junction and Western Port. That adds extra cost to our supply chain, which in an ideal world you would like not to have. There are also examples of that sort of infrastructure that impacts on us in terms of our competitiveness.

Mr ATKINSON — The other one was that you mentioned emissions trading in your submission. Can I invite you to make any additional comments on that in respect of the expected impact on your business and on the manufacturing sector in terms of the discussions you have had with your client base?

Mr JENKINS — Our CEO, Paul O'Malley, made some comments when our full-year financial results were released about two weeks ago. We did attempt to quantify the potential cost to the scheme at least as it is designed currently. What he said was that the net cost to us after the Government's proposed assistance could be in the order of $500 million over the period 2012–20, and it could be as high as about $1.4 billion if all of the emissions inherent in our supply chain are passed through to us. That part is less certain, so he was quite clear in saying that we do not know whether suppliers will be successful or not in passing through those costs, but certainly those what are called scope 1 and 2 costs — that $500 million — we think are pretty robust numbers based on the sorts of assumptions the Government has, the $10 fixed price in the first year, $25 price in the second year et cetera and looking at the assistance that is on the table at the moment.

Essentially we have said to the Government, as Steve said, that we are not opposed to the policy objectives of the Government, and we are working to try to reduce our own emissions. In fact we are funding research here in Australia with the CSIRO and we are working with European steelmakers to try to find breakthrough low-emission steelmaking technology. But until that happens, and particularly while major competitors are not carbon constrained — and we are talking about China, India, Brazil, Russia, countries that realistically are probably not going to put comparable costs on their steel industries in the next few years anyway — —

Mr ATKINSON — Koreans?

Mr JENKINS — The Koreans are talking about an emission trading scheme, but they do not have anything in place yet. Japan has a scheme but no mandatory caps; it is a sort of voluntary scheme. Essentially we have said to the government, 'Look, we support the objective, but the policy needs to be amended', and there are three particular amendments we have said are needed. One is essentially to expand the activities that will receive assistance under the scheme. At the moment the CPRS as it is designed would not provide any permit allocation for the Western Port plant. We think that is of significant concern because it would affect the competitiveness of that plant. We have urged the Government to expand what is called the emissions-intensive trade-exposed activity definition — EITE (emissions-intensive trade-exposed) activity definition — to take in hot rolling in Western Port. We have said we want the Government to provide some sort of assurance that those costs in our supply chain, particularly emissions costs relating to metallurgical coal, will not be passed through the steel industry, and we have also said to the Government that we think they need to link the permit allocation more closely to what our major competitors do.

At the moment the terms of the sort of review that the Government is proposing, I think at the five-year mark once the scheme has been in place for five years, are pretty broad. It is a review of the entire operation of the industry and the whole objectives of the CPRS. We have said the Federal Government needs to link that review more closely to what our major competitors are doing, and essentially keep that assistance in place until such time as the likes of China and India come on board with comparable carbon costs.

The CHAIR — I have to draw a line at this point. There are a number of other questions that I would not mind asking, but in the interests of other witnesses who have arrived to give evidence I will have to curtail this. It has been very interesting. Thank you very much. We will provide you with a copy of the transcript in about a fortnight for you to correct any typographic errors. I thank you for taking a number of questions on notice. If I could stretch our bonds of friendship there are a couple that I really would not mind asking afterwards, and if you would take them on notice too that would be great.

Mr JENKINS — Sure.

The CHAIR — Thank you.

Mr JENKINS — Thank you very much.

Witnesses withdrew.