

**ECONOMIC DEVELOPMENT AND INFRASTRUCTURE COMMITTEE**

**Inquiry into Manufacturing in Victoria**

Sydney — 29 October 2009

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Mr D. McDonald, Chief Executive Officer, Australian Steel Institute.

**The CHAIR** — I welcome Mr Don McDonald, Chief Executive Officer of the Australian Steel Institute, to our all-party parliamentary committee inquiring into the manufacturing industry. I ask you to state your name, position and business address.

**Mr McDONALD** — My name is Don McDonald. I am the Chief Executive of the Australian Steel Institute. My business address is level 13, 99 Mount Street, North Sydney.

**The CHAIR** — Thank you. I will hand over to you for some presentation points if you would like to make some. We will then ask questions, and we are scheduled to conclude at 10.15 a.m.

**Mr McDONALD** — Thank you for this opportunity. I guess I am representing more so the downstream players in our sector, because I understand you have had discussions with one of our sustaining members, BlueScope. In terms of addressing the terms of reference, I guess we will be looking at issues around item 2 with a particular focus on our industry concerns about the level of Australian industry participation and the amount of Australian fabricated steel used in projects.

I will start with just a brief word about the Australian Steel Institute. We are the peak body for steel in Australia. We provide services and support for our members around such things as representation, technical uptake and marketing leadership. We provide an independent forum for our members. We help to facilitate industry competitiveness, which could include things to do with safety, the uptake of technology, electronic trading et cetera, as well as encouraging investment by our members, particularly our downstream members.

We are about promoting steel. We are trying to grow the market share for steel so there is a focus on market development and indeed market defence, where it is defence of Australian fabricated steel against imported fabricated steel, and also a focus on industry health. We represent the full spectrum of the steel industry, from the manufacturers like sustaining members BlueScope Steel, OneSteel and Fletcher Building, which is represented in Australia by Stramit, right down through distribution, fabrication, galvanisers and roll formers. A lot of our membership base and our reach is through to the specifiers of steel — engineers, architects and builders. We also have an active student program where we lecture to engineering students et cetera and building students in the universities. We represent the full spectrum.

In terms of our industry size and investment, I will give you a couple of key facts around that. These are ABS numbers as of mid-2008, pre the global financial crisis, for the whole of the industry from upstream right through to the various downstream players, including sheet metal et cetera. Total turnover was \$29 billion; there was employment of 91 000 people; and the steel-making capacity was 8 million tonnes per annum, which is more than we consume. So we are a net exporter of steel, mainly through BlueScope, which exports somewhere around half of their production. We have a fabrication capacity of 1.1 million tonnes per annum. This is a pretty big number if we look at Britain, which has three times our population and has a structural fabrication capacity of about the same amount. There has been significant investment in fabrication capacity expansion and automation in the two-year period up until the end of June 2008. There has been something like \$400 million invested by the fabrication sector, which gave increased capacity of about 145 000 tonnes per annum.

Our industry operates as an integrated supply chain, and by that we mean that each sector will depend on the other for services et cetera. It operates as a virtual organisation for all intents and purposes; a customer might be engaging with a fabricator, but that fabricator is able to tap into the supply chain for value-added services from distribution, galvanising, technical support from the manufacturers et cetera.

If we talk about steel in Victoria, our three sustaining members — BlueScope, OneSteel and Fletcher through Stramit — have substantial manufacturing facilities in Victoria, with BlueScope at Western Port and OneSteel at Laverton. Fletcher/Stramit has a new facility at Bayswater. Our

distributor, roll former and galvaniser members have all made significant recent investments in Victoria. So steel is a very important part of the Victorian economy.

Victoria is well served by a very capable steel fabrication industry and steel detailing sector; steel detailing is the sector that converts engineering drawings into workshop drawings for manufacture. There is a lot of sophisticated 3-D modelling and technology in that sector now that is used to drive the automated equipment that the fabricators and the distributors have. Our Victorian fabricator members have done major, complex and award-winning projects, including the Southern Cross station, the MCG and Federation Square, which are world-class facilities that exploit the benefits and the technologies available to steel. They have also done a number of significant high-rise buildings in Victoria, including the Southern Cross office tower, 50 Lonsdale Street and the BHP Billiton headquarters.

Victorian fabricators do a substantial amount of interstate work. Some examples would be Thornton Engineering located down near Geelong, which has done a lot of mining work in Western Australia and Queensland, and Alfasi, which is based in Dandenong and has done work all around the country in all capital cities, including the Olympic station here, the airport terminals in Sydney and in other states, and convention centres. So Victorian expertise in steel fabrication is well regarded and well used.

The auto industry, which the steel sector supplies into, has clearly been hit hard over recent decades, not just by the global financial crisis but in particular by the global financial crisis. Some broadbrush numbers: in the mid-1980s Australian producers had 80 per cent of the domestic auto market and local content in the Commodore was in excess of 90 per cent. Nowadays the local industry market share is less than 20 per cent and local content in the Commodore is around 55 per cent. In terms of a market for steel, it has obviously been a declining market. Victoria and South Australia are clearly the two important auto states.

In terms of wind towers there has been a lot of capacity and capability, mainly through a company in Portland, Keppel Prince, so in terms of renewables, with wind being up there as probably no. 1, that is a substantial user of steel. We would clearly like to see the government facilitating and encouraging more wind towers and doing whatever it can to encourage local content in that where we do have a demonstrated capacity and capability.

We have a particular issue in Victoria with a couple of recently awarded car parks in hospitals, one at the Monash hospital and other one at Dandenong Hospital, where the steel solution was not considered or not given any serious consideration, despite demonstrated cost savings and the advantages of early occupancy and of cash flow and so forth that would have — —

**Mr DAVIS** — These are at public hospitals?

**Mr McDONALD** — Yes.

**The CHAIR** — Monash and?

**Mr McDONALD** — Monash and Dandenong. We just did not get a look-in on that, despite having done an alternate design.

**Mr DAVIS** — Are private operators running it? I am just trying to understand it.

**Mr McDONALD** — I can come back on that.

**The CHAIR** — Don is going to go through all this with me.

**Mr McDONALD** — Yes. That is a particular one, I guess, of lack of access, and we have issues around that. Now that has gone concrete. In that instance that is not local versus imported; it is steel versus concrete.

The current market conditions and clearly the global financial crisis have impacted very heavily on the whole steel industry, with outputs from our members being down by 30 to 50 per cent for a lot of the financial year that finished at the end of June. We saw manufacturers taking out or reducing capacity and significant reductions there. Distributors were caught with a lot of inventory overhang, and fabricators, particularly Victorian ones, are bidding below cost just to keep the doors open. That is of major concern. What does it do to their cash flow? What does it do when the work does come back on? Are they able to finance their next job?

On local content concerns — and we are talking sort of Australia-wide here, but I can give some Victorian examples — there has been an increasing volume of imported fabricated steel. We now believe that some 20 to 25 per cent of our market is imported fabricated steel. It is not just in the big mining projects and oil and gas projects. It is quite prevalent, particularly in the oil and gas projects, but it has been growing rapidly in what we would call bread and butter work for our Victorian fabricators — things like warehouses, shopping centres et cetera. Often times it is just not being bid locally. That is of major concern. We would say that our industry in many instances is not getting a fair go and that full, fair and reasonable opportunity is not being afforded through early and meaningful engagement, and that proponents are often just bypassing this sector and going straight overseas without any sort of meaningful tender process or anything like that.

The net result is that we are exporting Australian jobs offshore and the Australian economy is missing out from the substantial economic stimulus that these projects could and should be providing. One that there has been quite a bit of recent publicity on is the Gorgon project, the biggest project that Australia has ever seen. We have grave concern that Australia is being designed out of basically the specifications. The project has been designed in London using Japanese industrial standard steel sections, and that is having a very adverse impact on local content. We have to be very wary about — and the minister, Minister Carr, had referred to this — about an Australian project being designed in Europe to Japanese standards, and that is a case in point. We would like to have the Victorian desal plant under close watch from the Government to make sure that with that plant — I understand elements, or quite a lot of that is being designed offshore — all efforts are made for the Government to show leadership to encourage the proponents to engage locally there.

We have had the situation recently with Oakajee Port and Rail, which is a major mid-west iron ore development in Western Australia, where the Western Australian Premier has been wooing Chinese supply. This is despite the \$700 million taxpayer subsidy for that project. I think there are \$350 million of federal and \$350 million of state government subsidies in that. We would think that there is every good reason why taxpayers would expect their money to be spent in supporting local industry.

There are many other examples under way with construction at the moment: Worsley Alumina, which is a BHP Billiton development in Western Australia; Pluto LNG gas project by Woodside; and Yarwun 2, which is an aluminium project by Rio Tinto in Gladstone. There are number of Victorian — —

**The CHAIR** — Sorry, are those last three examples of steel opportunities that have been awarded overseas or have not been awarded overseas?

**Mr McDONALD** — No, those last three were all awarded overseas. In fact, Australian industry was shut out. It was not even bidding on those projects. That is how bad it has got. For a variety of reasons — and I will come to these — there are a number of perceptions out there, or misconceptions, that they were used as an excuse for not engaging locally. But, yes, those projects as mentioned have all gone the wrong way, with no local involvement.

**Mr DAVIS** — And no local opportunity?

**Mr McDONALD** — And no local opportunity, which is even worse.

**Mr DAVIS** — That is the critical point.

**Mr McDONALD** — Yes. With the Yarwun 2 project in Gladstone there was a very competitive bid, as we understand it, out of Victoria. The EPCM, the engineering, procurement and construction management contractor on that, Bectil, chose not to even go down to and visit the shop in Victoria. The shop does a lot of mining work throughout the country; it had a very competitive bid for that project. We would say there was a lack of meaningful engagement on that. That is a company that has invested very heavily, that has a lot of automation and that has done a lot of good work and has been used by other proponents, but it did not get a look-in on that.

**Mr DAVIS** — In that case was it because of the price or because of just a blindness and a failure to look?

**Mr McDONALD** — We believe the price that was put in by the Victorian company was a very competitive price; and we believe that Bectil had awarded to China, where Bectil has in place arrangements for fabrication. It is a difficult one for our industry to contend with, because that was about, I think, 16 000 or 17 000 tonnes, which is a very significant project for our industry. We did the first alumina plant at CAR 1 in Gladstone. The Australian industry did that and performed well, but with the second project it did not get any meaningful look-in.

In Victoria we have had a number of local content issues. One that got a fair bit of publicity a couple of years back now was the EastLink project, where the guardrail posts and gantries were all imported from China. With the guardrail posts there was independent measurement testing. A significant number of them, more than 30 per cent, were under thickness, under spec, by something like 25 per cent. We would say that is not compliant with the spec and not compliant with fair competition, where the Australian bidders bid to a conforming quality of supply. That was taken up with the joint venture, the Holland-Thiess joint venture with the EastLink authority, and unfortunately, the guardrail posts are still in place and they are not to the VicRoads specification.

We understand the sign gantries imported from China were so substandard in terms of welding and steel quality that they were sent to the scrapyards. There have been a number of distribution warehouses built in Victoria, on the outskirts of Melbourne, that have been imported from Chinese suppliers, most of the time without being priced here in Australia; similarly, small factories with shopping centres. It is not just the big resource projects; it is down to what we would call the bread-and-butter work.

A recent and pretty sore example is the Carlton Football Club. I am a Collingwood supporter, so I am not a big fan of Carlton anyway. They took the decision to import the steel for the grandstand from China. That is a project that had state and federal government funding. We would have thought that there would be sufficient leverage and leadership to be able to point them in the direction of capable Australian suppliers who, after all, have built things like Docklands, the MCG, the facilities for the Commonwealth Games and the current football stadium under construction. There is plenty of capability and capacity there. We understand that the industry was not even engaged in pricing on that. I understand a similar situation is occurring at the St Kilda Football Club; they have a grandstand expansion happening there, and we understand that is also being imported.

Looking at the upcoming projects that we would see are heavily at risk, there is the Mortlake gas-fired power station; Siemens does the EPCM on that. Siemens on the Laverton project imported all the steelwork, and we understand it was not a very successful project for a variety of reasons. So far there has been a lack of engagement — —

**The CHAIR** — Laverton what?

**Mr McDONALD** — Laverton gas-fired power station. So far there has been a lack of engagement. To rub salt into the wounds on that one, the ICN is assisting with the EPBS

application — that is the enhanced project by-law application, which would in turn get tariff relief. We would impress on government that these sorts of projects are job-retention opportunities that are by-passing the State of Victoria. The BER work — the Building Education Revolution work — we certainly commend the Federal Government for the BER initiative because that is helping provide work to our industry, but, despite the provision and the specification for local material in Victoria for the BER work, we understand that is not being enforced. So we are losing out for the sake of a few percentage points per tonne of steel, which clearly is not doing what the package is designed to do, which is to create work opportunities in Australia.

I guess the two I would really likely to flag as at-risk projects — hopefully they will go the right way, but I think without leadership they could go off the rails — are the desal plant, which was a good win for BlueScope with the pipeline on that, but in terms of the facilities there, we would want to make sure that that stays local; and the Vic Market similarly.

**The CHAIR** — Fruit and vegie.

**Mr McDONALD** — Fruit and vegie, yes; the relocation of that. There are a number of misconceptions.

**Mr DAVIS** — This is to Epping?

**Mr McDONALD** — Yes, the relocation to Epping. There are a number of what we call misconceptions out there that we perceive as facts. In terms of capacity, an excuse used by proponents is that Australia does not have capacity. We reckon with our track record and with 1.1 million tonnes around the country we certainly do have capacity to handle most projects. Clearly once we get into modules of 6000 or 7000 tonnes that can be an issue for industry, but that is a very particular case on the Gorgon side of things. We definitely have capacity to handle 99 per cent of the projects in Australia.

Price-wise, we have had independent work done — it was actually a Western Australian study that was done a couple of years back — that showed that there was about a 20 per cent differential between Australian and Asian fabrication. We believe that is a premium worth paying for steel that is always on the critical path of a project and to be able to get surety of supply, quality and performance to specifications. Oftentimes projects have to come in on fairly lumpy shipments; there has to be rework, there is expediting of inspection and all manner of things. To engage locally with suppliers with proven track records we believe is the least-risk route. It is a valued proposition that we believe is worth paying a premium for.

In terms of perceptions about IR risk, we are not aware of industrial — —

**The CHAIR** — Excuse me, Mr McDonald, we want to make sure we have got time for questions. Have you got another full page to read from?

**Mr McDONALD** — No, about half a page.

**The CHAIR** — All right. Okay, keep going.

**Mr McDONALD** — I will motor through fairly quickly. There are perceptions about industrial relations risks. We are not aware of any industrial relations issues in fabrication shops over the last 10 years that have held up any project in Australia. And there are perceptions about skills shortages. Yes, when the market was in absolute boom there were some question marks about that, but really the 457 visas have assisted with that, and we can make a categorical statement at the moment, with the companies working at only 50 to 60 per cent of capacity, that skills shortages are definitely not an issue currently.

We would see from a government point of view the issue there is about helping to generate demand. We welcome obviously the stimulus packages. We would like to see steel-intensive

projects like port, rail et cetera. We would like to see a whole-of-government approach and, if possible, close cooperation between state and federal as it relates to local content, particularly for those projects that are getting perhaps state and federal assistance. We would like to see governments encourage investment in technology and skills. An example we are aware of is a South Australian fabricator being given a government grant to install automotive equipment. We are aware that there are some Victorian fabricators who would dearly love to have \$1.5 million to invest at the moment.

**Mr DAVIS** — Who was that?

**The CHAIR** — Let us keep the questions — there are 100 questions from this.

**Mr DAVIS** — I know that, but I am just trying to understand it.

**The CHAIR** — Keep going.

**Mr McDONALD** — Perhaps it is better not to be on the public record, but I can certainly give that independently. Governments have a role to provide leadership and also to ensure that the ICN, the Industry Capability Network, works on behalf of the suppliers and does not have a lot of information that is confidential and not able to be shared with suppliers. They should be on the side of the suppliers at all times and not working for importers to get tariff concessions et cetera.

In terms of boosting Australian participation, we welcome Senator Carr's recent announcements about the Steel Industry Innovation Council and the steel supplier advocate, the national framework for Australian industry participation and the tightening up on the violations of the EPBS and tariff concession orders. We welcome also the government stimulus work. Stimulus packages should do what they are designed to do, and that is to support the Australian economy by maintaining skills and employment here — I will just emphasise that point — and our push for steel intensive projects, because for every dollar spent in the steel sector there are 18 jobs out there. We would certainly like to see more rail, port and desal and power, wind towers et cetera.

Carbon trading is a big black cloud that hangs over the industry. Whilst our industry supports significant and rapid reduction in CO<sub>2</sub> emissions, we believe it is appropriate to delay the introduction of the scheme until we can be sure that the ultimate result will not be to make Australian steel uneconomic compared to international competition, which is not as yet facing the CPRS.

The steel industry has definitely demonstrated ongoing commitment with capital investment, a commitment to safety innovation, skills development and benchmarking against world best practice. Our industry has invested in its productive capacity. We would like to see a more collaborative approach between stakeholders and their project teams, as the proponents, and governments and our industry. In terms of project proponents, we reckon they should be made to deliver on their Australian industry participation obligations and other regulatory requirements. They should provide full, fair and reasonable opportunity and demonstrate at the earliest stage of the project development meaningful engagement with local suppliers and work with the ASA and the ICN to help identify capable suppliers.

Just in closing, from the point of governments, we would like to see them provide strong leadership at the approval stage to encourage proponents to engage locally. We would like to see governments playing an active role in enforcing conformance to standards. The bottom line is that it should be about fair trade so we can be competitive.

**The CHAIR** — Thank you very much for all of that. If I could start my questions with your final comment: full, fair and meaningful opportunity, you want engagement and you want an active role for government. Can you give me an example in terms of the projects that you have put in the at-risk category, and let us pick the fruit and vegie market, because that is up my way. You have got the desal that you mentioned and the fruit and vegie market. How would you lay out a

modus operandi to make sure that there is full, fair and meaningful opportunity, there is engagement and then there is an active role for government in compliance?

**Mr McDONALD** — A project should have an Australian industry participation plan done at the earliest stages. It should demonstrate that it is designing to Australian standards. It should demonstrate that it is aware of and will be engaging with pre-qualifying local suppliers, and doing that right at the early stage during the design of the project because that is when you can get good inputs. Our members can input around constructability; they can show examples of other recent projects and really partner with the proponent through the process. I think if it is a rearguard action, we have got to be in early, and we would see the Government's role there as really encouraging whoever it puts on board as the constructor to feel that they are going to be under the microscope for that.

**The CHAIR** — Can you expand a little more on the active role in compliance with the above? I do not want to put words in your mouth. Can you fill that out just a little more? The reason I ask this question is because if it is a tick box and someone has made a phone call, 'Have you done such and such?', I want to know what you see as being — —

**Mr McDONALD** — We would see things like industry briefings, a preparedness to meet with local suppliers, to get engagement right at the design process so that the local suppliers can feed into the design process. It is then designed around what is best for the project in a true sort of partnership with the suppliers.

**Mr DAVIS** — I want to ask you about a number of the Victorian projects but particularly the Building the Education Revolution projects. As I understand it, there is federal money that has come down that is being managed by the department in Victoria and the regions and there is an interaction with the schools to develop up the particular project, the project gets ticked and then it goes forward. In effect what you are saying here is that the particular specifications that have been put there have not been adhered to and that in some cases requirements for local content are not being enforced.

**Mr McDONALD** — That is our understanding, yes. Now that is not in respect of imported fabricated steel but imported raw steel. Now the specification, as I understand it, requires locally produced steel, and that is documented but not being enforced as we understand it.

**Mr DAVIS** — And that is not being followed through by the departmental officials who have got overall carriage of the particular project — the management of the project?

**Mr McDONALD** — Which is often the case. Getting conformity with standards is a major issue in this country full stop, and I guess this is yet another example of it. It is one thing to have the standards, but another to then enforce the conformity. Like with EastLink: it was demonstrated that what was supplied and installed was not conforming, but who polices this is the broad question.

**Mr DAVIS** — In the case of EastLink — to pick up that example, and we had questions in the house about this, Bruce — the issue there is that VicRoads has still not enforced its own standards. Is that your understanding?

**Mr McDONALD** — I think EastLink is the authority. So EastLink was the authority, and they used or invoked VicRoads standards. But it may not be up to VicRoads, I do not know whose role it is to enforce it, probably the ultimate customer, EastLink. But I am not — —

**Mr DAVIS** — But those sort of standards are there for safety reasons.

**Mr McDONALD** — Correct, yes.



**Mr ATKINSON** — I just want to touch on something that might be a bit sensitive. I am conscious of human nature, and it occurs to me that one of the issues with procurement is that a trip to Dandenong or Hastings is not all that terrific, but a trip to China might be really good. I wonder to what extent in some of these contracts incentives — travel incentives and other incentives — or commissions play a role in the opportunities created for imported steel.

**Mr McDONALD** — Interesting question. I suspect you are right, but I cannot back that up with any specific examples, not recent ones anyway. I can say that going back in time when Australia used to have capability to build these lattice transmission towers made out of angle steel I think there was a tendency from the power authorities to prefer to go over to overseas suppliers where they could inspect, because these things have to be tested to destruction, and there were certainly suggestions at the time that that might have influenced decisions. I am not aware of recent ones, but that is not to say that it is not the case.

**Mr ATKINSON** — In terms of the industry, the issue of concrete versus steel in the car parks, I am frankly not as fussed about that, because I think there is a competitive market — you cannot expect to be bidding for every project. But certainly I am interested in the level of involvement of the industry in — and particularly your own promotion of — innovation and new product development, new product identification or opportunities identification by the steel industry for both the Australian market and also for potential export, either as IP or as physical product.

**Mr McDONALD** — Certainly our organisation plays a key role in promoting innovation and excellence in use of steel: we have steel awards around the country, and that is on a project and steel-in-use perspective. In terms of recent examples around product development, there is the light steel beam — which was developed by Smorgon, now part of OneSteel Australian Tube Mills — that is gaining increasing penetration in Australia and also in the American market, albeit the American market is a very, very tough market for a steel beam. That is an innovative product that is Australian developed and has got applicability across sectors; it is head-to-head steel versus timber in domestic construction.

**Mr ATKINSON** — And the penetration is by actual exports of product or IP and licensing income?

**Mr McDONALD** — I think both. I think there is some production facility in the US, but I would need to take that on notice and refer that back through OneSteel.

**The CHAIR** — There is one example that absolutely puzzled me in that evidence: BHP. You gave examples of three developments where the production of the steel was offshore and there was no local opportunity, and one of them was a BHP project itself. Have I got that correct?

**Mr McDONALD** — It was a BHP Billiton Worsley Alumina expansion in Western Australia.

**The CHAIR** — It still leaves me puzzled that there was no local opportunity when we have got a project involving BHP.

**Mr McDONALD** — BHP do not produce steel. They have divested that to BlueScope, or to OneSteel initially and — —

**The CHAIR** — Well, there you go, that answers that question. That was extremely helpful, thank you very much.

**Mr ATKINSON** — I am also interested in the quality issues, particularly with material that is coming in from China. Japan and Korea have probably got considerable integrity in their steel product, but we have certainly heard across a range of manufactures that Chinese product coming in is often of an inconsistent quality, that you can get some good stuff but there is a fairly high failure rate in batches even from the same shipment. I am interested in the extent to which quality does compromise safety, particularly in building construction. Have you any views on that as an

institute? Is there some sort of monitor that has established whether or not some building projects are at risk because of specifications not being met or the product actually being defective?

**Mr McDONALD** — I can give you two recent examples of that. One is an iron ore mine in Western Australia, a BHP Billiton mine, that imported floor grating that was not to Australian standards, which meant that the gap in the grating was bigger than it should have been. A piece of scaffold tube fell down and killed a workman as result of that, so BHP put out a hazard alert on that. That was a very serious recent nonconformity.

Imported bolts from China are an issue in Australia. There is a lot of variability around those. Yes, we have put out a number of warnings, as has the New South Wales Government through WorkCover and the Federal Government. We need to maintain vigilance on that. This harks back to the fact we have got our standards but it is the enforcement of the standards that is an issue.

**The CHAIR** — Can I pursue that a little more?

**Mr ATKINSON** — You can, but there was a recent issue with bolts. There was an example very recently of bolts that were found to be defective in a construction project, and they had to go back and replace — —

**Mr McDONALD** — There have been several instances of bolts.

**Mr ATKINSON** — Are you able to nominate particular instances?

**The CHAIR** — That was going to be my question.

**Mr McDONALD** — Suffice it to say that we would encourage our members to ensure they are buying through a reputable supplier who is providing independent Australian NATA test certificates for imported bolts, because what we are seeing on occasions are dodgy test certificates. Anybody can photocopy a test certificate. It needs to be independently tested by a registered Australian NATA lab as a further assurance of quality.

**The CHAIR** — I want to pursue this a bit more. You spend your life investigating the topics we are covering today, safety in particular being one of them. How does the average citizen get any comfort about the quality of the steel going into products that they are using or purchasing if they are a warehouse operator? How do they have any sense of security if it is coming in from — we perhaps want to keep homing in on China, because that has been the evidence we have received of inconsistency and quite serious errors. Is there a website somewhere; is there testing; where is the testing; how do you guarantee the testing is done? You are an unsuspecting person. You are building your warehouse. Your builder says this is all meeting steel qualifications. After today — and after other hearings — I have a sense that if it is Australian steel, you have a fighting chance.

**Mr McDONALD** — There is a proven track record

**The CHAIR** — All right, a proven track record.

**Mr McDONALD** — And performance to standards over a period of time with — —

**Mr ATKINSON** — You have got someone to sue.

**Mr McDONALD** — Yes, with quality manufacturers et cetera. Look, it is difficult. I guess you would want to ensure that you are using a reputable builder, that the contract is tight, that the engineer of record signs off on it and takes responsibility for what has been supplied. The specifications are generally tight. They are generally to Australian standards. It is whether the product is being supplied to that and it is the enforcement of that. We would say to governments as procurers that governments should take a very active role in looking at validation around test certificates et cetera, because these are public assets at the end of the day and you want to be sure

that you are getting what you pay for. As I said, the specifications are generally not the issue, or the quality of the designs, but it is that conformity. The actual validation is the issue.

**The CHAIR** — Would you like to take that on notice and if there was a section in the report, and I am not sure that there will be, but if there was strong enough evidence to give us a section in the report on the importance of compliance, I would also be really interested in where there is an independent site that the public could use. It could be an alert site that from such-and-such steel fabricators in a particular country we have had 5, 10, 15, 20, innumerable instances where standards have not been met. I am trying to find a way there could be a ranking, an alert, a public sense being developed that there is a knowledge in Australia that we have good quality steel and it is consistent but that importing from some other countries is very problematic.

**Mr McDONALD** — As an industry association we are there to create awareness and impress on people the importance of standards and conformity and how to achieve that. We are not a policing organisation.

**The CHAIR** — No, I am not suggesting you would be.

**Mr McDONALD** — The standards are there, the regulations are there, yet I think it is really the proponents, the facility owners, be they government or be they the mining houses et cetera, enforcing that they are getting what they pay for.

**The CHAIR** — The last thing is we had a very good example of this with somebody who originally manufactured here then took their specifications offshore, had them manufactured offshore and is now bringing the manufacturing back to Australia because of the very problems Bruce outlined and you are familiar with. They really had a vested interest in making sure the tanks they were installing in cars were of a high standard. It would be clear to sue if something went wrong. Do you have any examples of companies that originally manufactured in Australia and then manufactured offshore and have decided that they are bringing their production back to Australia in order to avoid the costs that are associated with dumping inferior steel products — double testing, triple testing?

**Mr McDONALD** — Not so much from the fabrication sectors. That is sort of purpose-built and one-off, whereas the manufacturing sector does long runs, so that is where you are more likely to hear those examples. Within the steel fabrication sector I do not have examples of that.

**Mr DAVIS** — The gantries are one that went wrong.

**Mr ATKINSON** — Did you say before that the penetration of imported steel in our market is 25 per cent?

**Mr McDONALD** — Imported fabricated steel is between 20 and 25 per cent. There is imported steel as well.

**Mr ATKINSON** — What would that be?

**Mr McDONALD** — Around 30 per cent. Our issue is around imported fabricated steel. That is what we are about today, and that is basically our — —

**Mr ATKINSON** — How many Australian suppliers or manufacturers of fabricated steel would there be?

**Mr McDONALD** — We have about 150 fabricator members. There are something of the order of 500 to 600 fabricators in Australia. We have got the bigger ones as our members.

**Mr ATKINSON** — I guess my concern is that in some ways that market penetration is relatively low compared with a lot of other products, and I think there is almost a competitive dynamic that comes into that provided the product from overseas is of sufficient quality to meet

specifications. I accept that it would seem to be good business practice, apart from anything else, to give Australian companies an opportunity to compete for any business opportunity that comes up, but I guess I wonder why any government should get involved in trying to either mandate or create a leverage situation to force those sorts of business engagements. I am interested in what the industry itself is doing to promote the Australian product without relying on the government; in other words, the business-to-business activity.

As part of that exercise, I am also interested in the amount of money that the steel industry invests in research and development and what you see as the opportunities for high-end product applications in steel going forward. In most industries the higher end applications seem to be Australia's niche opportunity — the local, home-grown opportunity — rather than the commodity end of the spectrum. I just wondered what your perspective is of that parcel.

**Mr McDONALD** — There are a number of questions in that. There has been significant investment in R and D. I cannot quote numbers, but — —

**Mr ATKINSON** — Could you supply that for us later?

**Mr McDONALD** — Yes, I would have to compile that. Going back over time, BHP Steel, which then became OneSteel and BlueScope, have made significant investments in research to do with product manufacture as well as product in use. I can talk from experience around some world-leading research in fire engineering, in composite. That work is being used in codes and standards in cold form. We have had leading researchers at Sydney University like Professor Greg Hancock. At the high end, yes, our industry has invested considerable research and development in that side of it.

Could you just repeat the first part of your question?

**Mr ATKINSON** — The business-to-business activity to get more uptake of our product and maintain its capacity.

**Mr McDONALD** — That is core business for our member companies and indeed for our organisation.

**Mr ATKINSON** — But it is falling flat because you are not getting a look in on some contracts.

**Mr McDONALD** — We were engaged with Chevron on the Gorgon project from early 2004. We have been meeting with them and looking to influence their specifications, getting to know their industry capabilities. We have been very proactive with proponents. I presented at a conference that had Queensland gas proponents in Gladstone two weeks ago. Our state managers and our national manager of industry and government as well as our national marketing manager are all very much engaged with promoting the industry as a value proposition to proponents and specifiers. The member companies are very active in that.

**Mr ATKINSON** — Is there a way a government — say, the Victorian Government — can actually encourage the industry in some way to showcase and market its wares rather than for us to simply take on a bruiser role of leaning on companies and saying, 'You must do this'? Is there some more proactive and more effective way of government actually supporting the industry but not having to intervene directly and, as I said, get heavy.

**Mr McDONALD** — Yes. I think that is largely the role of industry, but if government is able to help foster that, that is a good thing. I think the steel supplier advocate initiative that has been recently announced and the Steel Industry Innovation Council that meets next week are definitely steps in the right direction.

Perhaps on something I did not finish but would like the opportunity to put in a written submission, we would like to see in Victoria, as we have in some of the other states, a manufacturing council. We would like to see steel having a seat at the table, where the council is chaired by the minister, with the involvement of the Australian Industry Group, the ICN, the rail sector, other manufacturing sectors in together, because there are a number of common issues there. It is through those sorts of things that solutions can drop out.

Just returning to the point, clearly the marketing of the offer is very much core business for our member companies and part of our modus operandi.

**The CHAIR** — Thank you very much. You have given us comprehensive information. We will be providing, via Hansard, a copy of the transcript within about a fortnight. You are free to correct any typographical errors but not the substance of it. We look forward to your further submission. Again, thank you for focusing very much on the terms of reference. That has made our job here this morning a lot easier.

**Mr McDONALD** — Thank you for the opportunity, and good luck with the inquiry.

**Witness withdrew.**