Steel into the Eighties — The Rise and Rise of BHP

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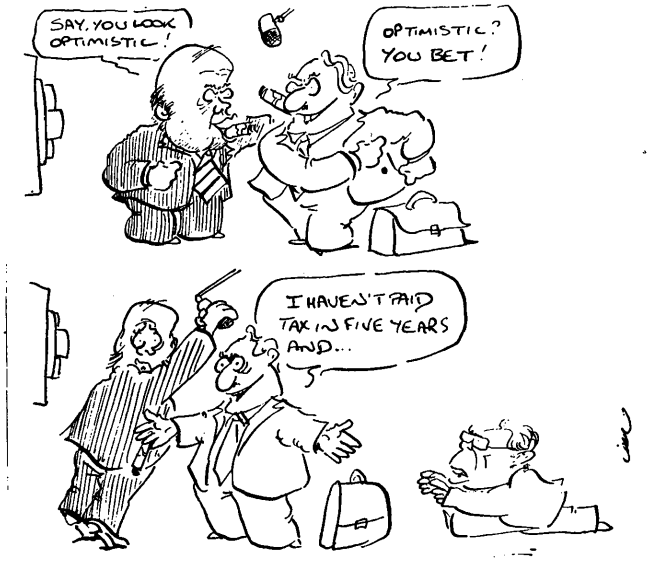
Introduction: Situating the Debate.

In June 1980 I spoke as a member of the Steel Group of the Wollongong Workers' Research Centre to a meeting of Port Kembla ironworkers. I talked about the Draft Report of the Industries Assistance Commission on the Steel Industry and the implications of it for the Port Kembla steelworks. It was not the first contact the Workers' Research Centre had with ironworkers for we had been working with them since the beginning of 1980 on the production of a multi-lingual rank and file newspaper. The reaction to the talk then was unusual: a polite thank you, and silence. Finally one delegate said "Last time one of you blokes came to talk to us about the steel industry you said it was all over and that a lot of us would be down the road. Well, we're still here, and in my section they've been taking on". Others agreed. I was rapidly informed that the BOS was being expanded, the slab mill overhauled, the traffic department computerised, and one worker insisted that he had seen the plans for a sixth blast furnace. The workers enjoyed my discomfort, caused not by what I'd said about the IAC Draft, but by my approach to the industry which was based on what "one of us blokes" had said to these workers more than two years previously. A visit to Newcastle a few months later, and conversations with AMWSU members of the Steel Group of the Hunter Social Research Co-operative confirmed that moves towards expanded capacity weren't confined to Port Kembla.

There seemed to be something wrong with the "collapse of the steel industry" thesis, but that argument had all the right theoretical ingredients: recession, crisis, off-shore production. The only problem was it didn't gell with what was happening on the job. This article, written in January 1981, argues against the prevailing wisdom of FIA officials like Short and Hurrell who see cheap South East Asian steel as the problem confronting the steel industry, a position they share with BHP's steel division General Manager, Mr. W. Burgess. It will also be seen, unfortunately, by some as some sort of "polemic" against Ted Wilshire. Its real intention, however, is to take seriously what workers know of their job situation, and to put that information into a broader perspective.



CRISIS IN THE STEEL INDUSTRY?

In March 1978, at a public meeting in Wollongong, Ted Wilshire of the AMWSU predicted that "the future (was) very bleak for steel workers in Australia". Among the major reasons that Wilshire gave for this misfortune were:

- a general decline in steel demand due to the replacement of steel by other products; the mining investment of BHP; the BHP's anti-worker attitudes.[1]

But perhaps the most important reason that Wilshire gave for the projected downturn in the steel industry in Australia was the "redistribution of production in favour of Third World countries under the aegis of multi-national capital".[2] In 1974, steel mills in the third world accounted for 7 percent of world steel production, and were still major importers of steel. By 1985 it is estimated that they will be producing 17 per cent of total world production. Wilshire suggested that steel imports into Australia were rising and predicted "bitter competitive steel selling ... in the export/import market".[3]

Since 1978 it is clear that BHP's union-bashing attitudes have not decreased;[4] the replacement of steel by complementary products has continued; BHP's mining investment has continued to grow and that multinational redistribution of production is increasing. And yet the future is far from bleak in the steel industry. In reviewing the international situation in the steel industry, and in examining more recent national events this paper suggests reasons why the calamity predicted by Wilshire has not occurred, yet.

NATIONAL AND INTERNATIONAL STEEL PROGNOSIS

The OECD forecasts for 1981 a general stagnation in world demand for steel, with drops in US and EEC steel production. Competition among major overseas steel producers was fierce through 1980 and US steel producers alleged that European steel was being imported at 40-70 percent below the cost of production, at a time when US steelmakers were operating a little over 50 percent capacity. Asian steel producers too, have complained of dumping by Japanese and American mills. A commission of the EEC moved to reduce competition among European steel producers by setting (temporary) quotas which would reduce output from 13-20 percent. The crisis in US and European steel production was disastrous for workers in those countries with the loss of 100,000 jobs in the steel industry. Also significant of the turmoil is that last year Japan outstripped US steel production for the first time and became the largest producer in the capitalist world.[5]

While European and American steel industries are falling to pieces, BHP looks to the immediate future with serene confidence. The Joint Coal Board estimated that the demand for coal by the steel industry would rise fairly steadily from 8.3 million tonnes in 1978-79 to 10.2 million in 1983-4.[6] Chief General Manager Loton talked of "steady growth in the industry this year". Commentators noted that the demand for steel in Australia had grown by 12 percent in 1978/79 - 1979/80, and BHP Board Chairman, Sir James McNeil, remained nonplussed over the downturn in the auto industry, commenting that "while of great concern (it) should not prevent overall growth in steel usage". He noted that the Australian steel industry "was one of the best placed in the world". BHP predicts an increase in steel division profit from $97 million to $128 million in

conventional accounting terms (or on BHP's FAVA system - explained briefly below - a $35 million loss will be reduced to a $18 million loss).[7]

On What is McNeil's quiet confidence based? What is special about BHP in Australia that makes it able to look forward to modest growth when other steel producers are in disarray?

BHP's confidence in the industry is based on three things:

- its monopoly position; the resources boom; and its political power manifest in its ability to retain and increase tariffs.

MONOPOLY AND MARKETS

It is well appreciated that BHP is the steel industry in Australia. BHP has between 85 and 95 percent of the domestic steel market. In addition it is very highly vertically integrated. It supplies all its raw material inputs, and 40 percent of its output is handled by subsidiary companies, with another 20 percent taken by companies in which it has interests or with which it has special arrangements. In this way, 60 percent of its domestic sales are guaranteed. In the seventies, BHP's domestic sales accounted for about three-quarters of its output.[8]

When the bottom started to fall out of the domestic market in the mid-seventies, BHP turned increasingly to export sales. These reached a high of 42 percent of its production in 1977-78. But the increase in BHP's exports during the lean years was not matched by an increase in steel imports. Wilshire is incorrect to suggest that there is a tendency to increased importation of steel. In fact, as the Table below suggests, since 1970-71 there has been a tendency in the opposite direction, with imports forming a smaller proportion of total steel supply in the latter half of the decade than in the former.

Steel Imports and Steel Supply, 1970-71 to 1978-79.

	Steel Imports (1)	Total Steel Supply (2)	(1) as % of (2)
	(000' tonnes ingot equivalent)		
1970-71	885	7680	11.5
1971-72	801	7380	10.8
1972-73	663	7896	8.4
1973-74	1237	8943	13.8
1974-75	887	8904	9.9
1975-76	504	8326	6.1
1976-77	671	8221	8.2
1977-78	695	8139	8.5
1978-79	607	8194	7.4

Source: Calculated from BHP Pocketbook, November 1980, p.75.

Thus, to BHP's high vertical integration, to its monopoly control of the domestic market is added the ability to export large quantities when necessary. Yet at the same time BHP is able to prevent other steel makers from gaining substantial access to the Australian market. BHP's ability to remain dominant in, and restrict access to the Australian steel market is related to its immense political power.

TARIFFS AND POLITICAL POWER

Recently Sir James McNeil was described as "one of the most influential members of Malcolm Fraser's business cabinet". Political power is wielded by McNeil to maintain and increase the tariff wall behind which BHP shelters. In 1978 when it was clear that multinationals were building steel mills in the third world, South Korea lost its "third world status" for flat steel products. Unable to compete because of the high tariffs, South Korean steel exports to Australia plummeted from $7 million in 1978 to $2 million in 1979.[9] But perhaps the most recent example of BHP's political clout was the exchange over the Industries Assistance Commission (IAC) Report on the steel industry. The IAC Report, six years in the making, was released in draft form in March 1979.

In the draft, the I.A.C. suggested that the potential exists for a two-to-threefold expansion in steel output in the next 10-15 years. It argued that Australia has the potential to develop a much larger, more export-oriented steel industry.

This could be achieved, it said, if the industry expanded on an internationally competitive basis. This suggestion contains two key aspects. Firstly, the IAC was suggesting that BHP should expand its steel exports, and secondly, it was suggesting that if BHP was to do this it would have to improve its competitive position in the world market.

In order to achieve the first of these two aims, the IAC recommended that the form of assistance offered BHP by the government should change. Instead of protecting BHP from imported steel by taxing imports (that is, instead of using tariffs), the government should pay instead a subsidy geared to the expansion of exports. The IAC suggested that BHP could find markets for this increased production in North America, Europe and even Japan, and also in the South East Asian region.

To achieve the second aim, improving BHP's competitive position internationally, the Commission argued that BHP should undertake major technological change. Demand for traditional exports (pig iron, slabs and billets) would continue it said, but the developed economies of the advanced capitalist countries require high quality/high technology (and particularly flat) steel products. To meet this demand properly would require the upgrading of existing technology, and an increase in steel making capacity.

The main thrust of the IAC's recommendations was remarkably clear. In line with the Fraser Government's attempt to restructure manufacturing, the IAC argued that tariffs should be discontinued, and that BHP should become much less lazy and much more aggressive in its marketing; that it should cease to rely only on the domestic market for the sale of steel and turn more to exports.

The IAC submitted its final (confidential) report to the government in September of last year. The result was a total victory for the Company. The IAC recognised political realities, and acknowledged in its final report that its draft recommendations had no hope of being accepted by BHP. Instead, the Commission turned completely about, and ditched the idea of greater export incentives and a cut in tariffs. Instead, the IAC recommended an increase in the tariff on flat steel from its present 10 percent to 25 percent, to be phased back to 10 percent over 3 years. Other tariff rates were to jump 15 percent also. The new 25 percent tariff on flat steel products would mean that the users of Lysaghts' products would be subsidising BHP to the tune of about $100 million. The IAC's reversal was, according to a financial journalist, "BHP's work".[10]

BHP AND THE "RESOURCES BOOM"

The massive protection afforded BHP is despite its increasing involvement in energy. Its joint venture with ESSO netted it a tidy $200 million profit in 1979/80. In July 1980 it set up a separate aluminium division, and is planning to sink more than $300 million in the aluminium industry before 1984. It has planned a massive expansion of its Stockton Borehole and Macquarie Collieries near Boolaroo in the Hunter Valley, which will take it for the first time into the steaming coal industry into which it expects to invest $80-$200 million. McNeil has predicted that coal will account for 25 percent of BHP's earnings by 1985. BHP's drive into minerals and energy has been very much at the expense of the steel industry. [11]

BHP uses a unique form of accounting which enables it to turn steel profits into losses. It converted what was by conventional accounting methods a profit of $96.6 million in 1979/80 into a $25.7 million loss. Like other companies, BHP makes provision for depreciation of its assets. But it also employs (and is the only company in Australia to do so) a Fixed Asset Valuation Adjustment (FAVA). The FAVA scheme is, according to an editorial in the Newcastle Morning Herald, "impossible for a layman to understand" (which may explain why BHP paid out $1.3 million to its auditors). The FAVA charge is an additional depreciation amount which takes into account the effect of inflation on the cost of replacing plant and equipment. This enables the company to deduct from profits an amount necessary to replace all their existing plant and buildings at the current cost of new replacements, even if it doesn't replace them. On top of normal depreciation allowance, FAVA took $122 million out of the Steel Division profit and made that Division look like a loss maker. That year, BHP put only $150 million of its capital investment back into maintaining and developing steel plant, and $227 million into oil, gas and minerals. The IAC report noted that BHP's capital expenditure in its Steel Division has declined considerably in real terms in each year since 1971. [12]

By moving funds out of steel to oil and minerals, BHP has been able to take advantage of the super profits to be made in those industries, and of the much better tax deals available in them. The more profits that appear

to be made in oil and minerals, the less tax BHP pays. And yet, while playing a major role as an energy company in making the resource boom happen, BHP will benefit from resource developments as a steel maker.

The director of the Australian Industries Development Corporation recently predicted that the companies that would do well out of the resources boom were those which would be producing the goods going into the infrastructure necessary to service the projects; new coal loaders will be required, and Queensland will need 2 or 3 new ports. 6,500 construction projects worth more than $500,000 each are being actively planned. Between 1981 and 1985 $30.5 billion worth of engineering projects will begin, according to a survey by the Federal Department of Housing and Construction. The Department of Industries and Commerce now puts the value of the resources boom at $33,38 billion. In addition, there are a further 149 projects in the planning and feasibility stage valued at $41.75 billion. And the Australian Federation of Construction contractors reported recently that $49 billion worth of construction contracts are "almost certain" to begin between now and 1985. The Chairman of the Institute of Steel Service Centres, is worried about a possible shortfall. Australian steel distributors, he says, are "nervous" about the resources boom; they are concerned about their ability to meet the huge demand. [13]

BHP cannot lose. The money it has been siphoning out of the steel industry since 1971 has enabled it to become a leading energy firm in Australia. The rush to export Australia which the government is so actively promoting, in turn has created a demand for infra-structure which BHP as the only steel maker in Australia, will meet. It is scarcely surprising that Loton and McNeil are so sure about the immediate future of BHP.

CONCLUSION

Because of its monopoly position BHP has not had to face the vicious internal competition that US and European steel producers are facing; because of tariffs BHP has not had to face competition for the domestic market by foreign producers; because of the resources boom BHP anticipates growing domestic demand for steel. At least into the mid-eighties things look rosy for the steel industry.

But as domestic demand peaks, BHP will have to turn its attention to export markets again. It will face even stiffer competition from Europe and the US, for the small inefficient producers may well have been "shaken out" by the current struggles within the industry. Although the proximity of raw materials, and the low labour costs (less than the US, about the same as Japan) make the steel industry competitive, in reply to the IAC draft recommendations, McNeil steadfastly maintained that no major steel industry in the world has been based on export markets and yet Lysaghts produced exports worth $120 million, about one third of its production in 1979/80, and in so doing won a Federal Government Export Award. Commonwealth Steel was also an export award winner, for increasing its exports in 4 years from $2.9 million to $4 million. Such were the export gains in the steel industry that J. Bailey of the Australian Independent Steel Association, the members of which use about 25 percent of the flat steel produced, claimed that it was obvious that the tariffs enjoyed by the steel industry were subsidising Lysaghts export sales. [14]

If BHP is to take the export market seriously in the future, it must plow substantially more of its money back into the steel industry. But BHP has been demanding more and more concessions, before it will start to substantially retool. Ever since the IAC report, it has been pushing for greater taxation depreciation allowances. It obtained some success in the

last budget, when the depreciation allowance was lifted from 7 to 8.4 percent. This gave the steel industry an average recovery period of 12 years. McNeil claimed that this was insufficient, and asked the IAC to recommend a 5 year depreciation period. Senior government sources suggested late in October 1980, that if BHP played it rough and continued to refuse to build new capacity unless it got further tax concessions, the government would reduce tariff protection and increase steel imports. In the words of one "senior government source", "if they can't make the steel, then we'll import it". There is some evidence that some people in government are becoming tired of BHP's game. [15]

Perhaps in anticipation of increased demand, and/or perhaps to try and reassure those in government who may be beginning to wonder if such high protection is worth it, BHP has begun to plan some increase in steel making capacity. BHP is planning to build an electric furnace in Geelong in 1983/84 and is considering the possibility of two more in Newcastle, each with 200 tonne capacity, turning out between them 1 million tonnes per annum. At present BHP operates one 20 tonne and one 50 tonne electric furnace at Port Kembla, the output of which goes in the production of stainless steel. The planned Newcastle furnaces compare favourably with those of Nippon Steel in Japan. In 1976 Japanese steel makers produced 19 percent of their steel by that method, compared with only 2 percent of Australian production. [16]

It is probable that the increased demand brought about by the resources boom, and the increasing savagery of international competition, will lead BHP to start phasing out its exports. The company may also seek to supplement its steel making capacity by building small, high technology, flexible plant. The upgrading of technology will continue to pose a serious problem for iron and steelworkers. The introduction in Port Kembla of the Basic Oxygen Steel making plant in 1972 and the continuous slab caster in 1978 have meant substantial increases in output for limited increases in labour power. In the five years from 1971-75, raw steel per wage earner in the steel division stood at an average of 262 tons per person. In the five years from 1976 to 1980, production per person averaged 277 tons. [17] * This tendency will accelerate as more and more sophisticated technology is introduced.

One of the longer term effects of the introduction of technology has been the increase in white collar workers compared to general labourers. Between 1970 and 1980 the number of professional employees at AIS's Port Kembla works rose 31 percent; the number of sub-professional employees by 87 percent; and unqualified staff by 16 percent. The number of general labourers, however, remained almost static, declining by 2 percent. [18] The tendency for jobs to be "kicked upstairs" as a result of rapid technological change must be confronted by iron and steel unions. The only real solution is for the unions in the industry to obtain some form of coverage for white collar workers.

One of the more immediate effects of technological change is to increase the output per worker. This allows the workers remaining in those areas of work to meet technological change with struggles for higher production bonuses. It is in this light that the truly endemic nature of the bonus struggles in the AIS steelworks in Port Kembla must be seen; they are symptomatic of technological change, and represent a limited response to it.

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*(While a productivity rise of some 5 percent over 5 years is minimal it should be noted that such a figure tends to confirm the earlier evidence that BHP is withholding funds from its steel division in favour of more profitable resource ventures.)

The buoyancy of the steel industry, the thrust towards labour-saving technology, the continuing eruption of "brushfire" job struggles around production bonuses, suggest that the time might be right for a broader campaign in the industry which would take advantage of the buoyancy, confront technological change more directly and raise the level of the bonus struggles. Such an issue could be the 35 hour week campaign.

Just as the AMWSU has chosen that method of tackling serious problems in other areas, so too will iron and steel unions have to tackle the vexed problem of tariffs in an equally forthright way. If they side with steel users and elements within the government in asking for a reduction in tariffs, they face a redundancy problem perhaps even greater than that currently faced by workers in the manufacturing sector. If they argue for tariff maintenance, then the problems of a dismally outmoded steel industry will come home to roost with even greater vengeance than initially envisaged by Wilshire when the resources bubble finally bursts.

FOOTNOTES AND REFERENCES

1. Ted Wilshire, "The Steel Industry and the Current Crisis", Journal of Australian Political Economy, 4, 1979, p.37.

2. Ibid.

3. Ibid: p.29; Wilshire, "Steel Industry Report, National Research Centre AMWSU", Mimeo, November, 1980, p.1.

4. On BHP's anti-worker attitudes see R. Kriegler, Working for the Company, Oxford Uni. Press, 1980.

5. Australian Financial Review (AFR) 10/7/80; 18/7/80; Sun, 29/9/80, AFR, 8/10/80; 15/10/80; 3/11/80; 20/1/81:20; 27/1/81:46.

6. Joint Coal Board, Black Coal in Australia, 1980 Table 166.

7. Newcastle Morning Herald (NMH):26/7/80:3; AFR, 28/7/80:1,4,21; 1/10/80; 21/10/80; 27/1/81:46.

8. Industries Assistance Commission, Draft Report on Basic Iron and Steel Products, 1979, p.205; National Times (NT), 9-15/11/80:9.

9. NT, ibid; AFR, 11/11/80:1,2.

10. NT, 9-15/11/80:9; 7-13/9/80; AFR, 11/11/80: 1,2.

11. AFR, 3/7/80; NMH 26/7/80; NMH, 18/8/80; AFR, 5/9/80; R. Rutnam, "Working Paper Number 5: Iron and Steel", Mimeo, January, 1980, p.5.

12. NHM, 26/7/80; 31/7/80; AFR, 28/7/80:36; IAC Draft Report, 1979, p.5.

13. AFR, 18/11/80:1,10,11; 15/1/81:1,2; 21/1/81:12; Sun, 29/9/80; NMH, 30/9/80.

14. NMH, 31/7/80; AFR, 21/9/80; 21/4/80; 21/3/80; 10/11/80.

15. AFR, 1/10/80; NMH, 1/10/80; NT, 26/10/80.

16. AFR, 15/10/80:55,56; NMH, 22/10/80.
M. Donaldson, "The Industries Assistance Commission Report on Basic Iron and Steel Products and some of its Implications for the Port Kembla Steelworks: For the Rank and File Group of the Port Kembla FIA", Wollongong Transnational Co-operative Report Number 5, June 1980, p.7.

17. Figures calculated from Wilshire, 1980, Tables pp.7 and 8.

18. Rutnam, 1980, Table 4.5.