

The Crisis in the Steel Industry

Mike Donaldson and Trish Donaldson

Introduction

On May 7, 1982 BHP's wholly-owned subsidiary, Australian Iron and Steel (AIS) announced that 2500 jobs would be lost at the Port Kembla steelworks. BHP hoped by this workforce reduction "to push down production costs and to make Australian steel competitive again on its own home market". The reason for this drastic step, according to the company, was that it had virtually lost its export markets because of the international glut, and that it faced severe competition on the domestic market from imported steel. This article evaluates this analysis and argues that it conceals as much as it reveals.

BHP is the steel industry in Australia; in 1979 it supplied between 85 and 95 percent of the market. It controls large reserves of its main raw materials, iron ore and coal, and owns or has an interest in the companies which supply the other raw materials connected with steel making, including ferro alloys, limestone, dolomite, manganese, refractories, tin, zinc and cement.

The company also sells about 60 percent of its domestic product to companies which it owns or has a major interest in. BHP wholly owns John Lysaghts (JLA) and Australian Wire Industries (AWI) and Titan Manufacturing. It owns 85.6 percent of Commonwealth Steel (Comsteel), 49.75 percent of Tubemakers and 67 percent of Rheem Australia.

At the end of May 1979, BHP employed 36,300 workers at its four main plants, Port Kembla accounting for 54 percent, Newcastle 28 percent, Whyalla 15 percent and Kwinana three percent. But even this evidence of BHP's significance as an employer underestimates its local significance. In Wollongong, BHP subsidiaries employ about one in four of all workers, and three quarters of the manufacturing workforce in Shellharbour and Wollongong local government areas. Even assuming a modest multiplier of 2, a reduction of the steel workforce of 3,000 would push visible unemployment in the district up past 15 percent, more than double the national average.

The Federal Government's Position

The Federal government's official policy on industrial development was expressed in the White Paper on Manufacturing in 1977. The government is concerned to develop a stronger and more specialised industrial base and to encourage investment that will be efficient, internationally competitive and export oriented.

The Industries Assistance Commission (IAC) was directed by the Whitlam government in 1973 to review the steel industry. The Commission published its draft report in March 1979 and in line with the Fraser government's attempts to restructure the manufacturing sector, argued that tariffs should be replaced by a subsidy geared to the expansion of exports. To become more competitive internationally, BHP, argued the Commission, would have to undertake major technological change. At a public hearing on the draft report, BHP repeated the call made in its initial submission for improved depreciation allowances, and informed the government and the IAC that a major expansion of the steel industry was unlikely without improved tax concessions.

When the final IAC report was brought down BHP had succeeded in getting the recommendations in the draft reversed. Instead of recommending a drop in tariffs, the IAC finally suggested that steel tariffs be maintained at the average level then applicable. BHP remained worried, though, about another aspect of the IAC report, its opposition to any form of increased depreciation allowances. As stated in the final report:

On the basis of BHP's evidence to this inquiry, accelerated depreciation provisions for iron and steel production would merely reinforce the company's stated intention of continuing to develop to essentially meet the anticipated needs of the domestic market ... The Commission could find no justification for making available accelerated depreciation concessions unless there was a clear and unequivocal commitment to export oriented development.

Five months elapsed between the issuing of the final report on July 31, 1980 and its acceptance by the government in April 1981. It was during this period that BHP's pronouncements on the 'crisis' in the steel industry became particularly loud. The government endorsed the IAC report, and promised further considerations in the budget in August.

Between April and August the company's announcements of doom and gloom became increasingly strident. In June 1981, 2,000 steelworkers at Port Kembla were affected by roster changes, a not unusual situation in the industry. The company claimed that these changes were necessitated because of rising steel imports, and that the only way the flood could be averted and jobs saved, was through the granting of massively increased depreciation allowances. These were duly handed out in the 1981 budget.

The BHP had succeeded in making the Federal government back down on its central programme of industrial development. The Business Review Weekly (29.8.81 - 4.9.81) commented that this reflected "the clout Sir James McNeill and the BHP hierarchy have with senior cabinet ministers". Specifically, the budget provisions enable capital expenditure on plant and equipment in the steel industry to be depreciated at 20 percent per annum where the current scheduled life is 5 years or more, and 33-1/3 percent where it is less than 5 years. No other company or industry had thus far succeeded in winning such allowances.



Company Propaganda and Politics

Between April and August 1981 media releases by BHP executives proclaimed the collapse of the steel industry brought on by a decline in the domestic market and a fall off in export sales. In fact, in 1980-81 the output of the Steel Division was up on the previous year and was the highest since the recession bit in 1974-75, and the division's profits rose, on a conventional accounting basis, from \$96.6m in 1979-80 to \$105.5m in 1980-81.

Export sales did decline from 1979 to 1981, but the reason for this drop was not made clear in the company's statements. The IAC suggested that a decline in steel exports is due to "capacity limitations and a strong upturn in domestic demand", that is, because the BHP has limited capacity it must choose between exporting and supplying the local market. It generally chooses the latter, and so declining exports can signal, not a crisis in the local industry, but buoyant domestic demand. Indeed BHP told the IAC that it exported primarily to absorb new capacity installed ahead of local demand, or to offset faltering local demand, and there is evidence to suggest that the BHP has in the past deliberately withdrawn from major export markets to meet local demand and preserve its monopoly position.

Likewise claims by the BHP that large quantities of imported steel were damaging their position domestically, were untrue. Under the Illawarra Mercury headline, "Cheap Steel Forces Cuts" (7.4.81), the Steel Division's general manager Burgess spoke of 500,000 tonnes of ingot steel being imported per annum. In fact, this 500,000 tonnes was the smallest amount of steel imported since 1969-70.

The Present Situation

The current drop of employment in the steel industry can logically be explained in two ways. Either fewer workers are needed because fewer goods are being produced, i.e. workforce reductions are a product of a decline in the market; or work processes are being changed so that fewer workers are required to produce the same number of goods or more, i.e. job losses are a product of rationalisation and technological change. It is also possible (indeed likely) that both processes are occurring simultaneously.

Steel Production

Available figures for overall steel production for BHP, show a decline in production from 7.8m tonnes of raw steel produced in 1980-82, to 7.1m produced in 1981-82. Average monthly production for Port Kembla for raw steel has declined 16 percent on the previous year, Newcastle's has remained stable, and Whyalla's has increased 20 percent.

However, there is no marked downturn in tonnages of marketable steel produced. Marketable steel tonnages have remained markedly constant for the 11 years from 1972 to 1982. Raw steel production figures measure the amount of liquid steel produced, and marketable steel is the finished product (rail, plate, sheet, etc.). The difference between the two is in the offcuts, trimming, etc. In terms of establishing the existence of a decline in the market, the pertinent figures are those relating to marketable steel product, not raw steel output.

Table 1: Production Figures 1972 to 1982 (Year ending 31 May)
('000 tonnes)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982* |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Raw Steel | 6,504 | 6,144 | 7,605 | 7,938 | 7,756 | 7,438 | 7,371 | 7,510 | 7,822 | 7,830 | 7,123 |
| Market- able steel | 5,904 | 5,401 | 5,772 | 5,821 | 5,864 | 5,854 | 5,793 | 6,058 | 6,153 | 6,025 | 5,831 |
| Export | 478 | 1,015 | 991 | 1,823 | 2,029 | 2,111 | 1,980 | 1,664 | 1,051 | 641 | 1,062 |
| Domestic | 4,247 | 4,298 | 4,798 | 4,495 | 3,970 | 3,676 | 3,699 | 4,461 | 5,087 | 5,188 | 4,897 |

Source: BHP Pocketbook, 1981: 76

* 1982 figures are projections based on figures released in BHP News Releases for 10 months up to March 1982.

Raw steel production has declined in 1982 to reach its lowest since 1973, but marketable steel production has remained remarkably constant over the decade. The marketable steel produced between 1972 and 1982, ranged between 5.4 million tonnes and 6.1 million, a variation of only 0.7 million tonnes. On average, the BHP has produced 5.9 million tonnes of marketable steel per year, and 1979, 1980 and 1981 were all above average years.

Exports

Export sales by BHP have declined since peaking in 1976-77, but the export figure for 1981-82 is up 40 percent on the figure for 1980-81, and it is also higher than the amount exported in 1979-80. The Financial Review (11.5.82) stated "In export markets BHP is holding its own despite the loss of major markets (namely China for pig iron) but ... exports could decline about mid-year because the company has decided to withdraw from loss-making sales on international markets".

An internal BHP document of a confidential nature passed to the Wollongong Workers' Research Centre states of March 1982, "we have been able to book substantial tonnages of material at returns which have been more acceptable than was the case during the second half of 1981 ... the situation is still extremely competitive". Export despatches were higher in mid-1982 than they were in 1979-80 and 1980-81, but lower than in the peak in the mid-seventies.

Domestic Market

Although it is difficult to believe, given the massive volume of propaganda to the contrary, the domestic market was quite sound. Domestic despatches were lower in mid-1982 than in 1979-80 and in 1980-81 but higher than every other year in the last decade. Certainly other companies don't seem to share BHP's analysis of the collapse of the domestic steel market. Smorgon Consolidated Industries have opened a steel mill at Laverton North, Melbourne, to be equipped with an electric arc furnace, continuous casting plant and a rolling mill to output 200,000 tpa. In one day of trading alone, Humes Ltd splurged \$16m in an attempt to take over BHP subsidiary ARC Industries, and finally paid \$155m for less than 60 percent of it. Pioneer Sugar Mills bought 75 percent of Aquila Steel late last year, and BHP's most important steel subsidiary John Lysaght has been moving deeper into the steel industry. Early this year, Lysaght purchased Steelstocks' Padstow plant in Sydney and just recently it acquired the Independent Steel Company Ltd, the last remaining business in Victoria processing large quantities of imported steel. It has also expanded its Westernport operations.

Imports

Table 2 outlines the total production of BHP since 1971-72, and calculates the imports as percentage of domestic steel in addition to the more usual measure as percentage of domestic steel consumption. As mentioned previously the 500,000 tonnes complained about by Burgess last year is the smallest amount imported for some time and the current figure of 700,000 tonnes is the third lowest since 1972.

Table 2: Australian Steel Production: Domestic Use of Steel and Steel Imports
1972-82¹. ('000 tonnes)

| | Australian Production | BHP steel used domestically | Imports of steel | Imports as % of BHP steel used domestically | Imports as % of domestic steel consumption |
|-------------------|--------------------------|--------------------------------|---------------------|---------------------------------------------------|--------------------------------------------------|
| | | (1) | (2) | (2 as % of 1) | (2 as % of 1 & 2) |
| 1972 | 6,506 | 4,247 | 801 | 19 | 15 |
| 1973 | 6,144 | 4,298 | 663 | 15 | 13 |
| 1974 | 7,605 | 4,798 | 1,237 | 25 | 20 |
| 1975 | 7,938 | 4,495 | 887 | 20 | 16 |
| 1976 | 7,756 | 3,970 | 504 | 13 | 11 |
| 1977 | 7,483 | 3,676 | 666 | 18 | 15 |
| 1978 | 7,371 | 3,699 | 697 | 19 | 16 |
| 1979 | 7,510 | 4,461 | 606 | 14 | 12 |
| 1980 | 7,822 | 5,087 | 500 | 10 | 9 |
| 1981 ^a | 7,830 | 5,188 | 760 | 15 | 12.7 |
| 1982 | 7,123 | 4,897 | 700 | 14 | 12.5 |

^a Year ended September 1981

Source: BHP Pocketbook 1981: 76

Australian Financial Review 11.5.82:1

Hansard 21.4.82:1641

Furthermore, in May 1982, the Japan Iron and Steel Exporters Association called upon the Department of Industry and Commerce to examine "precisely what caused the increase in imports and how and to what extent did individual domestic mills or the Australian economy at large suffer any injury from the increased imports of foreign products". According to the Japanese exporters, their exports of hot rolled strip, sheet and plate steel had been on a stable and regular basis for many years, and the only variations were when Australian producers had requested large quantities for specific projects.

1. Although the figures in this table are all derived from BHP sources, the BHP, in a comment on this paper, claimed that the "current" figures for imports from 1980 to 1982 are:

582, 915 and 1069 (thousand tonnes).

Figures from the Japanese Ministry of International Trade and Industry show that in 1981 Japan exported 560,000 tonnes of steel to Australia. This was up from the 350,000 tonnes which Japan exported in 1978, 1979 and 1980. Most of the increase was seamless pipe, demand for which was rising because of resources development. One of the major importers had been Steel Mains, a company in which Tubemakers has a substantial holding. Tubemakers itself had ceased making seamless pipe in 1978. Similarly with South Korean steel, BHP has conspicuously failed to make it clear that, while that country exported 88,000 tonnes of steel products to Australia last year, Australia exported 120,000 tonnes to Korea.

Table 3: Raw Steel Production and Employment, AIS, Port Kembla, 1972-82.

| Year ended 31 May | Steel Ingots Production ('000 tonnes) | Employment |
|----------------------|-------------------------------------------|------------|
| 1972 | 3,659 | 19,956 |
| 1973 | 4,044 | 20,119 |
| 1974 | 4,342 | 20,127 |
| 1975 | 4,644 | 20,823 |
| 1976 | 4,756 | 20,478 |
| 1977 | 4,426 | 19,747 |
| 1978 | 4,405 | 19,178 |
| 1979 | 4,214 | 19,808 |
| 1980 | 4,512 | 20,266 |
| 1981 | 4,839 | 20,549 |
| 1982* | 4,028 | 19,500 |

* 1982 figures estimated from newspaper and company statements.

Source: BHP, Port Kembla.

AIS is currently arguing that because there has been a decline in raw steel production at its Port Kembla works, there needs to be job wastage or even retrenchments. The figures in Table 3 illustrate, however, that seldom before has there been the right relationship between employment and output that BHP suggests is now necessary. Between 1972 and 1976 there was a steady rise each year in raw steel production, but this was not accompanied by a uniform or regular rise in employment. Between 1975 and 1976 when AIS produced its till-then best ever tonnages, there was a loss of 345 jobs. Jobs and raw steel production declined over the next three years, except from 1978 to 1979, when employment jumped 630 jobs while output fell 191,000 tonnes. Output continued to rise, reaching its best ever in 1981, and subsequently declined in 1982. As a result of this decline from record production, AIS commenced wasting jobs.

In the ten years from 1972 to 1981 AIS has produced an average of 4.38m tonnes each year. The 1982 production estimate of 4.02m tonnes was not substantially below average, and yet on this basis AIS has destroyed 3,877 jobs since September 1981 through 'natural' wastage, firing, early retirements and voluntary resignations. In the past, the biggest ever drop in employment was the loss of 731 jobs between 1976 and 1977.

This reduction in employment has taken place despite a prediction in confidential sources noted above that in 1982 Australian steel requirements were expected to continue at the same overall volume as in 1981. At Whyalla, where production had been higher by 20 percent than in 1980-81, BHP planned to reduce the workforce by 26 percent and trades personnel by 9 percent by 1985.

There are clearly reasons other than the decline in raw steel production which are responsible for the loss of jobs in the steel industry.

Job Loss and Technological Change

In line with the IAC observations on modernisation, AIS is introducing a third vessel in its Basic Oxygen Steel (BOS) system. The basic oxygen system is a much more advanced system of steel making than the open hearth system. The addition of a third vessel at the BOS will provide more capacity than the No. 2 Open Hearth shop, closures in which have been publicised by AIS as an indication of the grim state of the market.

Similarly in ironmaking, AIS has steadily increased its capacity over the last few years, as is illustrated in the table below. Following a reline of No. 2 blast furnace, AIS has not brought it back online. The table below makes it quite clear, that even without No. 2, the capacities of the other three blast furnaces produce sufficient iron by themselves to meet the present steel making needs of the AIS complex. Thus without No. 2, the total ironmaking capacity stands at 12,900 tonnes, substantially more than the total capacity available in 1973 and 1975 with No. 2 included. Nonetheless, the fact that No. 2 blast furnace has not been brought back on line has been a central element in BHP's propaganda.

Table 4: Blast Furnace Capacity, AIS, Port Kembla, 1973-1980.

| Blast Furnace Capacity (tonnes) | YEAR | | |
|------------------------------------|--------|--------|--------|
| | 1973 | 1975 | 1980 |
| No. 2 | 1,600 | 1,950 | 2,100 |
| No. 3 | 2,200 | 2,200 | 2,700 |
| No. 4 | 2,900 | 3,200 | 4,500 |
| No. 5 | 4,500 | 4,500 | 5,700 |
| Total Blast Furnace Capacity | 11,200 | 11,850 | 15,000 |

Source: "Hoskins Kembla Works", Public Relations Department, AIS, Port Kembla, 1973; 1975; 1980.

BHP spent \$200m on new equipment for the steel industry in the 6 months to February 1982, and is now proposing to spend \$300m a year for the next three years, partly to rectify technical errors, and to lift productivity by 30 percent. In the 1981 financial year the company spent \$307m on capital equipment in the steel division, more than twice what it spent the previous year. In the 1982 financial year, capital expenditure had increased still further to \$350m.

The rail mill at Port Kembla is being decommissioned as part of a rationalisation. The rails previously produced at Port Kembla will be produced at Whyalla and the plant at Port Kembla will specialise increasingly in flat products (slab, strip and tin). Newcastle will provide merchant (engineering) steel and at Whyalla a major facility equal to the best in the world has been introduced for the production of heavy rails.

Another interesting aspect of the current production figures from the BHP is the ratio of raw steel produced to marketable steel. Peter Maher of the Financial Review (11.4.82) stated:

But there is some evidence in an improved yield of marketable steel product on lower raw steel production so far this year, that some of BHP's modernisation schemes are already becoming effective.

From 7 to 20 percent of the steel put through the primary slab and bloom mills is offcut and is recycled to the steelmaking furnaces, depending on the type of steel. In the secondary mills (as elsewhere) similar recycling occurs. In the plate mills, the amount of steel returned is measured in terms of a "divert rate". At Port Kembla, the lowest the divert rate has ever been is 5 percent, and in April 1982, the divert rate reached its second best ever; 5.15 percent. Any reduction in the amount of "wastage" (which is fed back into the process) will allow a reduction in the raw steel production without necessarily reducing the marketable steel tonnage.



In the first six months of the 1982 financial year the slab casting plant (continuous caster) at Port Kembla produced a record 505,090 tonnes. Continuous casting produces a more homogeneous steel with a better surface, and produces a greater yield of usable product by eliminating most of the offcutting losses sustained in the primary mills. The improvement in yields may be as great as 10-15 percent. Also at Port Kembla, feed is being rolled directly from the slabbing mill through the Hot Strip Mill, thus reducing the use of reheating furnaces, and is proceeding via an automatic scarfer eliminating hand scarfing at the slab yard. These processes reduce the amount of labour needed, and they produce more marketable steel from less raw steel. Presently, Port Kembla produces 3 tonnes of ingot steel for every tonne produced by continuous casting, but AIS is planning the introduction of an additional continuous caster once the third vessel on the Basic Oxygen System steel making plant comes on stream. This will reduce even further the raw to marketable steel ratio.

Conclusion

As this article goes to press (November 1982), the BHP has sacked 250 steel-workers from its AIS Port Kembla plant. This is despite the fact that 3,000 jobs had already gone through 'natural' wastage and that in terms of the utilisation of crude steel capacity, Oceania (Australia and New Zealand) ranks among the highest in the world.

Table 5: Crude Steel Capacity Utilisation Rates.

| Countries | 1982 Utilisation rates in % |
|------------------------------|-----------------------------|
| U.S.A. | 72.0 |
| Canada | 75.0 |
| Oceania | 85.0 |
| Japan | 65.0 |
| EEC (10) | 61.0 |
| Other Capitalist Countries | 76.0 |
| Total OECD | 67.0 |
| Rest of the Capitalist World | 70.0 |
| Total Capitalist World | 67.0 |

Since the publication of the OECD data in May 1982, the U.S. capacity utilization has dramatically fallen. On a slightly different basis to the OECD data, capacity utilization fell to 42.5% in the week ending 5 June 1982, the lowest since 1938. The average for the 1982 year to June was 57%, down from 85.1% a year ago. In production terms this represents a fall of one third.

Source: OECD Steel Committee. The Steel Market in 1981 and the Outlook for 1982, Paris, May 1982.

The view advanced here suggests that the significance of the labour shedding being undertaken by the management of AIS Port Kembla lies not so much in the extent of unemployment thus created in the Illawarra but in its duration. If the current labour force reductions are a product of increased imports and a shrinking market, then it could reasonably be expected that if imports were further restricted and the economy picked up jobs would once more be available to the workers of the Illawarra. If on the other hand, AIS Port Kembla is undertaking a substantial modernisation and rationalisation programme, then the jobs that are currently being lost will be lost at the region forever. The mining and steel unions in Port Kembla have taken the position that both processes are to work simultaneously, but that in the longer term modernisation and rationalisation are the major problems they confront. It is in this light that the unity and combativity of the steel and mining unions must be viewed. In their eyes, workers of the Illawarra are struggling not just to preserve their own jobs, but the jobs of their children as well; every job vacated, is a job destroyed.

This view owes much to the work of the Wollongong Workers' Research Centre (WRC), and has consistently been advanced in a number of studies it has undertaken of the steel industry in Port Kembla. Not only is it currently accepted by the Federal body of the Federated Ironworkers Association, but it is occasionally admitted by the BHP itself. In commenting upon the WRC's 14th report, "Job Destruction in the Port Kembla Steelworks", the BHP claimed, "urgent attention must be given to increasing labour productivity and decreasing costs per tonne of steel. This means that BHP, in order to be profitable, must employ less people per tonne of steel produced".

In June 1982, in response to questioning from Temporary Assistance Authority (TAA) member Mr. Colin Conron, the BHP was forced to admit that up to May 1982, domestic and export sales had not significantly declined. In the same month, the BHP conceded to visiting ALP parliamentarians, that the closure of the rail mill and the No. 2 open hearth at Port Kembla were not caused by market decline, but were due to the introduction of new technology.

Accordingly, the executive general manager of the steel division, Rice, told the TAA in July that there would be a "reduction in labour, irrespective of the outcome of the inquiry". These sentiments were echoed by the assistant general manager at Port Kembla, who while discussing another issue, commented in passing to the Financial Review (29.10.82), that over the past two years, AIS had been planning to shut down outmoded operations, replacing them with more modern techniques, including the replacement of the No. 2 open hearth furnace with a BOS plant and the transfer of merchant mills and rails to Whyalla. He said that these decisions were accelerated by the downturn.

Finally, according to the Business Review Weekly (20-26.11.82), "Senior BHP executives" have said that for every three workers losing their jobs, only one will be taken back when the recovery arrives. In our opinion, the analysis of events made by the labour movement on the NSW South Coast is substantially correct. The economic base in the region, already so disastrously narrow, is being deliberately and permanently reduced by Australia's biggest corporation. Without decisive intervention by the state, the Wollongong sub-region faces a permanent, massive loss of jobs and deepening poverty.

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