

THE STEEL INDUSTRY AND THE CURRENT CRISIS

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The following paper is an edited version of an address given to the community of Wollongong in March 1978. Representatives from all groups in the community were invited, but B.H.P. and Australian Iron and Steel (A.I.S.), a B.H.P. subsidiary, declined to send official representatives. It is appropriate to quote a section of the reply from A.I.S., to highlight the contempt which these companies have for their work force and for the people of Wollongong:

We do not consider that the Seminar you have proposed will produce any tangible benefits and, on the contrary, could heighten concern for the industry's future. Accordingly, we must decline your invitation to participate in the proposed Seminar.

While saying this, we are conscious of the recurring damage to productivity that is being caused by industrial disputation and an improvement in our industrial relations would go a long way towards improving the Company's cost competitiveness.

The paper is discursive and the style is substantially that of the original address. Consequently, the paper is free of footnotes, and specific sources have also been omitted. A general list of sources is given at the end.

The paper deals with four issues — the current crisis and structural aspects of the crisis involving the use of steel; developments in the global steel industry in the later post-war period; the implications for B.H.P.; and, finally, the implications for employment in the steel industry.

I. THE CURRENT CRISIS

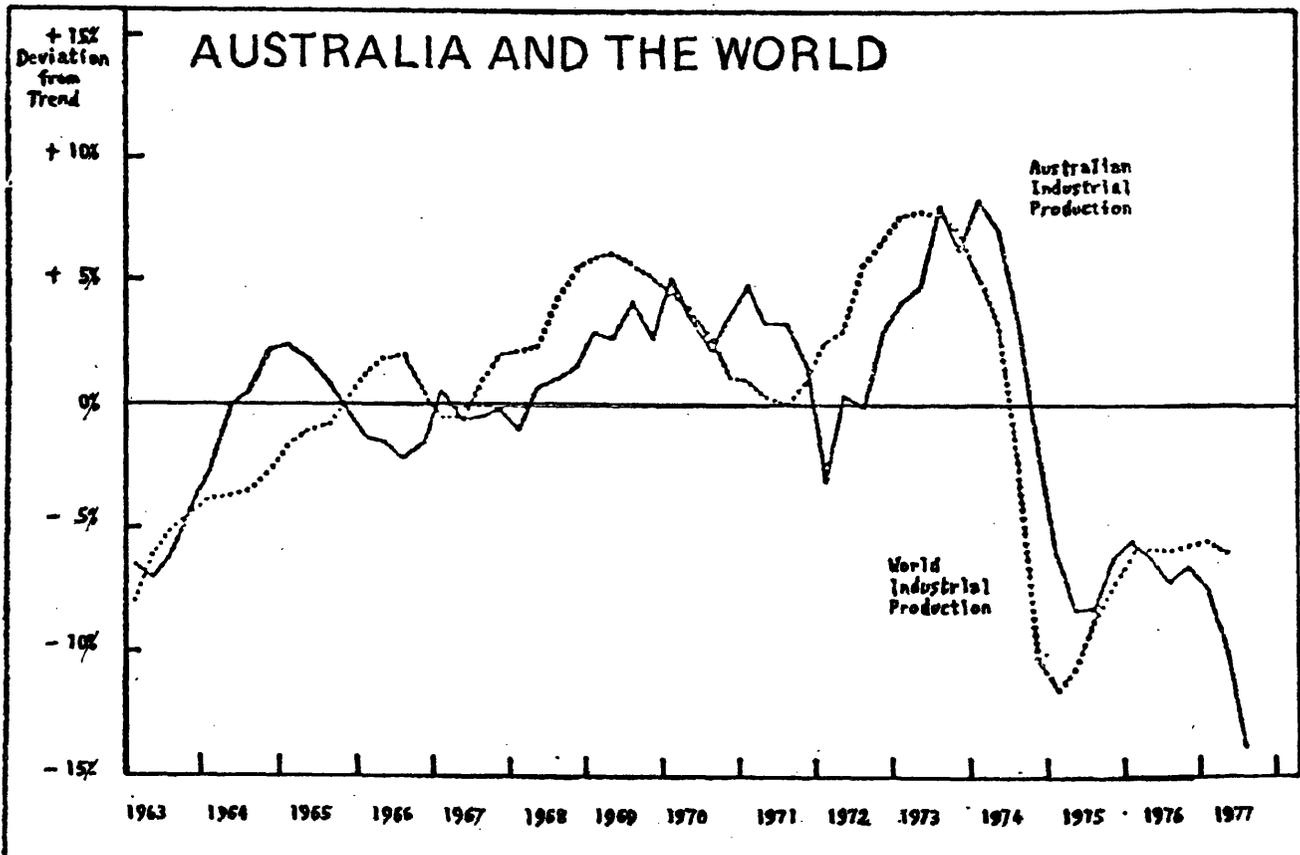
The capitalist world, including Australia, is in its most severe economic crisis since the great depression of the 1930's.

The graph depicting industrial production from 1963 to late 1977 shows clearly that the reasonably steady economic and industrial growth of the post-World War II period suffered the mild recession of 1971-72, picked up into the short-lived boom of 1973-74, and crashed into a deep recession in 1974.

Aspects of the Crisis

As the graph clearly shows, Australian industrial production fairly closely reflects the rhythm of world industrial production.

It would have been difficult for any government to politically survive the immensity of the crash in 1974. The Whitlam government was no exception and as the



Source: Syntec Research Group

political and economic reverberations of the crash shook Australia's economy a disenchanted and uninformed public threw out the Whitlam government along with its programme of reform.

Fierce cut-backs in Australian government spending by the Fraser government have meant that the growth of Australian industrial production has fallen far below the world average since the beginning of 1976.

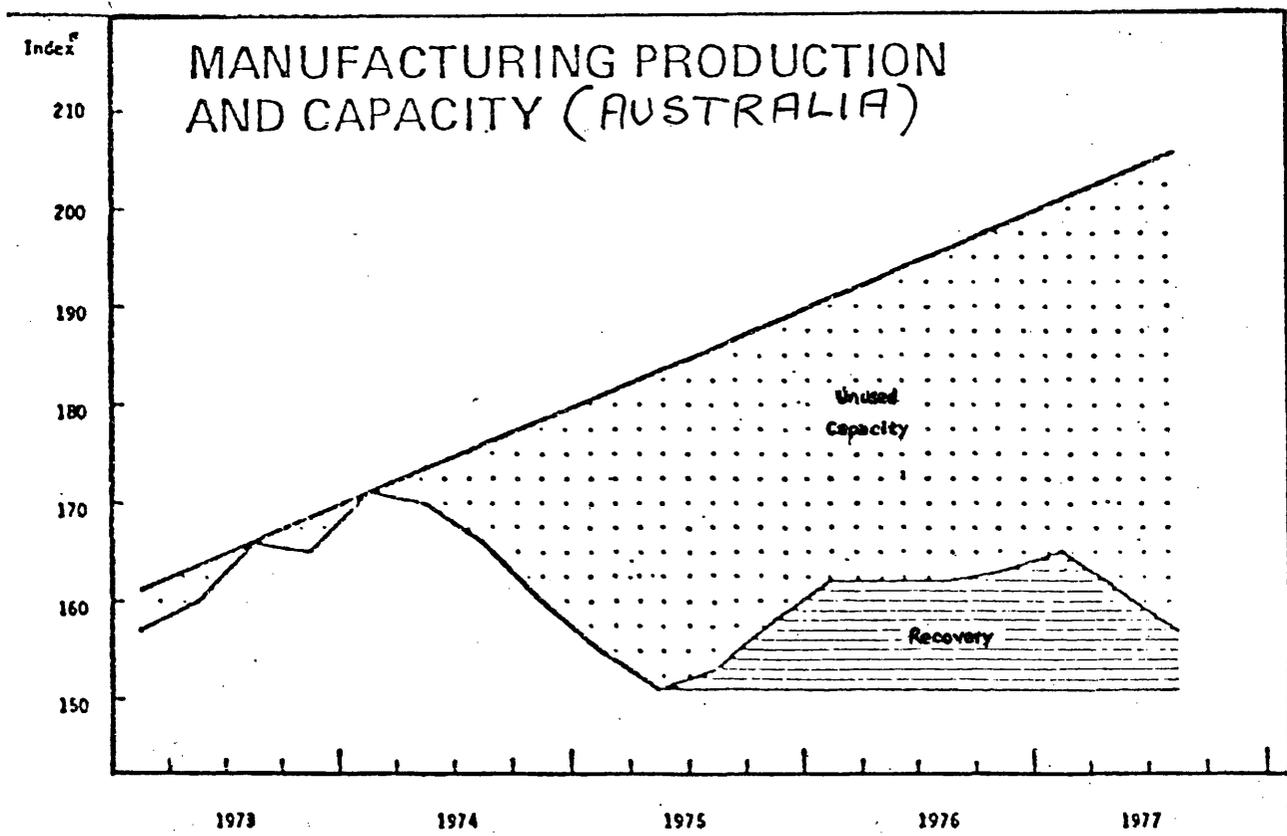
Much of Australian industry is in a poor competitive position. This poor competitive position is not because Australian workers' wages are too high, though Australian employers and the Australian government repeat that theme constantly for their own purposes. It is because, while the tariffs protecting Australian industry from overseas competition have allowed Australian manufacturers a high profit return from money initially invested, there has been little modern re-equipment. Profits were high for Australian manufacturing industry from 1945 to the early

1960's. These profits were not, in the main, used to develop a modern industry. As a result much of Australian industrial equipment is outdated and inefficient, relative to equipment existing overseas. For example, only 25% of Australian industrial equipment is less than ten years old, while in Japan 62% is less than ten years old, and in Germany, the U.S. and the U.K. the figures are respectively 56%, 39% and 38%. The industries of these countries also have much larger production runs and so can produce more cheaply, irrespective of the level of wages paid. Finally, the very largest private enterprise corporations have grown so large that they have outgrown their own country's economy: they can take advantage of cheap labour in the poorer countries. The governments of these Third World countries, as well as providing low paid, non-unionised labour, also give benefits, such as five-year tax-free operation, free use of land, cheap energy supplies, etc.

The countries we are now referring to are the Southeast Asian nations such as South Korea, Taiwan, Singapore, the Philippines, etc. and the South American countries such as Brazil, Argentina, Chile, Venezuela, Mexico, etc. From these low cost production sites, large corporations are in a position to flood the markets of high wage countries such as those of Europe, America, Australia with cheaply produced goods. With prevailing wage levels at \$7.50 a week for a six-day week in South Korea, for example, combined with the most modern technology, it wouldn't matter how much the Australian wage was reduced: we still couldn't compete.

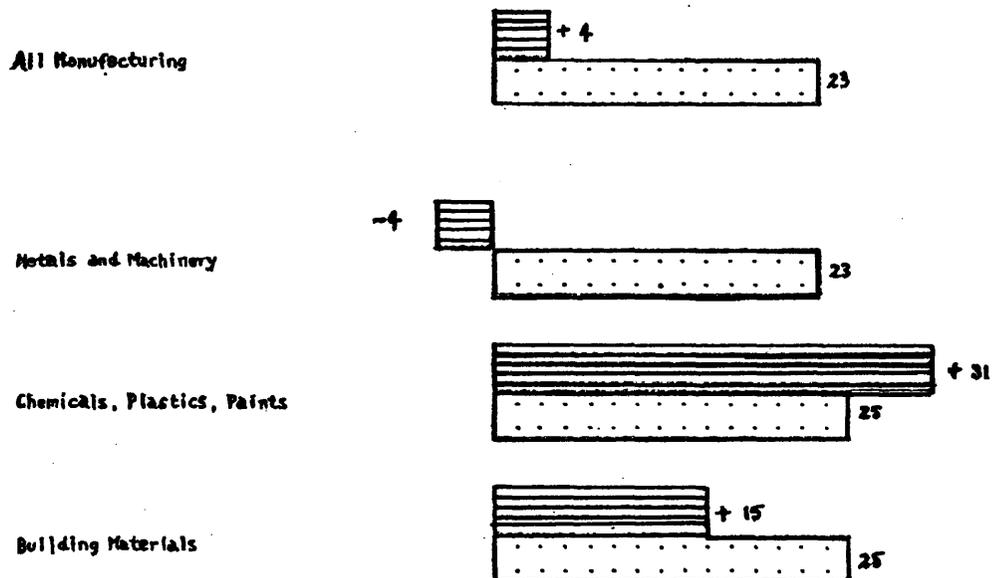
At the moment, much of Australian manufacturing capacity stands idle and unused and many Australians are out of work. In the accompanying graph of Australian manufacturing capacity and actual production, the top line represents full production with no machinery idle, while the curved line represents real utilisation of machinery, and we can expect an increase in unemployed workers and more idle equipment.

That is the overall scene in Australian manufacturing. It is also important to break down the manufacturing industry in Australia into its various components.



Source: Syntec The Economy after the Budget 1977

RECOVERY AND UNUSED CAPACITY : INDUSTRIAL GOODS (AUSTRALIA : MARCH QTR. 1978)



Source: Syntec Op. cit.

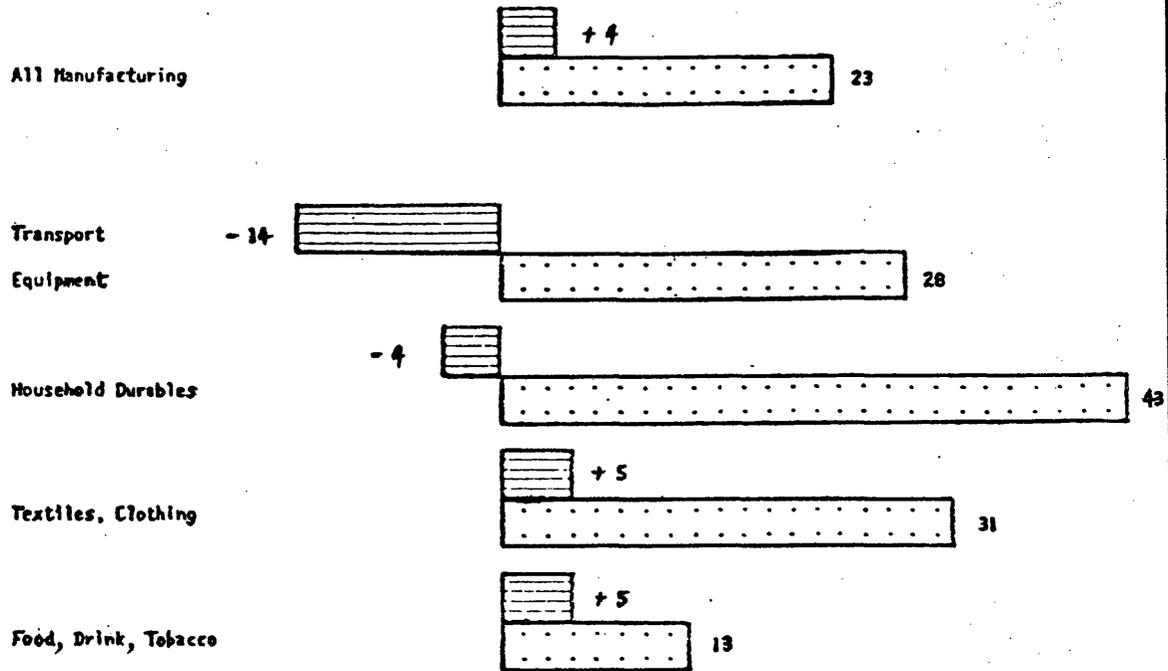
These bar charts show the change in unused capacity in late 1977 and early 1978.

From the diagram, it can be seen that all manufacturing recovered slightly from 23% unused capacity to about 19% in mid to late 1977. However, metals and machinery, engineering firms, etc. slumped still further to about 27% unused capacity. This is a part of the manufacturing sector which is a big consumer of steel. Building materials recovered to about 10% unutilised capacity but in early 1978 had slumped again. Building also is a major consumer of steel and the 1978 slump will be reflected in steel production. By contrast chemicals, plastics and paint companies have surged ahead to full employment of capacity and, further, have expanded their production. To a large degree this reflects the fact that plastics are now being substituted for steel in manufacturing.

Transport equipment (of course, including the production of passenger cars), and household durables (washing machines, etc.) are big consumers of steel. Both are in severe crisis. From a position where 28% of capacity for the production of transport equipment was idle there has been a further downturn. Forty-two percent of the productive machinery in this industry is lying idle. So too are many of the workers who previously were employed; and you may remember the mass sackings in Chrysler in Adelaide recently. In the household durables industry, 47% or almost half of capacity is idle. In summary, the key Australian steel-using industries are in an even deeper recession than is occurring throughout the rest of the Australian economy.

Public statements of bodies like the O.E.C.D., the financial press and the advisers to the Fraser government generally support this pessimistic view. For example, the O.E.C.D. stated in February 1978:

RECOVERY AND UNUSED CAPACITY : CONSUMER GOODS (AUSTRALIA: MARCH QTR, 1978)



Source: Syntec op.cit.

"The next fifteen years will see a further decline in the industries that helped make Australia and the West prosperous after the war, with nothing emerging to replace them."

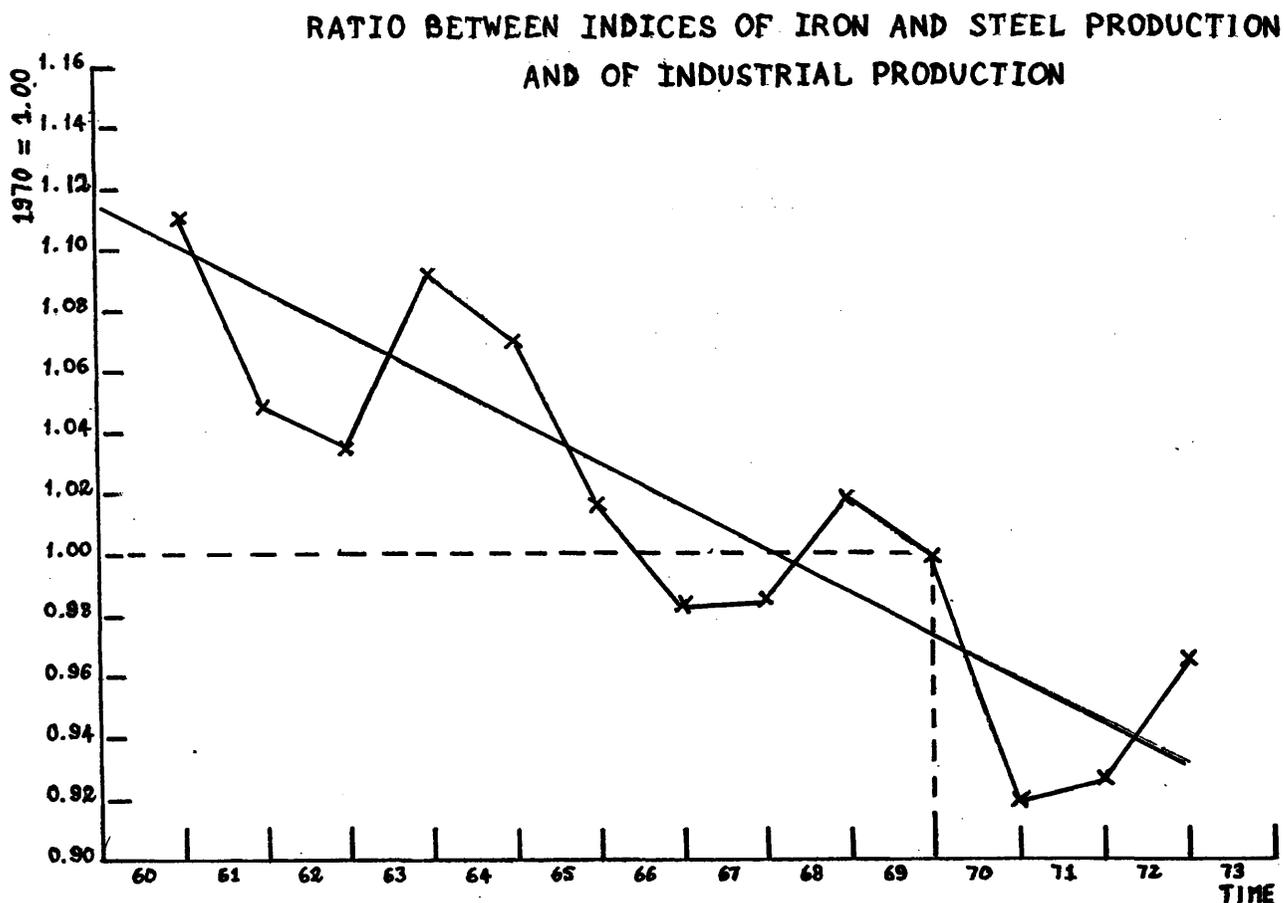
II. THE STEEL INDUSTRY

The industry most profoundly and adversely affected by the current crisis is the steel industry. In fact, there has been so much international concern about the health of the international steel industry that (i) four international conferences have been held in the last two years to try to sort out the mess; (ii) the Organisation for Economic Cooperation and Development has begun a special, urgent and intensive study of the industry; (iii) the European Economic Community Industry Commissioner, Mr. Davignon, has made it a personal crusade to find a solution; and (iv) the International Metal Workers Federation in Geneva, Switzerland, has had so many requests from affiliated unions in many countries that it has held a series of urgent conferences with the O.E.C.D. to prompt urgent action. The last of the international conferences was held in Rome in October 1977. Three hundred and

thirty-three steel industry executives attended and prominent were the heads of the world's biggest steel companies.

Decline of Steel as a Raw Material

There is a serious challenge to steel as a commodity in industrial production.



Source: OECD The situation in the Iron and Steel Industry June 1977

This accompanying graph shows the relationship between the production of iron and steel and industrial production generally. It is not necessary to be a statistician to perceive that there has been a major change in this relationship since 1960: steel production is declining relative to industrial production; steel is gradually being replaced by other products; and those other products are aluminium and plastics.

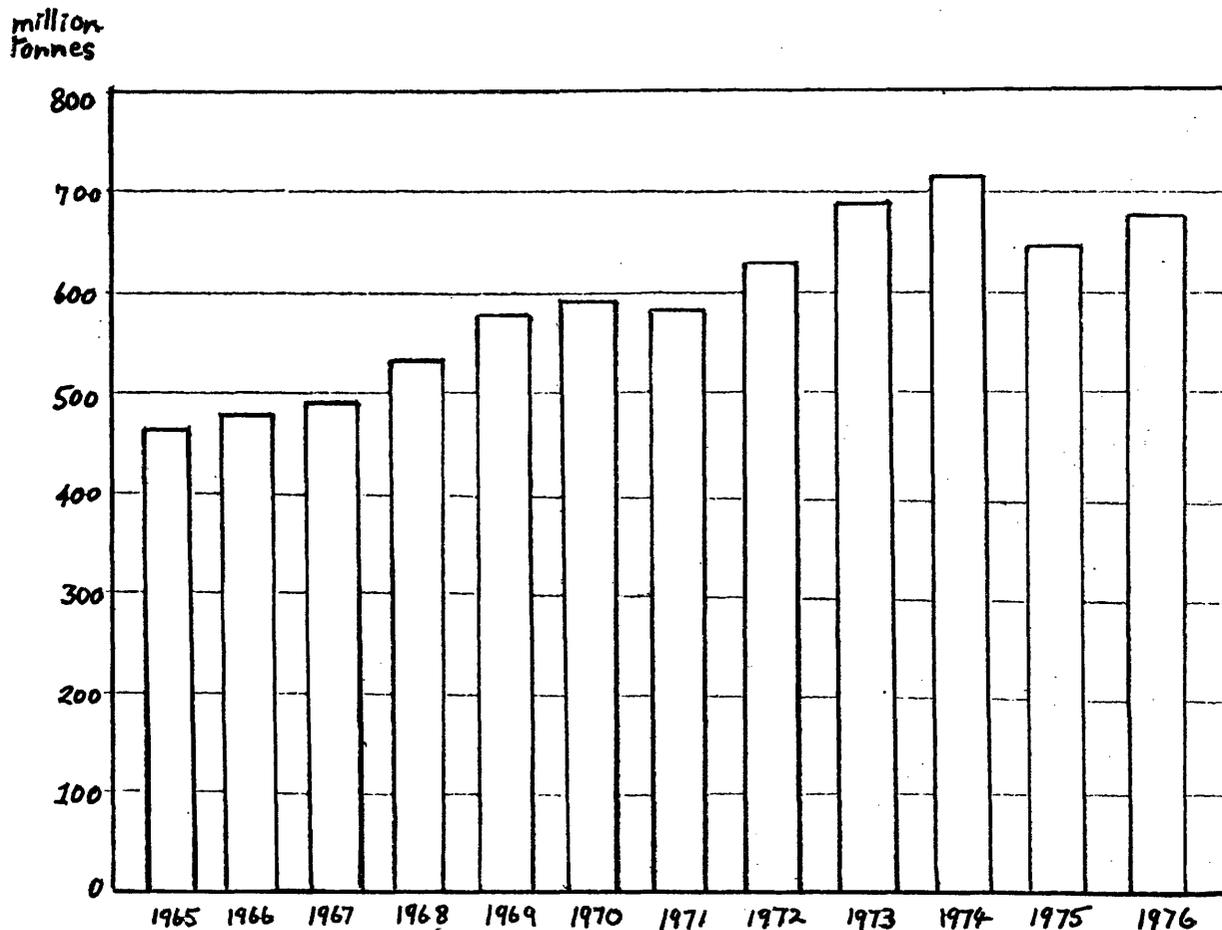
We have already seen that in the Australian economy, plastics and chemical production have surged ahead while other production has slumped. The aluminium industry has surged ahead also. The investment in the aluminium industry in Australia has been large and increasing. Aluminium, unlike steel, is already almost back to its pre-1975 growth rate of 7%-8% per year.

Finally, new design techniques indicate a trend towards using smaller tonnages of higher quality steels. Even if other problems are solved, things may never be the same again for the steelmakers.

Overproduction and Excess Capacity

From the Second World War onwards the capitalist world went through a phase of major growth and expansion. This was particularly so from 1960 to 1970. During this time the steel industries around the world also expanded, some more rapidly than others. In any case, world production of steel rose steadily; and steel-making companies saw nothing but a rosy future. Massive investment took place within the industry: over the period 1960-1975 crude steel production capacity increased slightly in the United States to about 140 million tonnes, doubled to 222 million tonnes in Western Europe, and increased sevenfold in Japan from 21 million tonnes to 148 million tonnes. Rates of growth in Japan and also in Spain and Italy were particularly high between 1960 and 1970.

WORLD CRUDE STEEL PRODUCTION : 1965 — 1976



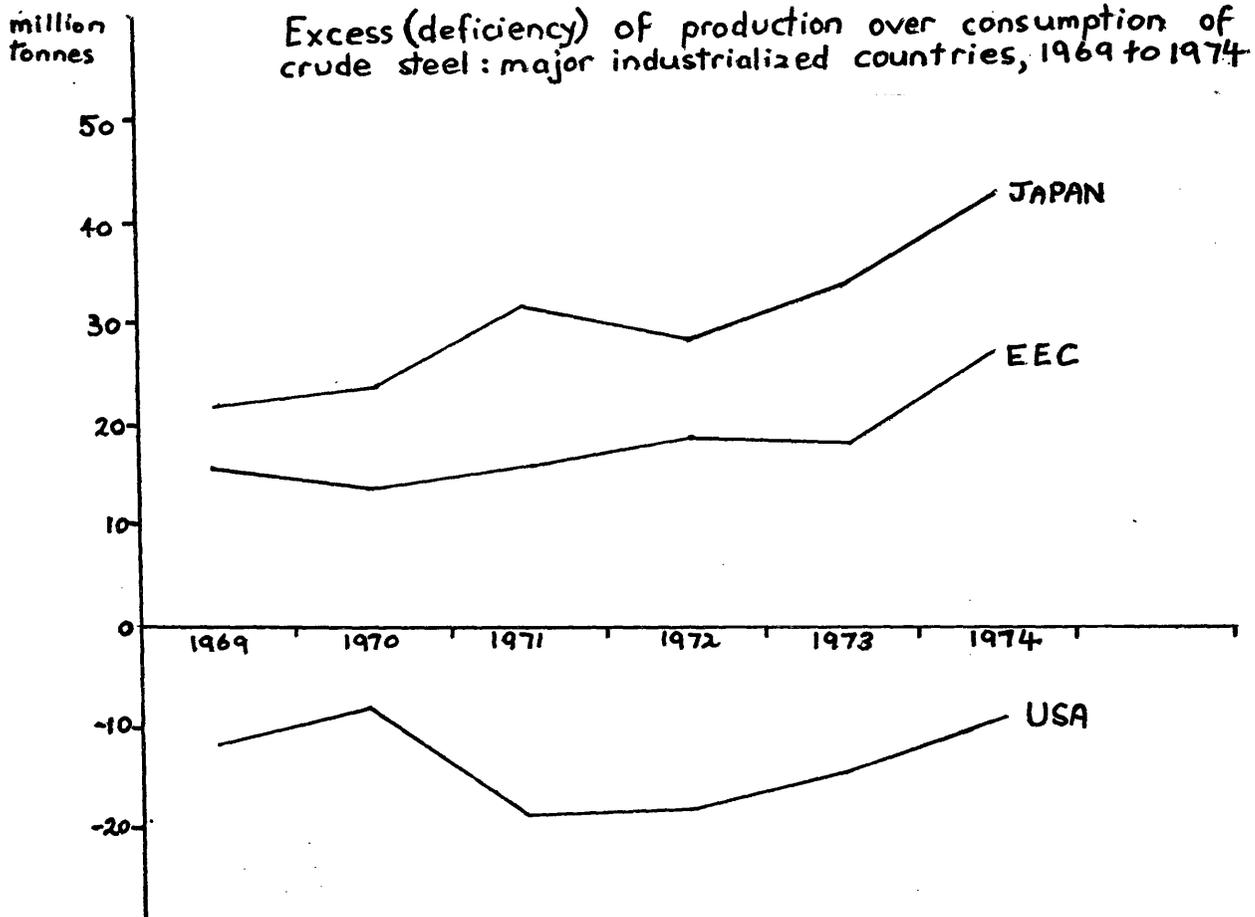
Source: United Nations Statistical Yearbook 1977

As we have seen, the boom ended in 1974, leaving the Western capitalist world with a huge capacity to produce steel and a shrinking or diminishing demand for it. As industrial production and trade fell off sharply, so too did requirements for steel.

Changes in National Steel Production

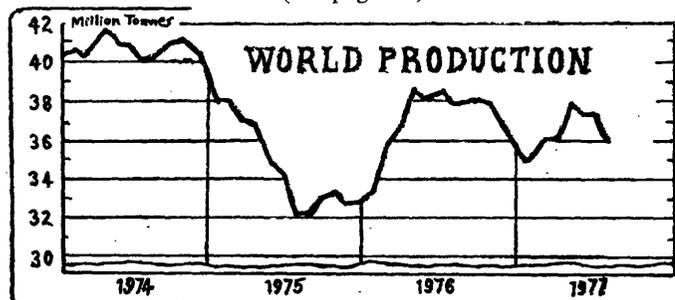
In the three largest and most powerful Western economies, those of Europe, Japan and the U.S.A., the situation has produced intense conflict. The Japanese and European steel industries had expanded rapidly and developed production levels greater than their own economies could justify. The American steel industry

however did not expand as rapidly and did not produce enough steel to satisfy the demands of its own market. The situation is summed up in this graph:



Source: OECD op.cit.

(for page 30)



Japan, by 1974, was producing about 45 million tonnes in excess of domestic requirements and Europe about 30 million tonnes. Production of steel in the U.S.A. was about 10 million tonnes short of requirements. Since the American market was by far the largest in the world, both Europe and Japan were competing for it.

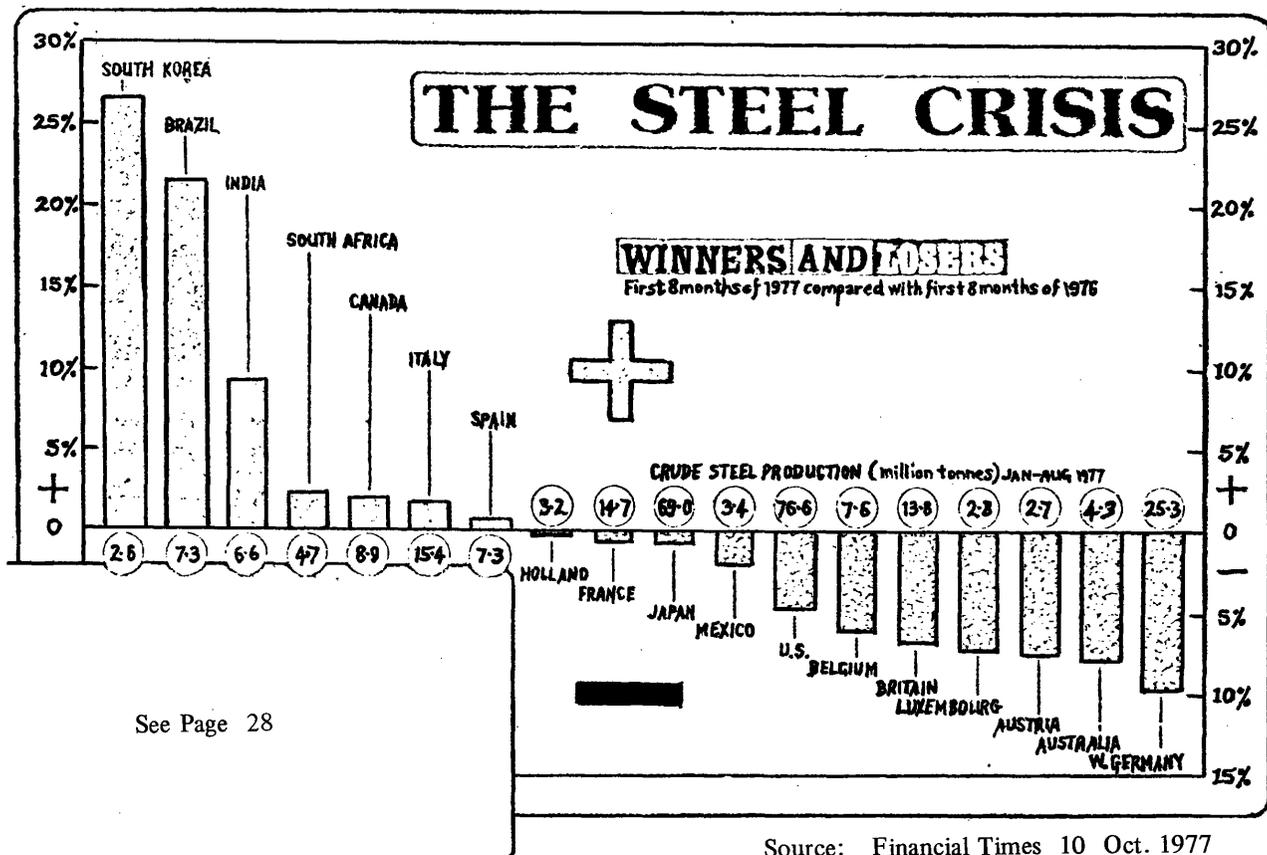
Until 1976 European steel workers had the edge on the Japanese in the American market. In 1977 the Japanese dumped steel into America at extremely low prices. This partly cut out the Europeans and made severe inroads into the fortunes of American steel producers, especially since total U.S. demand was falling. The profits of American steelmakers fell readily and some 25,000 American steel workers were laid off. The American government then put heavy pressure on the Japanese government for a voluntary cut-back in steel exports to the U.S.A. Japan partially complied, but by the time it had done so Europe had begun dumping steel in the American market. And Europeans were facing fierce competition in their own market.

It is useful to put these developments into a larger picture of changes in the distribution of world crude steel production from 1965 to 1976. The Soviet Union maintained its percentage of production at around about 20% of the total world production. The U.S.A. had sunk from having approximately 25% of the total world production in 1965 to having less than 20% (roughly 19%). The percentage attributable to the E.E.C. had also shrunk, while Japan had vastly increased its proportion of world production. The important thing to note is that production from other countries, other than these main producers, had increased steadily over the period 1965-1976. Western European steel producers had first to face competition by the modern Japanese industry and then, in the seventies, by the mills that had been set up by international capital in the low-wage countries of Southeast Asia and Latin America.

By 1974 'the developing world' produced about 7% of the world steel, around 36 million tonnes. 'Developing' countries were, still, in 1974, major importers of steel. However it is estimated that, by 1985, they will be producing 17% of the total world production or 175 million tonnes. And by the year 2000, that could very well be 36% or 416 million tonnes. Japan's capacity will still be growing; and continental Western Europe is expected to have added 22 million tonnes capacity to give it a total of 134 million tonnes. Within 'the developing world', South Korea is expected to be producing another 8 million tonnes; India - another 10 million tonnes; Iran - 15 million tonnes as opposed to almost nothing at the moment; and the rest of the Middle East another 12 million tonnes. Mexico is expected to be producing another 8 million tonnes; Venezuela an additional 5; Argentina another 8; and Brazil a whopping extra 28 million tonnes (more steel than is produced in the U.K. today).

It is worth referring to a chart showing the winners and losers in the international steel crisis at the moment: comparing the first eight months of 1977 with the first eight months of 1976, South Korea had increased its share of the international steel market by over 25%, Brazil by about 22%, India by about 9%, and South Africa by about 3%. By contrast, West Germany is an obvious loser in having lost about 10% of its share of world production, while Australia had lost about 7%, and so on through Austria, Luxembourg, Belgium, U.S., etc.

In other words, a vast proportion of the steel producing capacity of the world was under-utilised by 1977. The normal level of operation of a steel mill is around about 93% of the use of total capacity. But by 1976 the utilisation of capacity in the European steel industry was running at about 68%, in the U.S. industry at 77%, and in Japan at about 71%. In the early months of 1977 the rate of capacity utilisation in some countries had even fallen lower, with the average level in Europe, for example, down to 60%. Vast resources in terms of productive capacity were lying idle and unutilised and vast numbers of workers had been sacked.



Steel Production Processes

Much has been said of the competitive advantage of employing modern techniques in steel production. There are four principal techniques – the basic Bessemer process, the open hearth process, the electric process and the basic oxygen process.

Iron making is now entering a 4,000–5,000 cubic metre blast furnace area, yet in the 1950's the maximum efficient size was considered to be 1,500 cubic metres. Some recent overseas studies have concluded that, as the size of the furnace increases, capital and production cost per unit of output fall. Japanese steel companies operate at least eight blast furnaces with capacities greater than 4,000 cubic metres, the largest being 5,070 cubic metres. The U.S.S.R. is the only other country currently operating blast furnaces larger than 4,000 cubic metres capacity. Australia's largest at Port Kembla has an inner volume of 2,670 cubic metres.

The principal methods of converting iron and steel are the basic oxygen system (B.O.S.) and the electric arc furnace. The latter has tended to be reserved for making stainless steel and alloy steel. The other main steel making techniques in use, open hearth furnace and basic Bessemer converter, are now considered technologically obsolete. Over the past decade the B.O.S. process has come to dominate production since B.O.S. offers lower raw material conversion and capital charges per ton of crude steel produced. A B.O.S. furnace can produce six times the output of an open hearth furnace of comparable capacity per blow.

Statistics of crude steel output by process for different countries provide an indication of the relative modernity of steelmaking facilities, and this is covered in the table included below. In 1974 less than 2% of the steel output of Japan and the Netherlands was produced by technologically obsolete processes, as against 25%–30% for France, U.K., Australia, Canada and the U.S. Since the early 1960's B.O.S. converters have increased from 100 tonnes to over 400 tonnes in

CRUDE STEEL OUTPUT BREAKDOWN BY PROCESS:

SELECTED COUNTRIES AND AUSTRALIA, 1969, 1974

(per cent)

	Basic Bessemer Process		Open Hearth Process		Electric Process		Basic Oxygen Process	
	1969	1974	1969	1974	1969	1974	1969	1974
Australia	-	-	n.a.	27.7	n.a.	3.1	n.a.	69.2
Japan	-	-	6.4	1.3	16.7	17.8	76.9	80.9
United States	-	-	43.1 ⁽¹⁾	24.4 ⁽¹⁾	14.3	19.6	42.6	56.0
Canada	-	-	51.5	25.2	17.5	20.7	31.0	54.1
West Germany	15.0	2.9	29.8	17.4	9.2	10.8	46.0	68.8
France	47.4	19.2	19.8	10.8	10.5	11.5	22.0	58.5
Belgium	49.4	14.6	2.2	1.4	3.3	4.3	45.0	79.7
Luxembourg	63.3	32.2	-	-	1.8	1.7	34.9	65.1
Italy	-	-	31.7	14.8	39.9	41.4	28.4 ⁽²⁾	43.8
United Kingdom	-	-	52.8	27.6	18.4	23.5	27.8 ⁽³⁾	48.3
Netherlands	-	-	21.6	1.4	6.7	6.6	71.7	92.0
Sweden	0.7	-	25.4	19.4	41.4	42.2	32.8	38.4
Spain	-	-	31.4	11.8	36.6	36.5	31.8	51.7
Finland	-	-	17.0	8.4	26.7	19.1	56.3	72.5

(1) includes bessemer process

(2) includes 4,000 tonnes of "other processes"

(3) includes 52,000 tonnes of "other processes"

OECD: The Iron and Steel Industry: (Paris) 1970, 1974.

capacity. The largest currently used in Australia is 250 tonnes. Similarly Australia's rolling and finishing plant is now smaller than optimum capacity.

Productivity is more likely to be influenced by the sizes of production run and the level of technology throughout a country's steel industry than by the level of wages. (Note, though, that the two countries with the most competitive edge in the international steel market, South Korea and Japan, have an advantage in both respects.) International statistics on productivity in steelmaking, whilst not permitting any detailed comparison between countries, indicate that Japan has tapped enormous productivity increases over the past twenty years relative to the other major industrial countries.

Japan has a clear lead over United States and West German steelmakers while Australian productivity is ahead of the levels reached in France and the United Kingdom.

The Impact on Australian Production

The Australian steel industry, or B.H.P. in particular, has long complained about lack of profitability in the industry and has used this argument to keep down wages and where necessary to justify retrenchments in the industry.

What has happened to employment levels? The average hours worked per worker per month has dropped from 175.36 to 163 between 1974 and 1975. The numbers employed dropped from 45,831 to 43,333, a drop that was immediately subsequent to the international economic collapse and the Australian collapse. Our (A.M.W.S.U.) Wollongong organisers have informed us that a further reduction in the last eighteen months of 1,800 to 2,000 workers has taken place. No details are available from Newcastle or Whyalla on the number of retrenchments.

<u>Year</u>	<u>Capacity in millions of tonnes</u>	<u>Production in millions of tonnes</u>	<u>Production as a % of capacity</u>
1975	8.4	8.017	95%
1976	8.4	7.774	92%
1977	9.0	7.550	84%
1978	9.45	6.000?	63%

There was a sustained downturn in steel production in the years following the international collapse as idle capacity developed in the Australian manufacturing industry in general, and particularly in the motor vehicles area, in the building industry and in the production of consumer durables or household durables, washing machines, etc., and in metals and machinery. In 1975 then the steel industry in Australia was producing 8.017 million tonnes which was around about 95% of its full capacity. By 1976 this had fallen to 7.774 million tonnes, or 92% of capacity. Last year (1977) it dropped to 7.550, which is 84% of production capacity. This represents a rather catastrophic decline in capacity utilisation and in total production.

The figure of 6 million tonnes in 1978 comes from a letter sent to nine unions in Western Australia. The letter is from Mt. Newman Mines, the second largest producer of iron ore in the Pilbarra. Mt. Newman Mines is 30% owned by Dampier Mining Co., which in turn is 100% owned by B.H.P. or a direct subsidiary of B.H.P. It supplies iron ore to the east coast industry and to the Japanese steel industry. In the letter Mt. Newman Mines indicated to the unions that some retrenchments in Western Australia would have to take place in the Pilbarra region because of cut-backs in the requirements for iron ore in the Japanese steel mills and cut-backs in requirements from the east coast. The letter specifically mentioned that production of steel in the east coast steel industry would be down to around about 6 million tonnes in 1978.

If this is true there would have been a drop of as much as 20% in production between 1977 and 1978 and 25% since 1975. If it is true then we can expect more lay-offs. (It is possible, of course, that Mt. Newman was overstating its prospective decline as a bargaining ploy.)

What is significant to us is that, while B.H.P. (which has management rights over Mt. Newman) would take the time to tell Western Australian unions, it would certainly not take the time to tell the Wollongong community, the Wollongong workers, the Newcastle community and Newcastle workers or the Whyalla community and the Whyalla workers of any prospect that production was to drop so catastrophically in 1978. Even blind Freddy could see that this was going to have a direct and drastic effect on these communities, being as they are basically one-company towns. They are to a very large extent dominated politically and economically by the B.H.P. as the single largest corporation feeding through a chain of small businesses, the small businesses being reliant on the wages of the workers in the area to maintain a level of consumption adequate to sustain their sales.

III. THE POSITION OF B.H.P.

Subsequent to the economic crash in 1974 and up to 1977 another startling process has been taking place in the Australian steel industry. In 1974, 27.6% of Australian steel sales were overseas. By 1976 export sales had risen to 44.2%. With severe international competition of the variety that we have mentioned before, export sales face a doubtful future.

On the import side B.H.P. faces severe competition from steel industries in South Korea and Taiwan, which as we have mentioned before have the latest and most modern plant and have been able to combine this with very low wages. These steel industries, of course, have been built as a result of massive foreign investment in these countries to take advantage of low wages, no unions and tame-cat or company control of unions, and high technology.

Exports

B.H.P.'s activities are rarely reported outside the financial sections of the newspapers. However, on the 20/6/77 the Sydney Morning Herald's lead story was 'Fraser Acts as the European Economic Community Orders Australian Steel Cut'. 'Our leader, fearing the cuts would affect the employment in B.H.P. works has been able to have the imposition of the cuts postponed for two or three months', was the leading paragraph. However, officials travelling with Mr. Fraser say the cuts are inevitable because tougher quotas have already been imposed on other steel exporters, including Japan. This relates to the situation described before where Europe is dependent both on export sales and on maintaining a hold on sales in its domestic market. Fierce competition from Spain, from South Africa, from South Korea and Japan are making inroads into the latter; so the E.E.C. has had to act. Its actions will flow through to the exports of Australian steel to the European Economic Community. The E.E.C. wants the cuts in the Australian steel exports to the Community to apply from the European autumn. Shipments from Australia would have to cease almost immediately to meet this deadline.

Mr. Fraser first learned of the proposed steel cuts after arriving in Brussels for talks at E.E.C. headquarters. He called for an immediate assessment of the impact on B.H.P. production, already affected by slack production of domestic steel uses, including car manufacturers. 'Officials briefed Mr. Fraser on Friday morning after being filled in over the telephone by B.H.P. executives in Australia.'

This is an interesting comment on relations between B.H.P. and the Australian government. It has often been said by the local business leaders that everything is 'hunky dory' and that the Fraser government is watching the situation in the steel industry closely. But here we have a situation where Mr. Fraser's advisers

had to be filled in by telephoning B.H.P. executives in Australia. It is a reflection of the fact that B.H.P. not only has a monopoly over steel production, but also has a monopoly over information regarding the steel industry in Australia. (For that reason, it has been very difficult to compile this report: we have had to rely on indirect information and on having it confirmed virtually by subterfuge.)

Although Australia's steel exports to Europe represent less than 1% of the Common Market's total steel production, Europe is an increasingly important and growing market for B.H.P. Europe accounts for a quarter of B.H.P.'s steel exports, and 7% of its total production. According to Mr. J.C. McNeil, Chairman of the Board of B.H.P., 'This year sales to the E.E.C. look like being round half last year's figures'.

It is unclear, by the way, whether Australia and B.H.P. really were caught out and unprepared by the E.E.C.'s moves or whether the song and dance routine of the Prime Minister was orchestrated for the domestic audience.

A Financial Review article in early 1978 describes in detail the effects of the E.E.C. protectionism and it seems appropriate to include this report in a resume of B.H.P. The article labelled 'E.E.C. Steel Cuts Hit 170 Million' blames the E.E.C. for jeopardising the planned April commissioning of a new mill in Westernport. It then continued: 'The growing wave of protectionism which started in the U.S. and which has spread to Europe is only part of the problem. The barriers have a twofold effect in not only that they limit exports into the areas where they are put up, but intensify competition in other less protected markets'.

Australia now falls among the latter group and imports of steel have been rising at a rapid rate over the past twelve months. So far the local producers have been able to offset the impact of higher imports by lifting the level of export sales: B.H.P. admits that exports now account for some 45% of its current level of sales. Lysaghts, a subsidiary of B.H.P., does not give a breakdown but its exports would also be running at high levels. Under these circumstances the local producers have been reluctant to initiate dumping procedures against imports or take up the cry for greater protection of the domestic market for fear of retaliation by their overseas counterparts. With substantial extra capacity due to come on stream, an international wave of protectionism is the last thing needed. It is not the first time in recent years that the B.H.P. has been caught with an expensive new plant on its hands and nowhere to sell the product. Back in 1974 the group commissioned a 500 million bloom mill at Newcastle. It is now March 1978, and that plant has still to produce commercially a single tonne of steel. The new Westernport plant could face a similar fate as it will lift Australian hot strip capacity by over 65% when existing plants are operating at only 70% capacity.

The situation then in the iron and steel industry in Australia is bleak, but not so bleak for B.H.P., the largest commercial agglomeration in Australia, as it is for the workers and the community that rely directly upon B.H.P.'s decisions for their livelihood.

Profits

Let's take a somewhat closer look at the much vaunted losses in the steel industry that B.H.P. continually uses in its submissions to the Prices Justification Tribunal for increases in the price of steel. Last year even the Financial Review was moved, under the heading of 'Accountant's Dream of B.H.P. Statement of Profitability' to say this: 'B.H.P. Annual Statement of Profit is an accountant's dream, you can produce almost any trend you want depending on which adjustments you make'. With this in mind our research department approached the Accounting Standards Committee, set up by the New South Wales Attorney General, Frank Walker, to investigate accounting procedures in the state of New South Wales, but also in Australia generally. Mr. Harry Rappaport, one-time lecturer in accountancy at Sydney University, at Macquarie University and journalist for the Financial Review,

described this situation as nothing short of scandalous, in relation to B.H.P. We commissioned Mr. Rappaport to do an examination of the books of B.H.P. for the last seven years, from 1970 to 1977. The contents of his report are far too long to go into here. Basically it concludes that there is really no way of determining the actual profit and loss of the steel industry in Australia because of the peculiar accounting techniques that are specific to B.H.P. alone in Australia.

B.H.P. has over sixty-five direct subsidiary companies, spanning the finance and manufacturing sectors of the Australian economy. Australian Iron and Steel is, of course, its largest subsidiary, and many of the other subsidiaries are customers down the chain of production, through to actual marketing in the Australian economy. For this reason B.H.P. has a significant stranglehold over the Australian economy and its decisions — where to invest and what to invest — significantly affect every Australian.

We submit that it is scandalous that B.H.P. fails to divulge information to the Australian people, and that its accounting techniques are so obscure that not even shareholders could be given an adequate report on the true situation in the company. B.H.P. is a multinational corporation in its own right. Production facilities exist in Malaysia, in Indonesia, in West Irian, in New Guinea, in New Britain, in New Zealand.

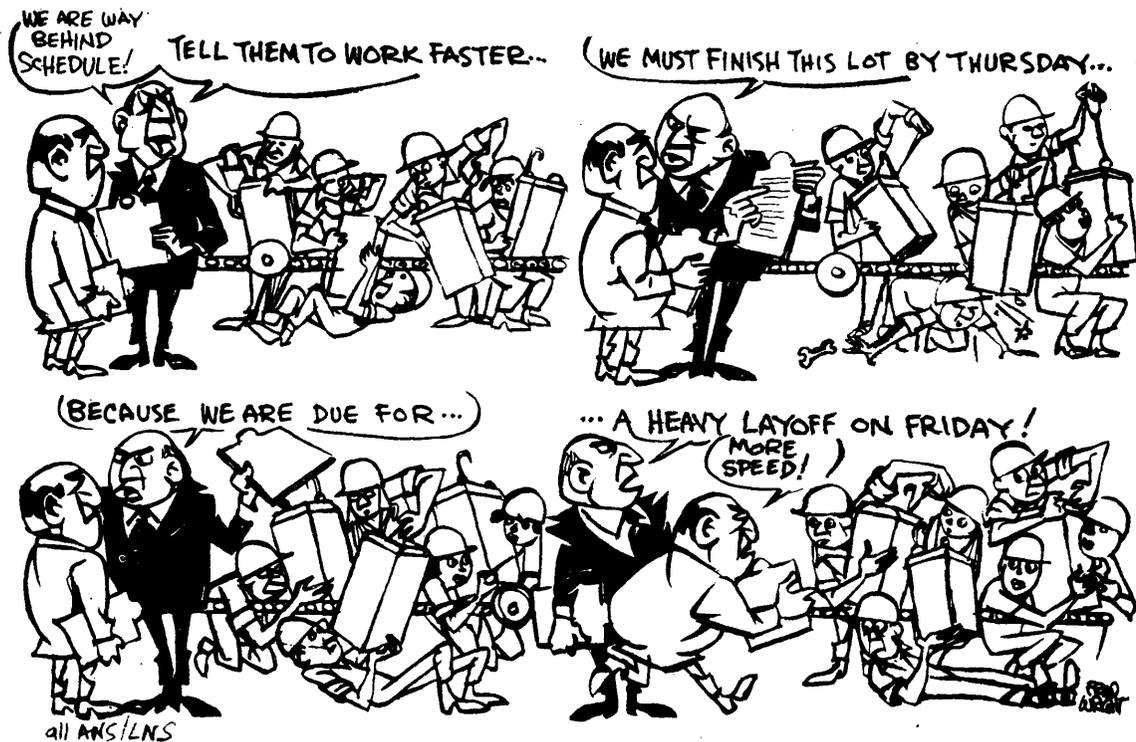
Within Australia, B.H.P. which began its history as a mining company is rapidly returning to the field of mining and has been doing so at least for the last decade. It has begun to move significant sections of the capital generated historically in the steel industry into the mining industry. It has always secured its raw materials in the sense that it has owned the extraction sites and plants required to produce its raw materials. But, relatively recently it has also moved significantly into iron ore and oil.

B.H.P.'s interest in Mt. Newman Mines in Western Australia has assured a very lucrative profit. Its interest in the Bass Strait oil field, with the other large multinational, Esso, assures very great profits in the petroleum and natural gas industries. Increases allowed in the price of crude oil in Australia have meant great windfall profits for B.H.P.; and the devaluation of the Australian currency in 1976 assured that overseas sales would return a more handsome profit than was the case previously (both for B.H.P.'s exports of steel and for its exports of iron ore). B.H.P.'s interest in the Moara and Gregory coal fields will ensure a handsome return from sales to the Japanese and Southeast Asian steel industries. The Gregory field alone will generate sales in excess of \$1,200 million. B.H.P., through Mt. Newman Mines in Western Australia, also supplies the Japanese and other overseas steel industries with iron ore.

If we look at the actual profit situation for B.H.P. in each of its divisions for the years 1976 and 1977 we can see that the Minerals and Petroleum Division did exceptionally well relative to steel. Petroleum profit increased by 33.5% in the year from \$40,519,000 in 1976 to \$54,098,000 in 1977. Minerals, predominantly coal and iron, did even better with a staggering profit increase of 44.8%. Actual profit moved from \$12,449,000 in 1976 to \$13,026,000 in 1977.

Because B.H.P. operates as a single entity, it is able to shift its costs around from one subsidiary company to another. Thus, many costs can be chalked up against the steel division which can create an apparent loss in steel. These costs may more appropriately belong in another division. Similarly, A.I.S., B.H.P.'s own subsidiary, supplies steel to Lysaghts, Tubemaker, Rheems, etc. which are also subsidiaries. The costs can be adjusted along the chain by charging more or less, depending on how B.H.P. management wants the outside world to see.

B.H.P.'s queer accounting method is famous for its use of the Fixed Asset Valuation Adjustment. In simple terms this means that B.H.P. adjusts its profits down by any given level that it decides in order to cover the cost of replacing machinery, equipment, building, etc. Assets are valued, not on the basis of their



actual cost at the time of purchase, but on the basis of estimated cost of replacing them with new equipment; and the valuation is adjusted annually.

IV. THE IMPLICATIONS FOR EMPLOYMENT

The International Metal Workers Federation (I.M.F.), based in Geneva, is a peak organisation of unions within most of the countries comprising the capitalist world. It represents 90% of the steel workers in these countries.

As far back as 1976, the I.M.F. estimated that about 25 million workers in industrialised countries were out of work, with more to follow. In particular, many steel workers had lost their jobs through drastic employment reductions; and steel workers' incomes were depressed through short-time working and lower steel output. In the United States, where a number of plants have been closed and whole steel companies have gone out of business, over 20,000 jobs were recently eliminated, so that in the early stages of the recession — in 1975 alone — American steel employment dropped by 55,000 jobs or 11%. In the Federal Republic of Germany 29,000 jobs in steel disappeared and there were fears of a reduction of an additional 10,000 jobs. In France about 20,000 workplaces were at stake, according to the pending plans for restructuring the industry. In Great Britain manpower cuts in connection with structural adaptation were likely to be even greater. Japan, with a very modern steel industry and a policy of safeguarding jobs through exports, had not been spared. Of sixty-five blast furnaces, nineteen were out of use, so that 10%-20% of all steel workers were idle. In addition, the Japanese steel employers had just announced that more than one-eighth of all steel workers might be temporarily laid off and be put on a training and adjustment allowance.

Australian steel workers are not spared from this grim picture, especially as B.H.P. is also involved in the mining industry. The mining and petrochemical

industries not only shift investment away from steel, they also shift the jobs available away from Wollongong, Newcastle and Whyalla. Instead, jobs go to Bass Strait, central Queensland, northwestern Australia, etc. In addition, the shift actually reduces the number of jobs available, as steel is more labour intensive than are mining and petrochemicals. The whole of the mining, petroleum and natural gas industry *only employs* 1.4% of the Australian work force; and a proposed \$300 million investment in Mt. Newman Mines, for instance, will mean jobs for only in the vicinity of two hundred people.

The shift to mining is providing very little benefit to the people of Australia in any other way. With respect to taxation, for example, the Fitzgerald Report on Minerals published in 1974 indicated that, although \$2,072 million in profits were made in five years, when receipts from tax, etc. were offset against Australian government expenditure on the projects for roads, rail, housing and the like, the Australian government and therefore the taxpayers lost \$51 million.

We have been looking at the future of B.H.P.'s steel production in Australia and what that future will mean for Australian workers. Before finishing we must look at that group of Australian workers likely to be worst affected, namely migrants. Any studies of immigration in Australia show that workers from overseas have been the backbone of Australia's post-World War II industrial growth. This has been particularly so for the steel industry. B.H.P.'s recruiting agents have been active in Europe for decades. They have, for their own reasons, particularly concentrated on Yugoslavia. Most of the Yugoslav workers recruited were from rural areas, with little or no previous experience of industry or unions. We unionists could be forgiven for suspecting that this is a deliberate policy on the part of B.H.P. Yugoslav workers form a substantial majority of the steel workers born in countries other than Australia. They have been given scant regard by the company. Anyone familiar with this area is aware of the large number of cases of family, social and economic hardship experienced by migrant workers attempting to settle in a new land. If our analysis of the steel industry's future is correct, then they will suffer more. Even now B.H.P. is putting pressure on the government to bring more workers from other countries. No doubt it suits companies to have a large pool of unemployed, desperate for work, when those companies are intending to put the squeeze on workers who have jobs. This is certainly the case of the Whyalla shipyards at the moment.

In conclusion, many factors combine to make the future very bleak for steel workers in Australia — the global decline in steel production, the redistribution of production in favour of Third World countries under the aegis of multinational capital, and the mining investment and anti-worker attitudes of B.H.P. The dissemination of information on these developments is the first step in the necessary confrontation with B.H.P. and the Federal government over the rights to employment of people in steel-working communities.

Note: Information in this article was drawn from the following sources —

The Australian Bureau of Statistics
The Australian Department of Industry and Commerce
Economists in the Premier's Department of New South Wales
Economists and political scientists from various Australian universities
Syntec Research Group
The Reserve Bank of Australia
Research Section of the O.E.C.D., Paris
Research Department of the I.M.F., Geneva
The International Iron and Steel Institute
National and international financial and economic publications

Prepared by the Research Staff of the Amalgamated Metal Workers and Shipwrights Union (A.M.W.S.U.) and edited by the JAPE Collective.

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