Submission to the *Inquiry into the procurement practices of government agencies in New South Wales and its impact on the social development of the people of New South Wales*

AUSTRALIAN STEEL INSTITUTE

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The Australian Steel Institute (**ASI)** is pleased to make a submission to the *Inquiry to the procurement practices of government agencies in New South Wales and its impact on the social development of the people of New South Wales.*

Introduction

The ASI is the nations peak body representing the entire steel supply chain, from the primary producers through to end users in building and construction, resources, heavy engineering and manufacturing.

The membership base includes approximately 6,000 individuals that are associated with more than 600 corporate memberships and over 350 individual memberships.

A not-for-profit member based organisation, the ASIs activities extend to, and promote, advocacy and support, steel excellence, standards and compliance, training, events and publications. The ASI provides marketing and technical leadership to promote Australian-made steel as the preferred material to the resources, construction, and manufacturing industries, as well as policy advocacy.

The Australian steel industry

The Australian steel industry consists of three primary steel producers, supported by over 300 steel distribution and processing sites throughout the country and hundreds of manufacturing, fabrication and engineering companies.

Australia's primary steel producers and steel product manufacturers together form a strategically important value chain that has the capability to supply in excess of 90 per cent of the steel grades and qualities required in this country. If special categories such as very large diameter pipe, stainless steel, electrical steel, and tinplate are excluded, then the capability is significantly closer to 100 per cent.

Australia produces around 6 million tonnes of steel per annum across five major manufacturing locations. It is important to note the economic and social contribution of the Australian steel industry. It employs over 100,000 people and generates $29 billion in annual revenue, and is associated with a disproportionally large share of skilled jobs in regional and rural areas.

The economic contribution of the Australian steel industry is very significant. Based on recently completed analysis conducted by BIS Oxford Economics, it is estimated that for every $1 million invested,

- 5 workers are employed in the steel and closely related industries,
- $2.8 million output is contributed to the economy, and

- $1.1 million of value is added to Australian GDP.

Steel fabrication is essential for manufacturing of bespoke construction products such as foundations, piling, columns, beams, girders, gantries, platforms, and towers. Areas of specialisation include wind turbine towers, transmission towers, storage tanks, chemical processing plant, boilers and pressure vessels, mining infrastructure refurbishment, mobile equipment for underground and surface mining, mobile cranes, bridges, armoured vehicles for Defence, naval and domestic ship building, rolling stock, truck bodies and trailer chassis.

The steel industry is noteworthy in having a high proportion of jobs and businesses located in regional areas or non-capital cities, where unemployment is typically higher than the national average. The industry is technically complex and requires a highly skilled workforce to support it, encouraging the ongoing presence of high-quality tertiary education institutions in regional areas.

The below table sets out the steelmaking capacity and production processes used in Australia. NSW is home to approximately two thirds of national steel production capacity.

Company	Manufacturing Locations	Typical Production	Production Process
BlueScope	Port Kembla, NSW	3.2 million tonnes	**Integrated (BF/BOF)**: iron ore / coal / scrap steel Coke Ovens, Sinter Plant, Blast Furnace, BOF steelmaking
InfraBuild	Laverton, VIC	0.7 million tonnes	**EAF route**: scrap steel EAF steelmaking
	Rooty Hill, NSW	0.6 million tonnes	
Liberty Primary	Whyalla, SA	1.2 million tonnes	**Integrated (BF/BOF)**: iron ore / coal / scrap steel Coke Ovens, Pellet Plant, Blast Furnace, BOF steelmaking

The steel industry is a key enabler for the nation's renewable energy transition and associated legislated climate targets. Between now and 2030 it is estimated that at least 400,000 tonnes of extra fabricated steelwork will be required per annum to service over 23 GW of existing renewable energy generation projects across wind, solar, water and transmission infrastructure.

Issues with the current procurement practices - examples

The ASI would like to introduce this submission by providing some examples of issues that have occurred with the current procurement practices. These issues relate primarily to:

- Loss of significant opportunities to stimulate skilled employment, business investment, and local economic activity in NSW regions due to fabricated steelwork being imported rather than sourced locally. This is in the context of the project funding being contingent on being used to *stimulate the regional economy and help create sustainable job opportunities and skills,* and to *support a project that is transformational for a region, supporting long term economic growth and jobs in the region*. Please refer to Appendix 1 and 2 for details.

- Maintenance and rectification costs in excess of 150% of the original cost of installation being incurred due to lack of in-service performance specifications being included in procurement requirements. Please refer to Appendix 3 for details.

Response to Terms of Reference

The ASI would particularly like to comment on the following clauses of the Terms of Reference, and where appropriate offer recommendations, as follows.

b) the effectiveness of whole of government and agency procurement arrangements, including standing offers, panels and prequalification schemes, in ensuring that suppliers and their subcontractors deliver value for money and comply with relevant policies and regulations, including labour laws, at the qualification, contract negotiation stage and contract management stages of procurement

Assisting with compliance

As the Australasian Procurement and Construction Council says in its document *Procurement of Construction Products: A Guide to Achieving Compliance* (2015):

> 'Evidence suggests that the market penetration of non-conforming products in several key construction product sectors in Australia may be up to 50 per cent. This is a sobering and alarming statistic.'

Observable defects such as substandard welding that needed to be ground out and replaced, laminations in plate that could cause catastrophic failure, substandard corrosion protection affecting the life of an asset and generally poor workmanship were found unfortunately to be commonplace on imported structural steelwork.

There also is a price depressing effect from these imports that affects a sector of local fabricators that are forced to chase price at the expense of maintaining their quality systems and procedures. The knock-on effect is that currently many fabricators and steelwork manufacturing SMEs are unable to maintain a reasonable profit that would allow them to reinvest in their businesses, for example in new technology such as robotic automation which could aid competitiveness.

Testing by the steel industry has also identified metallic coated and pre-painted steels that do not meet Australian Standards and regulations. Examples include substandard metallic coating and paint thicknesses and non-conforming levels of lead in paint. The non-compliances are not limited to poor quality and bad workmanship but extend to deliberate fraudulent behaviour with examples such as falsified test certificates, welds made with silicone rubber and then painted, attachment of bolt heads with silicon rather than a through bolt, and water filled tube to compensate for underweight steelwork with fraudulent claims that their products meet particular Australian Standards.

This issue of non-compliant substitutions concerns building surveyors or inspectors who may not have the engineering expertise, knowledge, or often the opportunity to identify steel defects, or check whether the steel supplied is compliant.

Builders and project managers may take on the responsibility of site inspection but often do not have the skills or knowledge to understand compliance at a material or

fabrication level. Moreover, for structural steelwork there is currently no reliable system for surveillance of imported building products apart from product failure. However, if defects with major structural steel items are discovered, the prime contractor often has no alternative to meet the time constraints but to accept faulty product or try to patch repair any defects.

In 2014, the ASI implemented a National Structural Steelwork Compliance scheme that allows steelwork fabricators to elect to be audited for compliance capability. It is voluntary and relies on contractor engagement and good purchasing practice for its success. It is modelled on the steel product compliance principles used in the UK where there is a risk categorisation for each type of structure and the fabricator capability requirements are commensurate with the level of complexity and nature of the risk profile involved. There is a comparable voluntary scheme used in the USA.

The scheme is open to all fabrication companies from any country and provides the engineer and client reassurance that the subcontractor is certified as being capable of carrying out the work to Australian Standard requirements at a predetermined risk category of the project. The objective of Steelwork Compliance Australia (SCA) is to provide quality compliance certification for the supply, fabrication and erection of structural steelwork to AS/NZS 5131 by the requirements of the ASI National Structural Steelwork Compliance Scheme (NSSCS).

In a similar vein, NSW has a direction issued by the NSW Procurement Board, which requires compliance with AS/NZS 5131 *Structural Steelwork – Fabrication and Erection* and will, wherever practicable, specify the use of certified steel fabricators and erectors. The relevant publication is PBD-2016-03: Construction standards and conformance

Recommendations:

The concept already applied within the NSW procurement policy frameworks should be extended so that:

(a) All structural steel products should be sourced from mills with Australasian Certification Authority for Reinforcing and Structural Steel (ACRS) or comparable independent third-party certification;

(b) All fabricated steelwork products should be obtained from suppliers certified by Steelwork Compliance Australia third-party certification;

(c) All structural steel and fabricated products should be sourced from businesses accredited under the steel industry's Steel Sustainability Australia certification program; and

(d) steelwork meeting Australian Standard AS/NZS 5131 should be used by all agencies when entering into contracts for the construction of all forms of building. This should be a condition imposed by the NSW government for any agency or local government jurisdiction receiving NSW government funds for infrastructure projects.

e) the evaluation criteria used in tenders and how they are weighted in making a decision to award a contract, in particular consideration of:
   (i) local content
   (ii) value for money
   (iii) social, economic and labour market outcomes
   (iv) environmental considerations, such as sustainable sourcing, energy efficiency and waste reduction
   (v) innovation
   (vi) subcontracting arrangements

Value for money and whole of life considerations

When assessing value for money officials must consider the relevant financial and non-financial costs and benefits of each proposal.

The ASI considers the definition of what constitutes 'value for money' used by many Australian governments in procurement documentation is construed in a relatively narrow way, overly focusing on achieving the cheapest cost option rather than the option that benefits the economy as a whole.

In addition, 'whole of life' considerations are not given appropriate weight as they relate to large infrastructure projects. Purchasing locally provides other significant savings for a projects whole-of-life costing, like lower inventory to manage, reduced lead times and improved after-sales support.

Continuity of work within the local industry helps ensure that the existing high skills base is available for ongoing maintenance. Onsite inspection costs can be significantly reduced where the personnel involved are resident in the region.

Locally fabricated steelwork can take advantage of road, rail or local sea transportation, maximising flexibility and economy in meeting delivery schedules and ensuring that project schedules are met.

Regular face-to-face contact between the builder, fabricator and detailer ensures that delays are minimised when design or site erection schedule changes arise. The industry is serviced by a network of steel distribution centres throughout Australia that stock a depth and range of steel products enabling fabricators to quickly source material to respond quickly and cost-effectively to any changes.

Finally, a whole family of Australian Standards ensures safe and economic use of steel. Australian Standards are used as a matter of course by Australian-based members of the steel supply chain. They ensure mechanical properties, chemical composition, dimensional and mass tolerance. They cover welding, painting, galvanising and design to deliver quality and reliable solutions. Like links in a chain, if one Standard's requirements are not met, the whole system is likely to fail.

These are clearly matters that should be dealt with exhaustively in any guidance given with regards to 'whole of life' and 'value for money' issues.

Maintenance of this supply chain capacity (jobs, capabilities, skills and investment) also clearly offers social and environmental advantages to the nation, as well as providing procurers with a greater choice of vendor.

Value for money evaluation should incorporate triple bottom line, social, economic and environmental sustainability considerations as well as whole of life costing. A wider view of what constitutes 'value for money' should continue to be adopted.

The Australasian Procurement and Construction Council (APCC) published the *Australian and New Zealand Government Framework for Sustainable Procurement*, which contained the following principles that guide the implementation of sustainable procurement:

1. Adopt strategies to avoid unnecessary consumption and manage demand;
2. In the context of whole-of-life value for money, select products and services which have lower environmental impacts across their life cycle compared with competing products and services;
3. Foster a viable Australian and New Zealand market for sustainable products and services by supporting businesses and industry groups that demonstrate innovation in sustainability; and
4. Support suppliers to government who are socially responsible and adopt ethical practices.

Further guidance is set out in 12 principles in the APCC publication Procurement of Construction Products – *A Guide to Achieving Compliance* (2015).

Recommendation

Government procurement regulatory instruments should make mandatory adherence to the Principles for Procurement and Conformance of Construction Products set out in the APCC document *Procurement of Construction Products – A Guide to Achieving Compliance.*

h) procurement best practice to encourage ethical conduct and promote social development in other jurisdictions, both nationally and internationally

Steel Sustainability Australia

The Steel Sustainability Australia (SSA) certification program was established by the ASI to identify sustainable steel suppliers by assessing the environmental and social impact of their steelwork manufacturing and processing operations. The SSA program engages the entire steel value chain by certifying downstream steel fabricators, roll formers, and reinforcing processors and verifying upstream steel producers against best practice environmental, social and governance (ESG) indicators.

The accreditation is designed to be used by regulators, building and construction proponents, specifiers and procurers including government agencies, and environmental rating agencies and bodies such as the Green Building Council of Australia to determine sustainable steel suppliers and products, and to support sustainability targets such as reductions in embodied carbon. SSA certification assures steel suppliers, and their products are sustainably manufactured and processed and are sourced through responsible and ethical supply chains.

Accordingly, it is recommended that NSW government procurement policies should make it a mandatory requirement for procurers to source steel products from businesses accredited under the SSA program.

Recommendation
All structural steel and fabricated products should be sourced from businesses certified under the SSA Certification Program.

Yours sincerely

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Appendix 1

Appendix 2

Appendix 3