Productivity Commission Inquiry: Review of the Australian Automotive Manufacturing Industry 2013

automotive@pc.gov.au

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Dear Commissioner,

Re: BlueScope Submission to the Productivity Commission's Inquiry into the Australian Automotive Manufacturing Industry

BlueScope is pleased to make this submission to the Productivity Commission's Inquiry into the Australian Automotive Manufacturing Industry.

The viability of the Australian automotive industry is very important to BlueScope. We believe that there are significant challenges to the continued prosperity of the automotive industry and its related sectors in Australia.

Our submission is broadly structured according to, and in the order of, the *Terms of Reference*. It also includes introductory and concluding remarks and an overview of BlueScope, our operations and markets.

On behalf of BlueScope, and in particular the management team at our Western Port plant, I would like to extend an invitation for members of the Productivity Commission to tour the facility in Hastings, Victoria to discuss the activities we are undertaking to enhance our position within the automotive industry.

Yours sincerely

Jason Ellis
GENERAL MANAGER, SALES AND MARKETING

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Executive Summary

- BlueScope is the only domestic manufacturer of flat steel products for Australia's automotive sector, supplying steel products to each of the three vehicle assemblers as well as a large number of automotive component manufacturers.

- Steel accounts for the majority of a vehicle's weight and is one of the most significant material input costs for vehicle manufacturers. Therefore, steel is a strategic input to vehicle manufacture and is a fundamental determinant of a vehicle's performance.

- BlueScope has world-class operations, and we are a significant employer, exporter and contributor to economic activity, particularly in regional Australia.

- A range of factors, including the decline in local automotive volumes over recent years, has reduced BlueScope's sales to the domestic automotive sector. This declining market leads to decreasing economies of scale and increased unit costs for some products, making ongoing investment by BlueScope to supply the automotive sector increasingly difficult.

- Automotive steel volumes are important to BlueScope and especially our production facility at Western Port. This plant was originally designed to service the southern manufacturing markets and in particular the automotive industry.

- BlueScope's businesses are significant contributors to the regional communities within which they operate. Of BlueScope's 8,000 Australian employees, over 3,000 people are employed within the Illawarra region and a further 600 people in the Mornington Peninsula region. BlueScope's businesses are integral to these communities and utilise substantial amounts of local services; supporting and drawing on local businesses.

- We encourage the Australian Government's objective to develop a policy framework that encourages the manufacture of cars and components in Australia, in a long term and sustainable manner, for both domestic and export markets. Growth in both domestic and export markets for Australian-made cars and components will be essential in order to provide a sustainable future for manufacturing enterprises within the domestic automotive supply chain.

- The automotive industry sets standards of manufacture unequalled by other manufacturers. This provides spill over benefits for BlueScope, and the customers we supply, in all of our markets. These benefits encompass research and development, process capability enhancements and new product developments.

- The Australian automotive sector faces a number of challenges, with two of the most critical being:

    - **Fluctuating and declining volumes**. It is critical that the automotive industry increases its scale as this will drive down unit costs through the supply chain and allow local firms to compete globally. Domestic sales of locally manufactured cars will not alone justify continuing automotive manufacturing in Australia, resulting in the requirement for export sales to become a key contributor to sustainable volumes. The government needs to provide a policy framework that encourages the export of vehicles and components.

- **Significant capital outlays**. BlueScope Steel's ongoing involvement in the automotive industry has a times required significant capital outlays. For example, approximately $200 million was invested to build the No. 6 metal coating line at our Western Port plant, which was designed as a dedicated automotive products manufacturing line. It is difficult to justify such capital expenditure, which requires long payback periods, when the domestic automotive sector is small by global standards and the future of the industry in Australia is unclear. The government should provide a policy framework that, as far as possible, provides confidence regarding the future sustainability of the automotive industry.

- Specifically, in terms of government policy, BlueScope believes consideration should be given to:

  - **Increasing the number of cars manufactured domestically -** A key objective for any Government policy in this area must be to increase the number of cars manufactured locally. If a critical scale can be achieved again this will encourage long term industry competitiveness and a willingness to invest in new products and technologies to support this industry.

  - **Increasing local content of cars manufactured domestically -** Policy for the Australian automotive industry should aim to encourage the industry to increase the local content of its manufacturing. This in turn supports product development and improvement activities, which increase potential steel volumes and new product development or refinement. Toyota's global sourcing policy supports local suppliers. Similarly, General Motors Holden continues to increase local content with import material replacement trial activities.

  - **Trade policy -** BlueScope supports free *and* fair trade – that is, trade that is conducted in accordance with international rules, with minimal tariff and non-tariff barriers. We also note, however that effective tariff rates and government assistance to Australia's automotive sector are low by global standards. Moreover, Australian automotive exports face significant tariff and non-tariff barriers in overseas markets. Accordingly, we believe that:
    1. Australian negotiators should make automotive market access a priority for bi-lateral, multi-lateral and plurilateral trade negotiations.
    2. Any further reduction in tariffs from the current five per cent level should be contingent on key trading partners substantially reducing their own tariff and non-tariff barriers relating to automotive products.

  - **Automotive Transformation Scheme (ATS)** - Due to changes in BlueScope's automotive supply chain, and the definition of an "automotive component" within the legislation, BlueScope is no longer eligible to participate in ATS even though we carry out many activities that the scheme is designed to encourage. The government should review the eligibility rules of the ATS scheme to ensure appropriate incentives are available to encourage ongoing investment.

  - **Research and Development -** BlueScope believes that government policy should be designed to encourage local research and development for both automotive and non-automotive applications. Research and development tax concessions should be made easier to administer and more effective in encouraging the development and commercialisation of new products.

About BlueScope

BlueScope is an Australian listed company (ASX: BSL), the largest of the two domestic steelmakers, and the leading producer and supplier of flat steel products in the Australian market. BlueScope manufactures flat steel products for domestic and export customers, and the company's customers are in the building, construction, distribution, fabrication, automotive, and general manufacturing sectors. The other Australian listed steelmaker, Arrium, manufactures long products.

Flat steel products are used in a wide range of industrial applications including construction sheeting, roofing and facades, automotive sheet metal and white goods manufacturing. Long steel products are typically used in construction and infrastructure applications, and include reinforcing mesh, beams, rails, bolts, pipe and tube, hollow section and wire rope.

BlueScope's well-known brands include COLORBOND® steel, ZINCALUME® steel, and the LYSAGHT® range of steel building products. BlueScope also designs, manufactures and erects the BUTLER® range of custom engineered steel buildings.

In the automotive sector, BlueScope supplies both original equipment manufacturers (OEMs) and automotive component makers. BlueScope supplies approximately one-third of the flat steel consumed by the Australian automotive sector

BlueScope has an Australian based direct workforce of approximately 8,000 employees, with a further 9,000 worldwide.

BlueScope's Australian iron and steelmaking facility is located at Port Kembla (New South Wales), while pickling, cold rolling, metal coating and painting plants operate at Western Port (Victoria) and Springhill (New South Wales), and painting plants at Erskine Park (New South Wales) and Acacia Ridge (Queensland). The company operates 38 BlueScope Lysaght building products manufacturing plants. It also distributes both long and flat steel products through around 80 distribution outlets and four sheet metal supplies outlets.

BlueScope has established a substantial international footprint including an integrated steelworks in New Zealand, and a flat products steel-mill joint venture in the United States (Delta, Ohio). The company operates metal coating and painting facilities in China, Vietnam, Indonesia, Thailand, Malaysia, India and the United States (Steelscape), and building products manufacturing plants throughout the ASEAN region and in the United States (ASC Profiles). BlueScope operates in ASEAN and North America in partnership with Nippon Steel & Sumitomo Metal Corporation (NSSMC) and in India with Tata Steel. Both are 50/50 joint ventures. The company is also a leading manufacturer of custom engineered steel buildings (Global Building Solutions business).

Economics of the domestic steel industry

Steelmakers with ready access to raw materials have a degree of inbuilt competitive advantage compared to steelmakers who need to import their primary raw materials. Energy costs also comprise a significant proportion of costs and Australia has historically enjoyed low energy costs by world standards (albeit energy costs increased after the introduction of the carbon tax and enhanced Renewable Energy Target, and are under further pressure with the movement of the domestic gas market to export parity pricing).

The Australian iron and steel industry has a number of competitive advantages, which include:

- Proximity to high quality iron ore reserves;

- Access to high quality sources of hard coking coal;
- Generally modern manufacturing facilities and technologies as a result of the continuing substantial capital investment of the past two decades;
- Strong channels to market through integrated national distribution networks;
- High quality products;
- Investment in innovation over many years[1];
- Strong technical and product support for domestic customers; and
- Supply chain and manufacturing capabilities that present customers a broad product offering, shorter lead times and reliable delivery compared to those traditionally associated with imported steels.

A competitive Australian steel industry is an important foundation for a competitive Australian manufacturing sector. Australian-made steel is a key input for a large range of domestic manufacturers, and a core input to the automotive, building & construction, fabrication and distribution sectors.

Notwithstanding the competitive strengths of the Australian iron and steel industry, the sector also faces a number of challenges. These include:

- High product complexity
- Sometimes sub-scale manufacturing operations relative to overseas producers
- Limited domestic market size
- Declining manufacturing markets (on average these are low margin, high volume markets)

Restructure of the BlueScope business and redefined focus.

Since the global financial crisis, BlueScope has faced significant external headwinds in its Australian businesses, including the high Australian dollar exchange rate, high raw material input costs, and weak demand in key markets. In response to these pressures, and in order to ensure its ongoing viability, the company significantly restructured its Australian business (BlueScope Australia and New Zealand or 'BANZ'), formally exiting the Australian export business (although exports have continued at relatively high levels due to the weakness of key domestic markets), closing and mothballing some facilities, and implementing redundancies.

This restructuring has resulted in a significant improvement in BlueScope's financial performance, with the company announcing a $960 million turnaround in FY2013 compared to FY2012. The underlying result for FY2013 was a $30 million net profit after tax (NPAT).

BlueScope and the Australian manufacturing sector

In recent decades, and increasingly so in the past ten years, the Australian manufacturing industry has seen a steady decline in volumes. This is evidenced across many sectors within manufacturing and is by no means limited to the automotive industry.

[1] BlueScope operates one of Australia's largest industrial research & development facilities, at Port Kembla, employing approximately 70 people, including 35 PhD qualified researchers. The company is also one of Australia's largest users of the innovation patent system. Major innovations developed by the company included the original COLORBDOND® steel, and the new next generation COLORBOND® and ZINCALUME® steels with patented Activate™ technology. Current research projects include the development of steel roofing with integrated solar cells to generate electricity.

The manufacturing sector helps provide critical scale to our operations. Whilst building and construction markets are our primary focus and are the highest yielding markets, the manufacturing industry plays a vital role in ongoing operations due to the significant volumes it contributes. Manufacturing segments are, on average, low yielding but high volume markets. This is with the exception of automotive, which due to its specialist steel nature and significant associated research and development, demands high yields.

The manufacturing industry in Australia is under stress due to a number of key factors which affect global competitiveness:

- High exchange rates impacting the competitiveness of locally manufactured goods versus imported goods.
- High cost structures for a number of domestic inputs
- Unfair competition through both imported, dumped steel and steadily increasing volumes of finished goods entering our markets.

BlueScope response to the inquiry's terms of reference

BlueScope's response to the inquiry's terms of reference is set out below. Please note that BlueScope's response will be limited to the issues and opportunities as they relate to the provision of flat steel to the Australian Automotive Industry. BlueScope is a member of the Federation of Automotive Products (FAPM) and refers readers to their submission for an overview of broader automotive commentary.

Question 1

Examine national and international market and regulatory factors affecting:

- *the Australian automotive manufacturing industry's current structure, productivity, investment, profitability, international competitiveness, exports, workforce structure and practices, skills levels and long-term sustainability;*
- *Australia's attractiveness as an investment location for all phases of automotive manufacturing activity, from research and development through to production of components and vehicles;*
- *domestic and international demand for Australian design and engineering services, vehicles and automotive products; and*
- *consumer preferences, including consumer demand for new products and technologies.*

As stated previously, BlueScope is the only domestic manufacturer of flat steel products for Australia's automotive sector, supplying steel products to each of the three vehicle assemblers as well as a large number of automotive component manufacturers.

Products manufactured by BlueScope for the Australian automotive sector are manufactured at the company's Western Port plant, located at Hastings (Victoria). The Western Port plant is a steel pickling, cold rolling, metal coating and painting plant which was originally established in 1971 to service the southern manufacturing markets and in particular the automotive industry. At this plant, hot rolled coil manufactured at Port Kembla is transported by rail to Western Port, for processing into products such as COLORBOND® steel and ZINCALUME® steel, and a range of specialised steel products for automotive customers.

The automotive sector is an important market for the Western Port plant and accounts for approximately 20 percent of the total volume of steel produced at the plant. Over many years, BlueScope Steel's Western Port plant has undertaken large investments in order to maintain its position as the only Australian manufacturer of specialised flat steel products for automotive customers. Major investments include approximately $200 million to design and commission metal coating line No.6 (MCL6) at Western Port, a line designed specially to supply the auto sector. BlueScope Steel has also established downstream service centres at Sunshine and Braeside in Victoria, and Wingfield in South Australia, primarily to service automotive customers.

Over the past decade, BlueScope's sales to the Australian automotive sector have risen and fallen broadly in line with changes in the volume of local vehicle production. More recently – and especially since 2006 – BlueScope's sales to the sector have decreased, such that around one-third of the flat steel consumed by Australia's automotive sector is now manufactured by BlueScope. A range of factors has contributed to this decline in sales volume. These include:

- Declining sales and production volumes for vehicles manufactured in Australia;

- Off-shoring of automotive component manufacture;
- Decisions made by BlueScope Steel to not manufacture certain grades of automotive steel. (High levels of capital expenditure and research and development are required to manufacture specialised steel products in what is a small domestic automotive market with a consequent lack of scale economies);
- Decisions by automotive companies to specify an increasingly varied range of steels, again limiting scale economies in steel manufacture; and
- Global sourcing policies and practices by automotive companies, which typically favour a smaller number of global suppliers.

In general, an industry's attractiveness as a location for future investment is determined on the investor's ability to obtain a suitable return. For BlueScope, the ability to obtain a suitable return is inextricably linked to the volume of cars manufactured in Australia and the proportion of local content contained within them. The decline in the number of vehicles manufactured in Australia now means that it is difficult for BlueScope to obtain a suitable return for future investments in research and development, process capability enhancements and new product development. It is particularly challenging where products need to be developed solely for the automotive sector.

BlueScope employs significant technical and R&D experts that work with both vehicle assemblers and component companies to optimise components manufactured from BlueScope's steel products. However, by global standards, BlueScope is a niche supplier to the automotive sector with its range of automotive products limited accordingly. We also rely on channel partners to provide a range of processing and support services.

BlueScope does not currently export automotive steel products from Australia, and exports would necessarily be limited by tariff and non-tariff barriers in automotive manufacturing countries, and by the small scale of our Australian automotive steel manufacturing capability. However, it should be noted that both components and finished passenger vehicles exported from Australia contain steel products manufactured by BlueScope.

Greater export of both finished vehicles and automotive components would be likely to provide enhanced sales, and improved scale and efficiencies for domestic automotive sector suppliers, including BlueScope. This underscores the importance of government initiatives to increase market access and encourage exports by the automotive sector.

Question 2

In examining these factors, take into account the following matters:

- *international automotive industry assistance arrangements, including reporting on and quantifying tariff, non-tariff barriers and budgetary assistance provided by major and emerging automotive-producing countries and the barriers and opportunities for Australian manufacturers and suppliers;*

- *the impact of current workplace arrangements in the industry, domestic industry assistance, government vehicle purchasing policies, the Government's broader deregulation agenda and the taxation environment (noting fair work laws and taxation reform are subject to separate comprehensive review processes); and*

- *the spill-over benefits of the automotive sector, such as technology diffusion.*

There is no doubt that international competitiveness and global integration are essential to the future of the Australia auto sector. While global sourcing arrangements by OEMs can militate against local domestic suppliers, on the other hand, given the relatively small Australian domestic market, access to international markets is very important in achieving scale economies for Australian suppliers.

While tariffs and industry support programs could be considered to increase costs for consumers, in reality their level is modest by international standards, and their effectiveness has been eroded by the high AUD exchange rate and by preferential trade agreements with major automotive manufacturers and trading partners the United States and Thailand.

We are aware that Australia is currently negotiating five bilateral trade agreements (with China, Japan, South Korea, India and Indonesia) and four plurilateral trade agreements (Trans-Pacific Partnership Agreement (TPP), Gulf Cooperation Council (GCC), Pacific Trade and Economic Agreement (PACER Plus), and Regional Comprehensive Economic Partnership Agreement (RCEP).

We are also aware that the new Coalition Federal Government has publicly indicated it wants to conclude FTA negotiations with South Korea and Japan by the end of its first term in government[2], and with China within one year[3].

We recognise the benefits these agreements can offer to Australia as a relatively open trading country, but also the risk of disadvantage to some sectors. Unfortunately, trade in steel products is distorted by the policies of some of our trading partners, such as the high level of subsidies provided by some national governments in our region. In this environment, a realistic and hard-headed approach by Australian trade negotiators is needed, to safeguard the interests of Australian industry.

We believe that transparency in free trade negotiations, including by engaging Australian businesses throughout the process, would help safeguard the balance between national and sectoral interests and better assure widespread benefits of trade agreements.

The automotive industry in Australia is a key driver of innovation and competitiveness and sets the benchmark for many other manufacturing markets. The drive for continuous improvement, new

[2] The Australian, *'Coalition vows FTAs with China, Korea and Japan'*, 3 October 2013
[3] Australian Financial Review, *'Abbott sets China FTA deadline'*, 8 October 2013

product development, innovation and best practice within the automotive industry creates a pull through effect for BlueScope and the customers we supply throughout the manufacturing market.

There are many and varied benefits from the automotive sector that spill over into other areas of both the BlueScope business and, indirectly or directly, through to our customers and suppliers. These can largely be grouped into three areas, process control improvements, research and development stewardship and product innovation.

Process control improvements

Working within the automotive industry increases the level of quality and process control as their standards are often higher than what is required by other segments. The benefits achieved in working at the higher standards in automotive then naturally spill over into other segments

Some prime examples of these process improvements include:

- Improvement of the powdering resistance of ZINCANNEAL® products sold to Toyota, which has facilitated an improvement in powdering resistance across all of our ZINCANNEAL® products range. We are now in a position to challenge and grow our penetration into some of the more difficult to press components currently imported.
- The installation of a new coating mass gauge, which was originally justified to monitor the level of iron in coatings of ZINCANNEAL® sold to Toyota. It has also enabled our production teams to reduce the amount of variation observed in the coating mass of all of our galvanised products. This has facilitated a fundamental improvement in our process control, reducing waste/cost in over-coating, reducing customer complaints for powdering in pressing applications and opening up further opportunities to convert difficult to press components which are currently imported

Research and development stewardship

Similarly, significant improvements and spill over effects have been obtained within research and development teams at BlueScope which has been the result of work completed for the automotive industry.

Key examples here include:

- Techniques developed to investigate the resilience (i.e. formability and subsequent corrosion resistance) of metal coatings in automotive applications that are now being used to assess the performance of “Next Generation” metal coated products which are used in the building industry.
- Equipment and procedures used for the detailed assessment of surfaces on metal coated automotive steels are being applied to a wide range of building products including painted (COLORBOND® steel) materials.
- Automotive design work is very much based around Computer Aided Design (CAD), which requires detailed product information as an input. BlueScope has developed detailed property data around a range of products used for automotive, which has been provided to other industries for development projects as required.

Product innovations

There are many automotive product innovations that have led to spill over effects into other industries.

Some of the product innovations include:

- Work done to localise additional automotive products led to an expansion of BlueScope's ZINCANNEAL® product range from 1.8mm thick to 2.0mm thick. This created the opportunity to provide products into a larger portion of the domestic distribution market which BlueScope had not been able to service previously.
- GalvaformG700 is a unique product designed to suit requirements for GMH which is roll formed locally (by Accurate Profiles) to produce the sill component on the VE/VF Commodore. The success of this product is creating new product opportunities in the building market including high strength decking products.
- The automotive industry is leading the way regarding the control of Substances of Concern. This involves the removal of certain chemicals from products used in manufactured goods. Work conducted for BlueScope's automotive customers has provided insights into how we can modernise some of our oils and passivants to be more compliant with future demands.
- The ability to manufacture a specialised pre phosphate surface treatment coating for Toyota has created further product opportunities to supply chrome free passivated galvanised products, coloured resins, and other functional surface treatments or coatings such as low glare decking, and anti-bacterial and anti-graffiti products required by the building market.

LEAN initiative

A very important example of the automotive industry's influence flowing into other segments is Western Port's recent lean manufacturing intervention. Chase Management (ex Toyota employees) were engaged to facilitate a lean manufacturing program to teach Toyota's manufacturing system and lean philosophy to all employees at Western Port.

It is an ongoing program, involving every employee from operator to managers to contractors, and a total of 630 people will graduate in December 2013 with a nationally recognised qualification in Competitive Manufacturing. The programme delivered $7.6m in bottom line cost savings, 25kt of new business and substantial improvements in productivity.

Particularly challenging customers like Toyota drive manufacturing improvement by constantly lifting the bar. Toyota is Western Port's most demanding customer and they have provided the impetus for our improved performance. The ability to observe and learn about the application in OEM and component supplier's plants of LEAN processes and techniques has provided a platform for BlueScope to continue its journey of LEAN implementation.

Question 3

Taking into account all of the above, identify and evaluate possible alternative public support mechanisms that:

- *improve the long-term profitability, sustainability and productivity of the industry;*
- *facilitate research into, and the development of, innovative alternative vehicle and component technologies by the industry;*
- *contribute to national productivity growth;*
- *promote mutual obligation, accountability and transparency; and*
- *are consistent with Australia's international trade obligation; including:*
- *retargeting of assistance, including within the Automotive Transformation Scheme; and*
- *introducing more internationally-competitive workplace, regulatory and taxation policies;*
- *and identifying any significant transition issues or adjustment costs that may arise from alternative support mechanisms or policy changes and how they might be best managed.*

It is BlueScope's view that there are two key areas on which Government policy should be focused. Any new policies or initiatives should aim to:

- Increase the number of cars manufactured in Australia. It is increasingly difficult for BlueScope to justify future investment in product development and research and development with build volumes around 200,000 cars.
- Increase the local content of cars manufactured in Australia. Whilst we appreciate that WTO guidelines must be adhered to, the economic value of only assembling cars is much lower than fully manufacturing cars in Australia. BlueScope Steel supplies very little automotive steel to overseas components manufacturers. The current focus of Australian vehicle manufacturers to increase local content should be encouraged as it facilitates further product development, improvement activities and provides a platform for a sustainable supply chain.

BlueScope recently investigated the manufacture of two new products for automotive applications; dual phase steels and hot stamped steels. Unfortunately the business case could not be progressed, partly due to poor economies of scale. Despite this, BlueScope continues to expand product portfolios and progress new product developments in cases where substantial capital expenditure and research and development are not required.

Another area of government policy limitation is that BlueScope is no longer eligible to participate in the Automotive Transformation Scheme. This is due to changes in BlueScope's automotive supply chain, and according to the wording of the legislation, steel coils are deemed a 'good in bulk'. Therefore BlueScope is no longer considered by the legislation to manufacture automotive components. This hinders development work and makes it prohibitive in some instances to invest.

BlueScope believes that the activities that we undertake are consistent with the activities that the scheme is designed to support. The majority of products supplied by BlueScope to the automotive industry are automotive specific specialty products that are not made for any other purpose.

We believe any future specialised steel products developed by BlueScope for the automotive industry should be supported under the Automotive Transformation Scheme or its successors. Access to this type of program has historically been a major consideration when BlueScope business cases are being prepared for investment in automotive specific product development.

Specifically, we request that the government reconsider the definition of 'goods in bulk' in light of BlueScope Steel's unique production, supply and development of automotive specific products, in order to allow its participation in this scheme.

Question 4

Assess the significance of the capabilities within the industry, its direct employment and economic benefits, its secondary impacts on other sectors of the economy, and quantify the costs and benefits, including at the economy-wide and regional level, of existing and alternative assistance mechanisms.

Automotive is a key sector for BlueScope Steel. The Western Port plant was designed and built to meet the needs of the southern manufacturing markets and in particular the automotive industry. The ongoing effect of this is that the equipment at Western Port has enhanced manufacturing capabilities, especially when compared to BlueScope's plants at other locations.

As a result of its automotive capabilities, the Western Port Plant supplies many specialist products to the broader building and manufacturing industries which can only be manufactured at this location. For example, greater widths of steel can be manufactured at Western Port than at BlueScope's other plants. This includes pickled, cold rolled and galvanised steels up to 1550mm wide, where other plants and equipment are limited to 1250mm wide. This has benefits in enabling Western Port to supply steel for products such as air conditioning, pipes, gas tanks and hot water system cylinders.

BlueScope's steelmaking facilities at Port Kembla, New South Wales and Western Port, Victoria are significant contributors to the regional communities within which they operate. BlueScope employs more than 3,000 people in the Illawarra region and approximately 600 people in the Mornington Peninsula region. Both plants are integral parts of these communities and utilise substantial amounts of local services; supporting and drawing on local business activities and services.

In the absence of an automotive industry, it is likely that BlueScope will increase its exports of commodity grades, such as hot rolled coil produced at Port Kembla. The further value-adding carried out by BlueScope and in particular at Western Port, and the local automotive supply chain will be lost to Australia if this does not continue.

Conclusion

Automotive is a key industry for BlueScope. Not only does it support the critical mass at our Western Port plant, it drives spill over benefits and improvements across a number of products plants, and industries. It provides a key impetus for change management, improvements in process controls, research and development, product stewardship, product innovations and LEAN initiatives. Further, it creates jobs and investment, especially in regional areas.

We look to the Government to continue to support the Australian automotive industry through its policy development. These policies should be designed to stimulate demand, increase local car manufacture and support local content programs. Further, innovation and investment programs and supportive trade policy would greatly assist in ensuring the continued viability and future of Australia's automotive industry.