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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001662

To: Minister for Industry and Science (For Information only)

WHYALLA STEELWORKS - UPDATE AND NEXT STEPS

Timing: Routine

Recommendation:			
s 34			
Noted / Please Discuss			
Minister: Date:			
Comments:			
Clearing Officer:	Lucas Rutherford	General Manager, Industry Policy	Ph: s 22 Mob: s 22
Contact Officer:	s 22	A/g Manager, Industry Investment and Transition	Ph: s 22 Mob: s 22
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Key Points:

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Worker and community support

3. DISR and the Department of Workplace Relations (DEWR) are working closely with SA Departments of State Development and Premier and Cabinet to identify the roles and potential gaps in Commonwealth and SA programs and services available to support affected workers and the community in Whyalla.

4. This gap analysis will inform on-the-ground activity now occurring by employment facilitators from Workforce Australia through the Local Jobs Program, AusIndustry's Regional Manager, and SA, and form the basis for any future Commonwealth and SA community and worker support packages and delivery mechanisms.

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Engagement with South Australian Government

9. We are continuing to work closely with the South Australian Government, meeting regularly at a working level with the SA Steel Taskforce and at senior levels with the Department of Premier and Cabinet.

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Sensitivities and Handling:

10. Recent positive developments on the restart of the blast furnace and offer of a $150 million loan facility appear to have eased the immediate risks of external administration. GFG's Whyalla-based businesses nonetheless remain under financial pressure, with future negative events due to financial distress or asset failure seemingly inevitable in the medium-to-long term. There have also been recent reports of GFG extracting funds from its Australian operations to support its global business. Attachment A: Background provides more detail.

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12. We are therefore acting now to:

    a. commence the process to identify and onboard an insolvency adviser to inform our understanding of the insolvency risks and implications for GFG globally and domestically, and options available to Government in response.

    b. continue contingency planning to ensure that we are well-placed to activate the bureaucracy and Ministerial offices should a trigger event occur over the December/January shutdown period, including the scoping of a potential interdepartmental Taskforce and procurement processes for external advisors.

13. There continues to be considerable media attention provided to GFG's domestic and international issues. Senator Lambie asked if the Government will ensure that steelmaking continues in Whyalla during Question Time on 26 November.

14. We will continue to provide your office with weekly updates on GFG and the Steelworks.

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Data referenced: N/A

Consultation: YES

15. Finance, DEWR, DFAT, EFA, Treasury, DITRDCA, NZEA, DCCEEW, Business Grants Hub, AusIndustry, Industrial Net Zero Transformation Branch, Strategic Policy Division.

Attachments:

A: Background

B: Path forward on ERC outcomes

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ATTACHMENT A

BACKGROUND

Update on GFG and Whyalla Steelworks

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- The blast furnace at the Steelworks is understood to now be operational, having been offline since 19 September. Steelmaking is understood to have commenced on 2 December, with the rolling mill expected to recommence operation in the week commencing 9 December.

- GFG announced on 19 November that it had negotiated A$153 million (US$100 million) funding "offer" from an unnamed international source. While a positive step, risks remain that the facility will not complete or be delayed.

  - We understand that the "offer" has been made to Tahmoor Coal (which is part of the Liberty Primary Metals Australia group alongside the Steelworks and Whyalla-based iron ore mines) and secured against Tahmoor Coal assets, with GFG stating that funding is to be completed by the end of the year.

  - GFG has stated that "part of the proceeds will be used to provide critical capital into the Whyalla steel and mining operations to support its suppliers, employees and the ongoing maintenance work at its blast furnace".

- In recent weeks, various parts of the supply chain have suspended services in Whyalla.

  - Diesel provider to GFGs iron ore mines stopped delivering diesel.

  - Since mid-October, Goldings contractors at iron ore mines have been on-site, but not working, as part of ongoing negotiations around payment of debts outstanding.

  - Aurizon (since late-October) and Pacific National (since mid-November) have halted some rail haulage services between the mines, Steelworks and port.

  - CSL, provider of transhipment services at the Whyalla Port, suspended ongoing services two weeks ago, but is providing services upon pre-payment.

- There have also been recent reports of GFG extracting significant funds (up to $430 million to date) from its Australian operations, including the Steelworks, to service intercompany loans across its global group.

  - *The Australian* is expected to report on 4 December, evidence of GFG extracting a further $342 million this financial year.

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- As at the week beginning 18 November, outstanding payments to Steelworks creditors to South Australian based suppliers have risen again to around $73 million, with roughly $40 million overdue (+30 days). This remains higher than normal, with historic levels averaging around $50 million owing, with $10 million overdue.
  - South Australia's Small Business Commission is re-engaging with affected SMEs in the region seeking support with non-payment by GFG.
    - The SASBC were supporting around 10 SMEs in the region during October, which GFG made good earlier this month. SASBC reports that non-payment by GFG to local SMEs is now increasing again (more than 10 cases, significant amounts).
- There will be a disruption in gas supply to the Steelworks in end January/ early February due to planned maintenance by Epic Energy. GFG is working with the gas supplier and SA government on the approach to managing this outage.
- Globally, GFG is continuing to face significant financial and legal risks.
  - On 26 November, the UK High Court appointed an administrator to Liberty Steel East Europe (Holdco) – a holding company for a cluster of entities controlling six of Mr Gupta's eight continental European steelworks.
    - : GFG has stated that "this legal process is at a holding company level and has no effect on any of our operations or production."
    - : The appointment follows GFG's failure to pay a €140 million (A$225 million) debt to ArcelorMittal, following a High Court judgement in February 2023.
  - On 20 November, a winding up hearing for Specialty Steels UK, a subsidiary of Liberty Steel, was adjourned pending the outcome of a vote on a restructuring plan.
    - : UK Business and Trade has confirmed that closure of Specialty Steels UK would affect 75% of GFG's UK workforce.
- The UK High Court has previously given GFG until 13 January 2025 to complete debt repayment talks with White Oak Global Advisors over almost $US200 million ($300 million) owed by UK-based Liberty Commodities.
  - White Oak has stated that it will not consent to any further adjournment and will seek to wind-up Liberty Commodities if a repayment plan is not settled by that date.
- Previous work by Poynton Stavrianou for the department did not establish a direct linkage between these companies and operations in Australia, but this escalation in activity does indicate continued extreme financial distress in GFGs European assets.
  - Each of these, if not resolved favourably for GFG and Mr Gupta, have the potential to have knock-on impacts to the rest of the group, including Australia, through cross guarantees and cross default provisions. The level of risk of contagion to Australian assets is not clear however due to the complex and opaque nature of GFG.

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- Workforce Australia has an existing employment facilitator in the region that is providing on-the-ground workforce support for all workers recently made redundant in Whyalla, whether from GFG, its suppliers or other businesses.
- The AusIndustry Regional Manager is working with RDA Eyre Peninsula and Tactic to provide on-the-ground support to affected supply chain businesses. Over 100 people attended a Tactic event in Whyalla on 14 November.

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001384

To: Minister for Industry and Science (For Decision)

WHYALLA STEELWORKS SUBMISSION: APPROVAL TO RELEASE COORD DRAFT

Timing: Urgent. Approval to release the submission for coordination draft comments by s 47C is required to ensure the submission can be lodged for the s 47C PDC.

Recommendation: That you:

1. **Approve** your Whyalla Steelworks submission to be circulated for coordination comment and/or lodged as final s 47C on CabNet and at Attachment A).

Approved / Not approved

Minister: Date:

Comments:

Clearing Officer:	Tara Oliver	Head of Division, Industry & Manufacturing	Ph: s 22 Mob: s 22
Contact Officer:	Lauren Hann	A/g General Manager, Industry Policy	Ph: s 22 Mob: s 22
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Key Points:

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2. The submission has been brought forward for consideration at PDC on s 47C (rather than s 47C as originally scheduled). Depending on how quickly the submission is settled, and agreement between your Office and the Cabinet Secretary's Office, there may be a need for the submission to go directly to final lodgement.

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8. The Department will continue to work closely across government and with the SA Government to monitor and develop options for a potential response.

Sensitivities and Handling:

9. All scenarios come with risk to government and the community. There will be an expectation of government support. Closure of the steelworks would lead to questions of the viability of the regional transition, the Government's commitment to the steel industry, and would have a significant economic and social impact on the community.

10. There are several related processes underway across government that may influence outcomes, including:

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Data referenced:

11. The submission references a wide range of data, much of which has been compiled by Analysis and Insights Division and/or drawn from information from the SA Government.

Consultation: YES

12. South Australian Government. DISR: Minerals and Resources, Analysis and Insights, Supply Chains and Sovereign Capability, Strategic Policy. Prime Minister and Cabinet (including NZEA), Treasury, Finance, Department of Employment and Workplace Relations, Department of Climate Change, Energy Environment and Water, and Department of Infrastructure, Transport, Regional Development, Communications and the Arts.

ATTACHMENTS

A: Whyalla Steelworks submission

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001289

To: Minister for Industry and Science (For Decision)

WHYALLA STEELWORKS

Timing: URGENT

Recommendations:

1. **Note** the increasing risk that Whyalla Steelworks will enter administration in coming months, and likelihood of a request for Commonwealth support.

Noted / Please discuss

2. **Agree** that we continue to work with SA on their planning, and come back to you with a handling strategy based on possible scenarios.

Agreed / Not agreed

s 47C

Minister: Date:

Comments:

Clearing Officer:	James Flick	General Manager, Industry Policy Branch, Industry & Manufacturing Division	Ph: **s 22** Mob: **s 22**
Contact Officer:	**s 22**	Manager Industrial Investment and Transition	Ph: **s 22**
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Key Points:

1. The Whyalla Steelworks is facing increasing financial pressure. **s 47C**

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2. While the Steelworks has faced several periods of uncertainty in recent years (see Attachment A – Background), the current situation is higher risk.

   a. Debts are significantly higher. GFG's South Australia (SA) businesses owe creditors around $180 million – impacting its ability to secure new goods and services. $74 million of this relates to local Whyalla suppliers, which is impacting the viability of these local businesses and causing related redundancies.

   b. GFG is "reducing all non-essential spending and prioritising areas that are safety critical and essential for production"[1] in the context of a market downturn. 116 new contractor cuts have also been announced in the associated mining operations.

   c. There is continued risk of operational failure, with reports of reduced preventative maintenance on the ageing blast furnace, planned and unplanned shutdowns, and periods of 'hot idle'. Safety concerns have been raised in the media. DEWR is aware of these and is liaising with SafeWork SA.

   d. Bluescope stepped in to assist GFG in repairing the Whyalla blast furnace when it was out of operation March to July 2024. Bluescope also supplied coking coal to GFG earlier this month so that operations could continue when a shipment from China was delayed.

   e. In comparison to previous periods of uncertainty (e.g. 2021 Greensill Capital collapse), lower commodity prices reduce GFG's ability to cross-subsidise the Steelworks with its associated SA mining operations.

3. s 47C

   a. SA estimates the Steelworks is running at losses of just under $1 million per day.

   b. Bruce Carter AO, prominent businessperson, Chair of the Australian Submarine Corporation and Chair of the SA Steel Task Force since 2016, is advising SA and preparing advice on response in the case of a voluntary administration process.

   c. We understand that the SA Premier has also discussed this with the Prime Minister.

4. Closure would have a significant impact on the Whyalla region, with around 25% of the workforce reliant on the Steelworks that directly employs 1,100 people. And development of the Upper Spencer Gulf is a priority for both governments, with close connections to Commonwealth priorities.

[1] ABC News 10 September 2024 https://www.abc.net.au/news/2024-09-10/safety-concerns-raised-at-whyalla-steelworks/104329310

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Role for Commonwealth and next steps

5. Any Commonwealth response will be collaborative (including SA and NZEA), involve expert insolvency, commercial and legal advice, and balance crisis support, value for money and long-term outcomes in the region.

6. The department is leading development of a Commonwealth handling strategy and policy options that could respond to different administration scenarios alongside:

s 47C

7. s 47C

   a. In the first instance, SA estimates that any administrator would likely require immediate funding (for example a substantial line of credit or underwriting) to maintain any operations until a buyer can be found.

   b. In the longer term, significant government investment is likely required to support negotiations with a potential buyer and transform the region to support more sustainable operations, consistent with NZEA's planning.

Sensitivities and Handling:

8. Engaging directly with GFG comes with significant risks and is not recommended (see Attachment A - Background).

9. Negotiating with an administrator (and a future owner) is likely to be a more transparent process, but administration would see a period of significant risk and uncertainty for steelmaking and employment in the region with the possible closure of all or part of the Steelworks.

Data referenced:

10. Data on financial situation provided by SA Government Steel Taskforce.

Consultation: YES. PM&C; Treasury; DEWR; DCCEEW; NZEA; SA Department of Energy and Mining.

ATTACHMENTS

A: Background

B: Whyalla Steelworks one page overview