

## DEPARTMENT OF THE PRIME MINISTER AND CABINET

PM&C  
Secretary  
Mr Duggin  
Ms Wilson  
Ms Hartmann  
Mr Poels  
S22

To: Prime Minister

### GFG ALLIANCE 'BIG EVENT' ON WHYALLA TRANSFORMATION PLAN

<b>Purpose:</b> Mr Sanjeev Gupta, Executive Chairman of GFG Alliance, will present GFG Alliance's Whyalla Transformation Plan.	<b>Timing and Venue:</b> 10 December 2018 – timing TBC. Ada Ryan Gardens, Whyalla
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PMO  
Dr Kunkel  
S22

#### Our Proposed Objectives:

- The Commonwealth and South Australian Governments have told GFG Alliance (GFG) we will only consider what support (including funding) to provide when GFG provide details of their Whyalla Transformation Plan (the Plan). Without access to business models and feasibility studies, the Commonwealth will be unable to assess the long-term commercial viability of the Steelworks.

#### Their Objectives:

**(Biography is at Attachment A)**

- GFG are expected to ask for financial support the Plan and could put you on the spot. We expect GFG will emphasise the difficult long-term financial position of the Whyalla steelworks, which in global terms is a high-cost producer (steelmaking cost curve is at Attachment B).

#### Key Points:

- Modest improvements in global steel prices recently suggest Whyalla Steelworks is unlikely to close in the short term, but the longer-term viability of the Whyalla Steelworks remains uncertain.
- GFG estimates the capital cost of its Plan will be in excess of \$1 billion which is not limited to the steelworks and may include mining, electricity generation and storage, and port operations (details of the plan are at Attachment B).
- GFG indicated it would seek support from the Commonwealth and South Australian Governments to fund the entire investment. Both governments have said this is not possible, but have committed to exploring options. We expect GFG will come back to Governments with a firm ask for support around February/March 2019.
- The Commonwealth and South Australian Governments have for many months requested GFG's business models and other information to assess the commercial viability of the Plan and consider potential support options. To date, GFG has not provided sufficient information to undertake due diligence.
- There are concerns about GFG's wider financial position and its ability to fund the number and scale of acquisitions which have been made since early 2017. The GFG companies are privately owned so it is hard to get a picture of their financial performance. There has also been a lack of financial transparency on the part of GFG, making it difficult for Government to determine the financial viability of the Steelworks and the broader Whyalla Transformation Plan.

- As GFG purchased Arrium unconditionally, the Commonwealth Government is not obliged to provide any further support.
- However, both Governments have indicated it would work with GFG to consider options to support the long-term viability of the Steelworks (see joint media release at [Attachment C](#)).

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**Sensitivities**

- A recent article in the Australian Financial Review stated QBE is slashing the level of trade credit insurance cover it provides to some suppliers of the Steelworks following concerns about a lack of financial transparency around GFG Alliance ([Attachment D](#)).
- This article reflects the increasing concerns, both locally and internationally, about the wider GFG financial position and reinforces the need for Government to have access to detailed financial and strategic planning information for GFG before making any decisions on potential support.

**Background:** **(Further information is at [Attachment B](#))**

- On 1 September 2017, GFG announced it had completed the acquisition of the Arrium Group. The sale was approved by the Foreign Investment Review Board (FIRB) and Arrium’s Committee of Creditors.
- The Commonwealth Government has already provided substantial support to the Whyalla Steelworks and mining operations, and the wider community. This support included:
  - a \$49.2 million loan through the Export Finance and Investment Corporation (Efic) to upgrade Arrium’s iron ore operations near Whyalla, which was repaid when GFG purchased the assets;
  - purchasing steel from the Whyalla Steelworks to upgrade 1,200 kilometres of rail between Adelaide and Tarcoola; and
  - \$20 million in funding for the Upper Spencer Gulf region through the Regional Jobs and Investment Packages (RJIP) to diversify the economy, stimulate long term growth and provide sustainable employment. Four grant recipients were from Whyalla.
- On 21 November 2018, Martin Parkinson met with Mr Mark Scholem, Business Development Manager at GFG Alliance Australia, to discuss the progress of the Whyalla Transformation Plan.

Helen Wilson  
First Assistant Secretary  
Industry, Infrastructure and  
Environment  
6 December 2018

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NOTED:
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Date: \_\_\_\_\_

**ATTACHMENT A**

**BIOGRAPHY**



**Mr Sanjeev Gupta**

*Executive Chairman - GFG Alliance (worldwide)  
CEO and Chairman – GFG Alliance Australia*

Mr Gupta is the son of prominent Indian industrialist P.K Gupta. He was educated in the UK and graduated with a Master of Arts in Economics and Management from the University of Cambridge.

He established Liberty House Group in 1992, while still an undergraduate, initially as a commodities trading business focused on Africa. Over the next 20 years the Liberty House Group grew to become a global trading and supply chain specialist in steel and non-ferrous metals. Since 2013, he has led the company’s transformation from a trading house to a metals manufacturing, engineering and distribution business.

In 2015, in conjunction with his father’s business, SIMEC Group, Mr Gupta oversaw the creation of the GFG Alliance to bring together the Gupta family’s business interests.

## BACKGROUND

### Whyalla Transformation Plan

GFG advises its Whyalla Transformation Plan is expected to structurally improve the operational and financial performance of the Whyalla Steelworks and associated iron more mining operations. At a high level, the proposed Transformation investments include:

- Reduction of ferrous feed costs for the Whyalla Steelworks through investments in feed preconditioning, utilising latest technology;
- Improvements in energy efficiency at the Whyalla Steelworks through investments in co-generation and the capture of process off-gases;
- Targeted modernisation and capacity upgrade investments across the Whyalla Steelworks and the rolling mill utilising latest technology; and
- Investments to increase production at the Whyalla Steelworks by approximately 50 per cent to 1.8 million tonnes per year, also widening the product offering of the Steelworks and opening up high margin domestic and export markets including the global operations of the GFG Alliance.

GFG has also flagged their long-term goal is for a new 'Mega Plant' with steelmaking capacity of 10 million tonnes. This new plant would complement existing facilities.

GFG is currently in the process of developing the detail for specific Transformation projects, including business models and feasibility studies.

### Renewable Energy Investments

Renewable energy and storage technologies are an important part of GFG's plans for their Whyalla operations. Mr Gupta has described renewable power as the "ultimate liberator" to energy-intensive industries like the Whyalla steelworks.

GFG announced in 2017 that a \$700 million solar, battery and pumped hydro project would be used to power the steelworks. ARENA funding of \$500,000 was provided to support SIMEC Zen Energy (majority owned by GFG member SIMEC Group) to conduct a pumped hydro feasibility study.

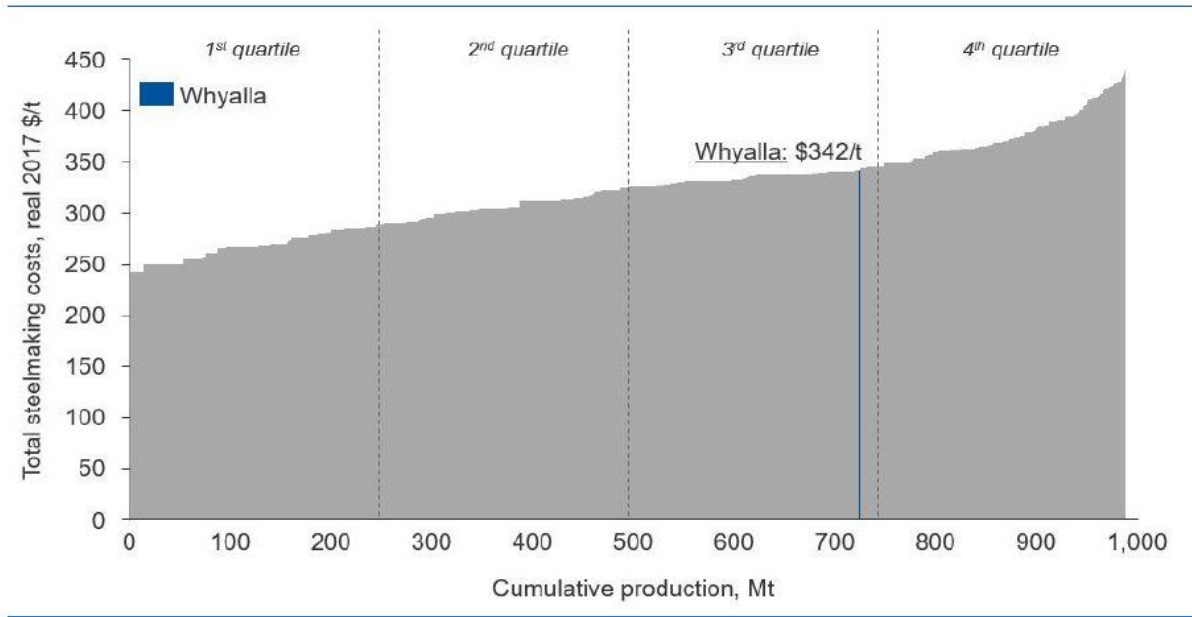
SIMEC Zen Energy also expects to begin construction of the Cultana solar energy project which encompasses 780,000 solar panels near the revived Whyalla steelworks early in 2019. This is the centrepiece of a \$US1 billion investment program by SIMEC Zen Energy in Australia.

### 'Big event' – Whyalla Transformation Plan launch

The event will be held in the Ada Ryan Gardens and is planned as a 90 min session which will be split into three distinct sessions.

The first session will be about the Transformation project as discussed with you last week in Adelaide; the second session will be from the Whyalla Council on specific projects planned in the community; and the final session will be about the 'Mega Plant' concept.

### Steelmaking cost curve (2020 forecast)



**Joint 2017 media release**

**Senator the Hon Michaelia Cash**

ACTING MINISTER FOR INDUSTRY, INNOVATION AND SCIENCE  
SENATOR FOR WESTERN AUSTRALIA

**The Hon Tom Koutsantonis MP**

TREASURER  
MINISTER FOR FINANCE  
MINISTER FOR STATE DEVELOPMENT  
MINISTER FOR MINERAL RESOURCES AND ENERGY

22 December 2017

**WHYALLA TRANSFORMATION PLAN WELCOMED**

The Australian and South Australian Governments today welcomed GFG Alliance's (GFG) announcement of a final concept plan to transform the Whyalla Steelworks in South Australia.

Australian Government Minister for Industry, Innovation and Science, Michaelia Cash, and South Australian Minister for Mineral Resources and Energy, Tom Koutsantonis, said GFG was committed to investing in its Whyalla operations and that the finalisation of the concept plan was an important step towards securing the future of the Whyalla Steelworks.

Both governments will be working closely with GFG in the months ahead to discuss transformation projects that would benefit from potential government support.

"A strong and sustainable outcome for the Australian steel industry and the workers at Whyalla is what we are working towards," Minister Cash said.

Minister Koutsantonis said GFG's Whyalla Transformation Plan had many benefits for the Whyalla community and South Australia.

"The South Australian Government has already included \$50 million in our current budget to support the Whyalla Transformation," Minister Koutsantonis said.

The Australian Government has also financed the instalment of new beneficiation equipment at the Whyalla operations through a completed loan of \$49.2 million. The Export Finance and Insurance Corporation and the Clean Energy Finance Corporation will also consider potential financing for projects that meet their eligibility requirements.

The Australian and South Australian Governments will continue to work constructively with GFG to explore potential options to support the Whyalla Transformation Plan and ensure a sustainable, and globally-competitive steel industry in Whyalla for the benefit of the local community, South Australia and the nation.

## **QBE reduces trade cover to suppliers of Gupta**

*Australian Financial Review*

*2 December 2018*

**London** | One of Australia's biggest insurers, QBE, is slashing the level of trade credit insurance cover it provides to some suppliers of Sanjeev Gupta's Australian steel operation following concerns about a lack of financial transparency around the industrialist's GFG Alliance.

Mr Gupta's international metals, manufacturing and energy conglomerate rescued Arrium, a collapsed steel and mining business, last year in a \$700 million deal.

The British entrepreneur has gone on to win plaudits in Australia with promises of more big investments in the country, ranging from renewable energy projects to electric vehicle production.

But questions have arisen about funding and strategy of the GFG Alliance, a collection of Gupta family interests including the Liberty House brand, which has rescued several steelworks and manufacturers in the UK. GFG has expanded rapidly by acquisition in the past few years to reach \$US15 billion (\$20.4b) in annual turnover, with a presence in more than 30 countries.

In mid-November, QBE wrote to suppliers of Arrium, since renamed Liberty OneSteel, warning that insurance cover was dependent on Mr Gupta's business providing full financial information on the wider GFG group and parent company.

Trade credit insurance policies guarantee that suppliers receive money owed for goods and services in the event of non-payment, up to a certain limit.

QBE told suppliers it had repeatedly requested information on the wider GFG group, warning that if this information was not forthcoming it would withdraw cover on November 30, according to a person with knowledge of the situation.

The insurance group has now told some suppliers that while it had met Mr Gupta's team and GFG had provided additional information as requested, its Global Credit Committee has decided that it is unable to continue providing full support beyond the November 30 deadline.

One person with knowledge of the situation said that QBE was reducing cover but was in talks with its key customers "to find a solution without completely withdrawing" unilaterally. Another person said that cover was being suspended for two weeks for some smaller suppliers, but that it was intact for major suppliers.

QBE declined to comment.

A Liberty House spokesperson said: "Our team in Australia has been in touch with QBE there and we have been assured that cover has not been withdrawn. We held one of our regular

briefings for all the top underwriters in London yesterday and received very positive feedback from them."

One insurer present at the meeting described it as "positive".

"People asked questions and got answers. Nobody left with any negative connotations," they added.

Companies use credit insurance to help manage their working capital and the risk of non-payment at home and abroad. Even if a company is profitable and performing well, some suppliers will not offer credit on goods and services without insurance and may demand payment upfront.

Unlike a conventional corporation, GFG Alliance does not publish consolidated accounts, since rather than a single legal entity it is a loose coalition of independent businesses owned by Mr Gupta's family.

However, its opaque structures have led to growing scrutiny from stakeholders such as suppliers, financial institutions and trade unions, keen to understand the extent of financial interconnections between GFG companies.

Recent press reports have suggested that another trade credit insurer, Euler Hermes, had entirely withdrawn cover from Liberty House, which operates a number of steel and manufacturing businesses.

According to three people with knowledge of the situation, Euler Hermes had never provided cover to the majority of its UK operations. Rather, there were "a few small residual policies" running off, said one of them.

Euler Hermes declined to comment. Liberty House said that cover written on its UK steel and industrial group had increased fivefold to £200m (\$348.7m) in the past 18 months.

"To our knowledge there have been no credit insurance claims by Liberty suppliers," it added.