

BOULDER STEEL LIMITED

A.C.N 009 074 588

Address: Level 2, 16 Byfield Street, Macquarie Park, NORTH RYDE NSW 2113

Tel: (+ 61 2) 9413 1811 Fax: (+ 612) 9419 2818

Postal: PO Box 1293, Macquarie Centre, NORTH RYDE NSW 2113, AUSTRALIA

Web: www.bouldersteel.com.au Email: admin@bouldersteel.com.au



10 August 2011

Committee Secretary
Senate Select Committee on Scrutiny of New Taxes
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam,

Thank you for providing us with the opportunity to make comment to the Senate Select Committee Inquiry into Carbon Tax Pricing Mechanisms.

Boulder Steel Limited is an Australian listed company, which proposes to develop and build a steel plant with an annual production capacity of 5 million tonnes near Gladstone, Queensland.

Our proposed plant will be 100% export oriented and a significant carbon dioxide emitter. We therefore have a keen interest in carbon policy and carbon dioxide emissions pricing mechanisms in particular.

Thank you again for the opportunity to provide comment on this very important matter.

Yours sincerely,
Boulder Steel Limited

Carl U. Moser

Executive Director and General Manager

Submission by Boulder Steel Limited: Inquiry into Carbon Tax Pricing Mechanisms.

Boulder Steel Limited welcomes the opportunity to provide comment to the Inquiry into Carbon Tax Pricing Mechanisms.

Boulder Steel Limited ("Boulder Steel") is an Australian publicly listed company, which proposes to develop and build a steel plant, using blast furnace technology, capable of producing 5 million tonnes per annum of steel slabs and billets for export to Asian markets. The project will create up to 2000 jobs during the construction phase and 1800 long-term operational jobs once in full production. It will add approximately \$175 billion to Australia's Balance of Payments over the planned 50-year lifetime of the plant. Boulder Steel is also committed to sponsor local training and skilling organisations.

The proposed steel plant will use the most advanced technology to be cost effective and to generate less carbon dioxide emissions as waste heat and off-gases would be converted to electricity and waste slag would be used in the cement industry.

Boulder Steel's Gladstone Steel Plant Project will be responsible for around 9.51 million tonnes of greenhouse gas emissions per annum (CO₂-e pa), after allowing for credits for electricity generation against coal fired power generation. This compares favourably with the emission rates from the Port Kembla and Whyalla integrated steel plants.

The Australian government's recently released carbon tax policy retained the principles of the CPRS scheme for emission intensive, trade exposed industries (EITE), originally dated 29 November 2009. Under this scheme, 94.5% of free-issue permits are granted in the first year (2012/13), declining by 1.3% for each subsequent year. From 2016 onwards, there will be an increase of free-issue permits by 10% per annum.

Carbon Leakage Issues

The major competitors of Boulder Steel's proposed steel plant are located in jurisdictions that do not impose a carbon tax or similar penalty on carbon dioxide emissions. Since many of these jurisdictions do not have the high environmental standards applicable in Australia and their steel plants do not have the environmental benefits of electricity generation and cement additive production from waste, the actual global impact on carbon dioxide emissions of building an equivalent plant elsewhere might be negative.

There is unmet demand for Boulder Steel's future steel production in the Asian region and steel plants in other parts of the world would meet that demand, regardless of their environmental credentials.

Carbon leakage is not consistent with the ultimate goal to reduce carbon dioxide emissions on a global scale.

While the announced carbon tax pricing mechanism provides some relief to EITE industries such as the proposed Gladstone steel plant, the annual decline of free-issue permits is a major concern to the project.

Annual decline of free-issue permits

Boulder Steel disagrees with any arbitrary annual decline of free-issue permits unless linked to similar carbon dioxide reduction programs in competing jurisdictions. This decline is particularly inappropriate for a steel plant built with best practice energy and greenhouse gas abatement practices. Arbitrary decline rates do not take into account action in relation to carbon dioxide emissions (or the lack thereof) on a global level. This may quickly lead to major carbon leakage issues as major investment decisions will take into account loss of profitability in the long term. As there is currently no firm commitment in competitor economies with regard to the reduction of carbon dioxide emissions, it cannot be readily assumed that investors and companies factor in future action in these countries.

Recommendations

- Boulder Steel considers that its Gladstone project should be exempted entirely from the proposed Carbon Tax, until it is imposed in competitor economies, for two reasons:
 - This plant is dedicated to 100% export semi-finished steel in direct competition with competitor economies that currently impose no carbon taxes on their steel industries. This is in contrast to the other two integrated steel plants in Australia who export < 50% of their production.
 - This plant will be built to best practice standards of greenhouse gas emissions.
- Boulder Steel supports government action that maintains the competitiveness of the Australian steel industry, especially where carbon leakage would be a result of the Carbon Tax Pricing Mechanisms. An annual decline of free-issue permits should only be imposed if competitor economies show similar action on carbon dioxide emissions.
- The Australian government should encourage new development in steel making technologies, which aim at lowering carbon dioxide emissions by exempting that part of the operations from carbon dioxide pricing altogether.