



BlueScope Steel Limited

ABN 16 000 011 058

11/120 Collins Street

Melbourne VIC 3000

PO Box 18207

Collins Street East

Melbourne VIC 8003

Telephone +61 3 9666 4000

Facsimile +61 3 9666 4111

www.bluescope.com

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Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600
Email: committee.sen@aph.gov.au

Dear Senators

Senate inquiry: The future of Australia's steel industry

Thank you for the opportunity to make a submission to the Senate Economics References Committee's inquiry into the future of Australia's steel industry.

In this submission we have addressed the terms of reference of the inquiry:

- a) the future sustainability of Australia's strategically vital steel industry and its supply chain; and
- b) any other related matters;

with particular emphasis on the areas of public policy in which we believe the Federal Government and Parliament can have the most impact on the competitiveness and sustainability of the industry; namely trade policy, and climate change & energy policy.

Executive summary

BlueScope's goal is to have sustainable businesses in Australia that generate sufficient cashflow and return for investors to support reinvestment.

In an open market with low trade barriers, the only way to achieve this goal is to have a cost structure that is competitive with imported steel, and with steel producers in major export markets. Historically, it is only when our Australian businesses have been internationally competitive that they have been successful and attracted reinvestment.

There are three broad ways in which public policy can support this goal; by:

- Helping to grow domestic and international markets, both through broad economic policies that boost aggregate demand, and through specific policy actions such as innovation policy, trade agreements and government procurement. Boosting demand for steel increases revenues, utilisation and scale economies in our manufacturing businesses;
- Reducing government-imposed regulatory costs, particularly in relation to energy, environment, transport & infrastructure, and taxation costs, each of which are important components of our cost base over which public policy can have a major impact; and
- Providing swift remedies to counter unfair imports and ensuring compliance with Australian standards.

If senators and members of Parliament decide that a domestic steel industry is a worthwhile industry for the country to maintain, this should be reflected in their overall approach to public policy, and in the way that individual policies are framed.

The two most important policy areas in which we believe the Federal Government and Parliament can have an impact on the competitiveness and sustainability of the Australian steel industry are trade policy, and climate change & energy policy.

BlueScope supports 'free and fair' trade – the lowering of tariff and non-tariff barriers within a rules-based trading system – and we recognise the economic benefits of bilateral and multilateral free trade agreements. The concept of 'fair' trade includes adherence to Australia's World Trade Organisation-compliant anti-dumping laws, as well as WTO-compliant policies to support the development of domestic industry.

As a multinational, with manufacturing operations across the Asia Pacific and with transfer of Australian IP to over 50 markets, the company is affected by international trade and investment flows, non-tariff barriers, trade policy changes and domestic regulatory reform resulting from trade agreements.

Free trade agreements should provide a framework for a freer and fairer trade environment with trading partners, ensuring that BlueScope, and other Australian steel producers, can continue to grow and innovate in new market and product development, without injury caused by a surge of imports from a saturated global steel market.

Key concerns for BlueScope in bilateral and plurilateral trade agreements include: maintenance of anti-dumping rights; staged tariff reductions for sensitive steel products; rules of origin; mechanisms to address subsidies and non-tariff barriers; product standards; and harmonisation of intellectual property arrangements.

An effective anti-dumping system is a key element of the 'rules-based' international trade order, and important in underpinning support for trade liberalisation amongst manufacturers, their employees, unions and other stakeholders.

BlueScope appreciates the improvements to Australia's WTO-compliant anti-dumping system made by both the Coalition and ALP, with the support of minor party and independent Senators. These legislative changes, together with the establishment and resourcing of the Anti-Dumping Commission (ADC), have led to significant improvements in the effectiveness of Australia's anti-dumping system.

However, further changes are needed to ensure Australia's anti-dumping system is effective in redressing the injury caused by dumping. These include: more effective dumping duties; improved verification of exporter data; speeding up certain investigations; wider use of retrospective duties; limiting extensions of time; and improved transparency in the process for determining that domestic and imported goods are 'like' goods.

We support measures to reduce greenhouse gas (GHG) emissions on a global basis, in line with the commitments in the United Nations Framework Convention on Climate Change (UNFCCC).

However, policy to achieve Australia's emissions targets must not be 'one size fits all'. It must take account of our national circumstances and the differing technical and financial capabilities of each sector to reduce its emissions, as well as the sources of each sector's trade competition.

Imposition of a domestic carbon price on the steel industry without effective shielding, or an equivalent tax on imports and a rebate for exports, would harm our international competitiveness.

About BlueScope Steel

BlueScope Steel Limited (hereafter 'BlueScope' or 'the company') is an ASX100 company. It is Australia's largest steel manufacturer and its only flat steel producer.

BlueScope employs approximately 7,500 people in Australia, and a further 8,500 overseas. The company has operations in every mainland State, and is responsible for the employment of thousands more contractors and suppliers. BlueScope has an annual steel production capacity in Australia of 2.6 million tonnes and exports approximately 800,000 tonnes per annum to a range of markets including the United States, Thailand, Vietnam, the United Arab Emirates, Malaysia and Singapore.

The company's key focus is on higher value, branded products for the building & construction industry. Products manufactured by BlueScope in Australia include steel coil and plate, galvanised steels, and a range of coated and painted steel products. The company's well-known brands include COLORBOND® steel, ZINCALUME® steel and the LYSAGHT® range of steel building products.

Steel coil and plate products are sold to a range of manufacturers who convert them into products such as structural steel sections, girders and beams, fabricated structures, machinery, defence and transport equipment.

Coated and painted steel products are typically sold to the building & construction sector, often undergoing further processing by these customers. The Lysaght business rollforms and supplies a range of products, including roof and wall cladding, steel house framing, rainwater products, fencing, structural products such as purlins and flooring systems, meshes and walkways, and home improvement products.

The Australian Steel Institute (ASI) estimates that approximately 90,000 people are employed in the steel industry supply chain in Australia.

As part of domestic industry rationalisation caused by global and local market shifts, in FY2014 BlueScope acquired the Fielders building products business, pipe and tube manufacturer Orrcon Steel, and the sheet and coil processing and distribution assets of OneSteel.

BlueScope has extensive global operations with manufacturing plants in 17 countries, including ASEAN, China, India, New Zealand and the United States. BlueScope's businesses include a global building solutions business, which designs, manufactures and erects custom-engineered metal buildings for major multi-national clients, as well as a joint venture steel coating and painting business in ASEAN and North America with Nippon Steel and Sumitomo Metal Corporation.

Information about BlueScope's community, safety and environmental performance can be found at:

<https://s3-ap-southeast-2.amazonaws.com/bluescope-corporate-umbraco-media/reports/csereport2014/index.html>

Information about BlueScope's people can be found at:

<https://www.bluescope.com/sustainability/diversity/>

Current steel trading environment

In recent years, the global steel industry and its international trade environment has changed considerably.

Steel is a fundamental building block of any modern society and, as such, a domestic steel manufacturing capability is an important and strategically valuable asset for most countries.

Since the onset of the global financial crisis, excess global steel production capacity has led to a glut of steel, which has placed downward pressure on prices and margins.

In light of this overcapacity, BlueScope has undertaken significant structural transformation; including halving its commodity steel production in Australia by shutting one of two blast furnaces, and nominally exiting the export market (although exports continue due to weaknesses in key domestic markets).

There is now about 1.8 billion tonnes of steel production capacity in the world. By far the largest country producer is China, which now has over 1.1 billion tonnes of capacity.

Australia is a relative 'minnow', with total production capacity of approximately 5 million tonnes, or about 0.3 per cent of global capacity. Nevertheless, BlueScope competes with steel manufacturers from around 20 countries that regularly import flat steel products to Australia, as well as competing in the global export market.

The global steel industry is suffering from significant overcapacity, estimated to be some 200-300 million tonnes in China alone. One of the major factors that has created this overcapacity, and makes it so difficult to address, is the high level of state-ownership and subsidies in some countries. In a recent countervailing investigation, the Australian Anti-Dumping Commission found 42 separate subsidies provided to Chinese steel producers¹.

Analysts estimate that the majority of China's steel capacity is unprofitable at current prices. Despite this, China significantly increased its exports to an annualised run rate of approximately 100 million tonnes in 2015.

As a result of these very difficult trading conditions, from FY2011 - FY2014 BlueScope reported consecutive net losses after tax.

In the last financial year (FY2015) BlueScope returned to profitability and payment of a dividend. All of BlueScope's global businesses - apart from its upstream commodity steelmaking operations in Australia and New Zealand - were profitable. The company's downstream, value-added Australian coating and painting operations, which produce market-leading brands such as COLORBOND® steel, based on Australian innovation and intellectual property, were also significant profit generators.

The company has recently taken action to reduce costs at our Australian steelmaking operations by approximately \$200 million, in order to achieve cashflow breakeven on hot rolled coil production given current global steel prices and spreads.

Competitiveness and innovation

Although a small producer of commodity steel, BlueScope is a global market-leader in value-added coated and painted steel products, with a profitable domestic and international business based on Australian-developed intellectual property and technology. It is the third largest manufacturer of painted and coated steels globally.

Innovation is a core element of BlueScope's strategy and the basis for the success of our coated and painted steel products business.

¹ Anti-Dumping Commission, Report 198, 'Hot rolled plate steel China, Indonesia, Japan, Korea and Taiwan', September 2013, p.41

The company runs innovation and product development facilities at Port Kembla employing some 70 people, including approximately 30 PhD qualified scientists, and at Minchinbury employing a further 12 people.

Despite intense international competition, in 2014 BlueScope Steel resumed investing in new markets and developing new products.

A major recent innovation developed by the company is a new COLORBOND® steel coating technology, which has significantly boosted that product's performance and corrosion-resistance, while reducing its environmental footprint.

The addition of two magnesium compounds to the original zinc and aluminium coating improves the galvanic action of the zinc, and enables the aluminium in the coating to more actively protect the base steel. This is a world-first application for coated steel building products.

The new product has a longer lifespan and a lower environmental impact compared with previous-generation COLORBOND® steel. The new coating composition uses fewer metal coating materials, providing environmental benefits over previous generation COLORBOND® steel in a product that is 100 per cent recyclable.

Other features of the product include the inclusion of Thermatech® technology, which helps to reduce the amount of heat entering a building through the roof.

COLORBOND® steel with ACTIVATE™ technology won the 'Innovation of the year' award at the 2014 Architecture & Design Sustainability Awards. It was jointly developed by BlueScope in partnership with Nippon Steel & Sumitomo Metal Corporation of Japan.

BlueScope – along with the Federal Government's Australian Research Council - is one of the major financial supporters of the Steel Research Hub at the University of Wollongong where further advancements are being made in BlueScope's products, manufacturing processes and mid-rise building construction. We are also a long-term supporter of the Science Centre & Planetarium.

The Steel Research Hub will be the centrepiece for collaborative steel research in Australia, striving to deliver breakthrough product and process innovations that will enable the Australian steel industry to compete on a global stage.

This ground-breaking initiative, which has attracted funding of \$12 million over five years, is testament to the critical importance of this industry in Australia, and demonstrates the value that both industry and government place in collaborative, cross-disciplinary research.

Policy for a sustainable steel industry

In addition to creating jobs, investment, innovation and exports, a domestic steel industry provides a number of benefits for steel-consuming industries, such as the manufacturing and building & construction sectors, that imported steels cannot provide, or do not provide to the same extent.

These benefits include:

- Manufacturing steel products to Australian and international standards, backed up by trusted testing and certification regimes.
- Developing and tailoring products for local environmental conditions, such as extremes of temperature (e.g. COLORBOND® steel with Thermatech® solar reflectance technology) or severe coastal and industrial environments (e.g. COLORBOND® Ultra steel).

- The ability to develop and customise products for individual customer demands.
- Provision of market-leading warranties, based on long-term local product testing regimes that imported steels generally cannot match.
- Technical and after-sales support, including a local research & development facility and a team of technical advisers across the country who visit customers 'on the ground' to provide expert advice.
- The ability to supply steel in smaller batches than importers typically require, and to manage inventory on behalf of customers.

When steel is manufactured locally, it is more likely to be fabricated, rollformed or otherwise further processed locally, because the cost of transport generally precludes Australian-made steel being shipped offshore for processing, then imported back to Australia as finished products. This generates jobs and economic activity in the downstream steel processing sector.

Local steel manufacturing also creates jobs in supporting sectors such as maintenance, engineering, environmental, accounting, banking, advisory and other services.

BlueScope's strategy is to grow its premium branded steel business with strong channels to market, including its Australian coated and painted steel manufacturing and building products businesses, and to deliver competitive commodity steel supply in local markets, which includes our upstream steel manufacturing business at Port Kembla.

Our goal is to have sustainable businesses in Australia that generate sufficient cashflow and return for investors to support reinvestment.

In an open market with low trade barriers, the only way to achieve this goal is to have a cost structure that is competitive with imported steel, and with steel producers in major export markets. Historically, it is only when our Australian businesses have been internationally competitive that they have been successful and attracted reinvestment.

There are three broad ways in which public policy can support this goal, by:

- Helping to grow domestic and international markets, both through broad economic policies that boost aggregate demand, and through specific policy actions such as innovation policy, trade agreements and government procurement. Boosting demand for steel increases revenues, utilisation and scale economies in our manufacturing businesses;
- Reducing government-imposed regulatory costs, particularly in relation to energy, environment, transport & infrastructure, and taxation costs, each of which are important components of our cost base over which public policy can have a major impact; and
- Providing swift remedies to counter unfair imports and ensuring compliance with Australian standards.

If senators and members of Parliament decide that a domestic steel industry is a worthwhile industry for the country to maintain, this should be reflected in their overall approach to public policy, and in the way that individual policies are framed.

Following are our specific comments about the two most important policy areas in which we believe the Federal Government and Parliament can have the most impact on the competitiveness and sustainability of the Australian steel industry; namely trade policy, and climate change & energy policy.

Trade policy

BlueScope supports 'free and fair' trade – the lowering of tariff and non-tariff barriers within a rules-based trading system – and we recognise the economic benefits of bilateral and multilateral free trade agreements. The concept of 'fair' trade includes adherence to Australia's World Trade Organisation-compliant anti-dumping laws, as well as WTO-compliant policies to support the development of domestic industry.

As a multinational, with manufacturing operations across the Asia Pacific and with transfer of Australian IP to over 50 markets, the company is affected by international trade and investment flows, non-tariff barriers, trade policy changes and domestic regulatory reform resulting from trade agreements.

The majority of the 17 countries in which BlueScope manufactures have bilateral trade agreements with Australia, or are part of plurilateral trade agreements to which Australia is a party.

Preferential trade agreements

Following are the most important matters of interest for BlueScope in bilateral and plurilateral trade agreements:

- Retaining full rights under the WTO Agreement on Anti-Dumping. Anti-dumping is not an exception to the liberal rules of international trade, nor is it a form of protectionism. Rather, the existence of national anti-dumping laws and supporting administrative systems is a well-established WTO right. A robust anti-dumping system is essential in helping to provide domestic manufacturers with the confidence to invest in Australia, knowing that effective remedies are in place to address unfair trade. The right to effective relief from dumping of goods internationally is akin to the laws that protect against predatory pricing in the domestic market. The ability of firms to obtain relief from dumping must not be watered down in any bilateral or plurilateral trade agreements.
- Staged tariff reductions for sensitive steel products. While tariffs on most products in BlueScope's range are already low or even zero (many countries exporting steel to Australia enjoy zero tariff rates because they are considered to be 'developing' countries), a number of products manufactured by our customers retain tariffs (generally in the range of 3-8 per cent). It is important that these tariffs are phased down gradually in order to provide our customers with adequate time to adjust. Furthermore, existing timelines for phasing down of tariffs in bilateral trade agreements must be honoured in regional trade deals as they enter into force.
- Rules of Origin must be framed in a way that prevents 'country hopping' (i.e. transit of products through a third country for the primary purpose of avoiding duties, with little or no transformation of the product occurring in that country). This ensures that third countries are not able to unfairly obtain preferential tariff rates that should only be available to the parties to the bilateral or plurilateral trade agreement.
- Mechanisms to address trade-distorting behaviour, including subsidies, non-tariff barriers and preferential treatment of state-owned enterprises. As outlined earlier in our submissions, such behaviour is widespread in the global steel industry.
- Standards should be developed on a non-discriminatory basis, and according to sound technical and risk analysis. Standards should not be used as non-tariff barriers. Foreign and domestic, public and private firms should have equitable access to the process for developing standards (state-owned enterprises should not control the process). Introduction of new standards should go through the WTO technical barriers to trade (TBT) notification process.

- Involvement of domestic industry in working groups to address matters such as technical barriers to trade, non-tariff barriers and periodic reviews of FTAs already in force.
- Greater harmonisation of intellectual property (IP) arrangements across the region where it would be beneficial to Australian firms. Increased dialogue to ensure improved transparency and an enhanced ability to address IP infringements.

Free trade agreements should provide a framework for a freer and fairer trade environment with trading partners, ensuring that BlueScope, and other Australian steel producers, can continue to grow and innovate in new market and product development, without injury caused by a surge of imports from a saturated global steel market.

Product standards

A lack of compliance with relevant product and safety standards by some imported steel products potentially poses risks for the safety, longevity and cost of construction of infrastructure and building projects. There have been a number of public examples in recent times of non-conforming building products presenting unacceptable safety risks to building occupiers.

The steel industry has made a number of submissions to this committee's inquiry into non-conforming building products, which we support.²

One way in which governments can encourage greater compliance with standards is by requiring that all products purchased for government-funded infrastructure projects be required to comply with Australian Standards.

In the United States, for example, there is considerable scrutiny over stated attestation to compliance to standards. Business or individuals that are found to misrepresent or mislead over product standards are subsequently banned from participating in strategic projects for a period of time. If content from overseas bidders is misrepresented, the vendor is reprimanded or asked to pull down construction at their own cost and re-work with compliant products.

Trade measures (anti-dumping)

BlueScope appreciates the improvements to Australia's WTO-compliant anti-dumping system made by both the Coalition and ALP, with the support of minor party and independent Senators. These legislative changes, together with the establishment and resourcing of the Anti-Dumping Commission (ADC), have led to significant improvements in the effectiveness of Australia's anti-dumping system.

These improvements were further augmented last year by the introduction of a regulation to tackle circumvention of dumping duties via minor modification of imported goods.

An effective anti-dumping system is a key element of the 'rules-based' international trade order, and important in underpinning support for trade liberalisation amongst manufacturers, their employees, unions and other stakeholders.

In the current global steel trade environment of excess capacity, falling prices and squeezed margins, there has been a marked increase in dumping worldwide. As at 31 December 2015, there were 75 active trade

² Submission #18, Bureau of Steel Manufacturers of Australia; Submission #19, Australian Steel Institute.

cases in the steel industry worldwide, including anti-dumping, anti-subsidy or countervailing, anti-circumvention, anti-absorption, safeguarding, exemption and public interest inquiries, as well as interim and expiry reviews.

China remains the country most commonly complained about, with other Asian countries – South Korea, Taiwan, Japan, India, Vietnam and Malaysia – also in the top ten.³

In this environment, we are concerned that despite recent improvements, there are still a number of shortcomings in the anti-dumping system, which reduce or delay effective relief from dumped imports. These include:

- Investigations are too slow and regularly exceed the statutory minimum timelines, mostly due to extensions of time sought by the Anti-Dumping Commission or by exporters when completing exporter questionnaires.
- Verification of exporter data is inadequate in some cases.
- Exporters are sometimes deemed to be 'compliant', despite not having met prescribed timeframes for lodging public file documentation.
- Dumping duties are sometimes set at a level or in a manner that is inadequate to discourage further dumping (e.g. duties set on an ad valorem basis that does not put an effective floor price on imports; duties set at immaterial levels due to the application of the lesser duty rule; duties imposed only on a sub-section of the imported goods that domestic industry considers to be dumped).
- Dumping duties are not set at a level that allows for an adequate level of profit that manufacturers require to fund reinvestment in their businesses.
- Despite a particular market situation being found, use is still made of cost data from the country of export in calculating whether dumping has occurred (i.e. no use of surrogate cost data from other, comparable jurisdictions).

Proposed changes

There are a number of changes that should be made that would significantly improve the system. In summary, these are:

- Directing the ADC that the combination duty method be made the default method for all cases (as recommended by the House of Representatives Agriculture and Industry Committee Inquiry into Anti-Circumvention Activities). The combination duty method combines a fixed duty amount (usually calculated as a percentage of the ascertained export price or 'floor price'), plus a variable duty component that is applied if the import price is below the floor price. By effectively setting a floor price, it makes it more difficult for importers to avoid the effect of dumping duties by simply dropping their prices.
- Ensure that, in normal circumstances, ADC investigators visit all complying exporters in-country, in order to validate their data. While this may be difficult in cases where there are a large number of complying exporters, in BlueScope's recent steel cases the number of complying exporters has generally only been in the range of three to five per country. 'Desk top' validation should be limited to 'low risk' reviews of measures and duty assessment inquires only.

³ Metal Bulletin, '2015 Review – Steel trade cases in numbers', London, 18 January 2016.

- Where the ADC uses a constructed cost to determine Normal Values, a minimum level of profit (which reflects that industry's return on capital investment) should be included in the cost to make and sell. If a minimum level of profit is not included then domestic industry is effectively being required to compete against exporters with unviable business models.
- In a "particular market" situation full cost surrogacy should be permitted. Currently the ADC only surrogate input material costs. However, all costs should be surrogated as the reliability of cost data from the exporting country is suspect if a particular market situation has been found and more than one cost input is the subject of Government influence.
- Anti-circumvention inquiries should have a shorter time frame than 155 days. An anti-circumvention inquiry is only held after a successful anti-dumping investigation, and only where there is prima facie evidence that exporters or importers are circumventing measures imposed in the original investigation. As the anti-circumvention inquiry relates to dumping and goods already fully investigated by the ADC, it should not require a timeframe that is as long as the original investigative timeframe. A shortened timeframe should be possible, and would more quickly ensure that the intended effect of the original dumping duties is not undermined and the domestic industry does not suffer prolonged injury.
- The Commission should have the powers to self-initiate an investigation, especially in relation to anti-circumventions inquiries. The ADC has full access to the Australian Bureau of Statistics (ABS) import data (much of which is kept confidential from domestic industry) via an agreement with Australian Customs and Border Protection, so should be able to continuously monitor patterns of trade that indicate circumvention may be taking place. Should such patterns of trade indicated circumvention may be occurring, the ADC should be able to immediately initiate a circumvention inquiry.
- Mandatory consideration of the imposition of retrospective duties back to the date of initiation of an inquiry. Currently, where dumping has been found to occur in an anti-dumping case, duties are imposed on shipments leaving the exporter country after the date of publication of the Preliminary Affirmative Determination (PAD) or the date of publication of the Statement of Essential Facts (SEF). Imposition of duties back to the date of initiation (as happens in anti-circumvention cases) would have a stronger impact on the behaviour of importers (particularly recidivist dumpers) and better redress the injury to domestic industry caused by dumping.
- If by day 60 there is no compelling evidence from the exporter that is contradictory, the Commissioner should impose securities based on the Applicant's claims as contained in the consideration report.
- Exporter questionnaires deemed to be non-compliant unless accompanied by a compliant public file version, within the prescribed 37-day time frame. No extensions to be granted unless in exceptional circumstances and for a maximum of one week's extension. Such extensions are only to apply to nominated questions where information cannot be sourced by the deadline.
- Limiting timeframe extensions to one 30-day period (with the exception of complex cases, i.e. large number of exporters in multi country cases or in market situation and subsidy cases).
- The Commission to reject exporter requests for non-disclosure of domestic grade or model information used for model matching. When determining whether dumping has occurred, it is essential to make an 'apples for apples' comparison of the type of product allegedly being dumped and its domestically manufactured equivalent. This is known as 'model matching', and involves categorising the products in question according to the key factors that affect cost and/or selling price such as quality, grade, width, thickness, strength, carbon content, etc. In the US, exporters and domestic industry must comply with a

model matching template provided to them by the Department of Commerce. That way all players can see how the model parameters are going to be prepared. However, in a recent steel plate dumping case, the ADC accepted model matching parameters provided by the alleged dumpers, with the entire breakdown invisible to BlueScope. This allowed exporters the opportunity to 'pre-run' dumping margin calculations before verification to ensure the most favourable criteria for each specific model match. This practise has emerged as being 'high risk' to anti-dumping outcomes for Australian Industry.

- As a result of the termination of anti-circumvention investigation No. 306, there is an urgent need to make changes to the anti-circumvention legislation in relation to the "Avoidance of the intended effect of duty" or "Duty is not reflected in the sell price" where the duty payable definition needs to be changed from "Final Duty per 269ZDBB(5A) of the Act" to "Duty paid at the time of importation".

Climate and energy policy

We support measures to reduce greenhouse gas (GHG) emissions on a global basis, in line with the commitments in the United Nations Framework Convention on Climate Change (UNFCCC).

In establishing Australia's national targets, and policy measures to achieve these targets, we believe it is very important to consider Australia's unique national circumstances, including:

- Australia's natural resource endowment and its competitive position as a leading mineral and carbon-based energy exporter;
- Australia's unusual position as a developed country, located in a region that is principally comprised of developing countries that are both trading partners and, in many cases, competitors;
- Australia's high population growth rate amongst developed economies.
- The role of emissions-intensive trade-exposed industries as important exporters and regional employers; and
- The fact that many of these EITE industries compete principally with competitors in developing countries. Unlike Australia, many of these developing countries have adopted targets that do not require absolute reductions in emissions compared to historical levels; nor have they generally imposed direct carbon costs on their steel industries.

Policy to achieve Australia's emissions targets must not be 'one size fits all'. It must take account of our national circumstances and the differing technical and financial capabilities of each sector to reduce its emissions, as well as the sources of each sector's trade competition.

Over 80 per cent of BlueScope's emissions come from the use of coal and coke as both chemical reductants and energy sources in the ironmaking process. There are currently no proven and commercially viable technologies to replace coal/coke in the blast furnace / basic oxygen furnace iron and steelmaking process.

Port Kembla Steelworks is close to the global average for carbon efficiency (c.2.3t CO₂-e / 1t steel) according to World Steel Association data (although this data likely understates its actual carbon efficiency because China does not report).

If all known technologies were implemented by BlueScope (e.g. coke dry quenching; sinter plant waste heat recovery; BOS gas recovery; partial fuel switching to biochar) they could potentially deliver a modest reduction in our Australian emissions. However, this would require many hundreds of millions of dollars in capital investment, and would have considerable technical and financial risk. This would not represent 'cost effective' emissions reduction.

In the current global steel trading environment of excess capacity and compressed margins, there are few if any steel companies globally that could afford such investment.

Moreover, the majority of BlueScope's international competitors do not currently face mandatory carbon costs. Less than 20 per cent of global steel production is currently taking place in countries that have mandatory national emissions trading schemes or carbon taxes that place direct costs on their steel industries. Over 85 per cent of flat steel imported to Australia comes from countries that do not impose such costs, while over 75 per cent of BlueScope's Australian exports go to countries without such costs⁴.

Imposition of a domestic carbon price on the steel industry without effective shielding, or an equivalent tax on imports and a rebate for exports, would harm our international competitiveness.

Policy must not compromise the competitiveness of the Australian steel industry and its customers. It must also be flexible to take account of the circumstances of the steel industry (e.g. fluctuations in output; changes in input mix; etc.)

Finally, we welcomed the agreement of the two major parties in 2015 to provide a full exemption from the Renewable Energy Target for emissions-intensive trade-exposed industries. This EITE exemption has reduced BlueScope's energy costs by in the order of \$5 million in the last year, and these savings will accumulate over time as the price of Renewable Energy Certificates (RECs) increases.

Conclusion

Thank you again for the opportunity to make a submission to the Senate inquiry into the future of Australia's steel industry.

We look forward to the committee's report and would be happy to provide further information in support of our submission at a mutually convenient time.

Yours sincerely

Mark Vassella
CHIEF EXECUTIVE
BLUESCOPE AUSTRALIA AND NEW ZEALAND

⁴ Data is for calendar year 2015 and is sourced from ABS, ISSB and BlueScope analysis. Of the company's total Australian exports of 767,047 tonnes, 584,567 tonnes (76.2%) went to countries that do not impose mandatory direct carbon costs on their steel industries, namely: the USA; Thailand; Vietnam; United Arab Emirates; Singapore; Malaysia; and South Korea. Of the 446,106 tonnes of flat steel products imported to Australia, 386,334 (86.6%) came from countries that do not impose such costs on their steel industries, namely: Taiwan; South Korea; Japan; China; Vietnam; Malaysia; India; and the USA.