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Dear Mr Mortimer

### Submission to Review of Australia's Export Policies and Programs

Thank you for the opportunity to make a submission to the *Review of Export Policies and Programs* ('the review').

As one of Australia's largest manufacturing exporters, and a company with a network of manufacturing facilities in 17 countries, the Federal Government's export policy framework and programs are of particular interest to BlueScope Steel.

Our submission to the review is structured as follows:

- Overview of BlueScope Steel, including operations, products and exports
- Overview of steel markets for Australian iron and steel industry
- Competitive strengths and challenges for the Australian iron and steel industry
- Trade policy overview
- Priorities for trade policy
- Improving competitiveness
- The impact of greenhouse gas regulation on competitiveness

Note that while we have not addressed each term of reference individually, we have sought to incorporate comments in the above that address the following terms of reference from the *Key Issues* paper:

7 a) measures required to improve export performance, including the relationship with domestic policy settings and productivity-enhancing policies;

b) measures that will improve the capacity of new and existing exporters to expand their export base and take optimal advantage of the expansion and evolution in international trade and investment;

e) policies and programs that will promote high value added exports, enhanced levels of productivity and improved international competitiveness;

f) measures to expand market access opportunities for Australian exporters of goods and services.

We have not provided comment on terms of reference we consider are not directly relevant to BlueScope Steel or outside our expertise. These include: c) measures to encourage more small businesses to begin exporting or expand their export operations; and, d) measures to promote an improved services export performance, including financial services.

## About BlueScope Steel

BlueScope Steel is an Australian listed company (ASX: BSL) and was demerged from BHP Billiton in 2002.

BlueScope Steel manufactures flat steel products for domestic and export customers. The other Australian listed steelmaker – OneSteel – manufactures long products. BlueScope Steel's customers are in the building and construction, automotive, white goods and general manufacturing sectors.

BlueScope Steel's Australian iron and steelmaking facility is located at Port Kembla (NSW), while a rolling, coating and painting plant operates at Western Port (Vic), along with metal coating and painting plants at Springhill and Erskine Park (NSW). The company operates over 30 BlueScope Lysaght building products manufacturing plants. It also distributes both long and flat steel products through over 90 distribution outlets and service centres across the country.

The Port Kembla Steelworks is an internationally competitive integrated steel plant, with an annual production capacity of approximately 5.3 million tonnes.

Approximately 50 per cent of BlueScope Steel's upstream steel production is converted to coated steel products such as COLORBDOND® steel and ZINCALUME® steel, making it amongst the world's largest producers of value-added coated and painted steel products as a proportion of production.

The company's Australian operations are its largest source of exports, exporting some \$1.6 billion of steel products (approximately 2.3 million tonnes) in the 2006/07 financial year. This places BlueScope Steel in the top one per cent of Australia's exporters by value.<sup>1</sup> Key export destinations for BlueScope Steel include the United States, South Korea, Thailand and Indonesia, and to a lesser extent Europe, Africa and the Caribbean.

Over past two decades, BlueScope Steel has established a substantial international footprint including an integrated steelworks in New Zealand, a flat products steel-mill joint venture in the United States (Delta, Ohio), and metal coating and painting facilities in China, Vietnam, Indonesia, Thailand, Malaysia and under construction in India. Building products manufacturing plants are located throughout the Asia-Pacific region, and the company is the leading manufacturer of steel pre-engineered buildings in the USA and China. In 2007, BlueScope Steel acquired the IMSA steel businesses in North America.

BlueScope Steel has an Australian based direct workforce of approximately 10,000 employees, with a further 11,000 worldwide.

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<sup>1</sup> Australian Bureau of Statistics, *Number and Characteristics of Australian Exporters, 2006-07*, Cat No: 5368.0.55.006. According to the ABS, In 2006-07, less than 1% of goods exporters had aggregate exports of \$100m or more, but these exporters contributed 79% by value to total goods exports.

## Overview of steel markets

The steel industry is global in nature with steel a highly traded product. Worldwide, output of crude steel has grown from ~900 million tonnes in 2002 to ~1.3 billion tonnes in 2007. China has been the major driver for this growth with its output increasing during this period from 200 million tonnes to ~490 million tonnes per annum, and recently becoming a net exporter of steel products. A significant proportion of the growth in global steel production capacity is taking place in the so-called 'BRIC' countries – Brazil, Russia, India and China.

The Australian steel market has very low tariff and non-tariff barriers and is characterised by substantial and growing levels of imports, with pricing of many steel products set with a reference to import parity pricing. Imported steel products are sourced from countries including China, Japan, Thailand, South Korea, South Africa, Malaysia, Taiwan, Singapore, Vietnam and Indonesia.

In 2007, Australia imported approximately 2.7 million tonnes of steel products. Imported steel products were split relatively evenly between long products (OneSteel range) and flat products (BlueScope Steel range). These imports cover a range of product types, including structural sections, rod for reinforcing, pipe & tube products, galvanised products, hot rolled coil and some coated and painted steel products. In addition, imports of large fabricated steel structures and infrastructure that would once have been manufactured in Australia have increased sharply in recent years, especially to supply mining and resources projects. For example, imports of complete pre-fabricated steel buildings grew from AUD\$15 million in 2002 to a forecast AUD\$57 million in 2007.<sup>2</sup>

In 2007, Australia exported approximately 2.5 million tonnes of steel products in total. The exported tonnes were heavily biased towards flat products, predominantly constituting slab and hot rolled coil, as well as some painted and coated steel products, mostly destined for BlueScope Steel's export customers.

## Competitive strengths of the Australian steel industry

The steel industry is an important segment of the Australian economy. Narrowly defined (as per ANZSIC code 2711), in 2005/06 the Australian steel industry employed approximately 24,000 people, paid wages of \$1.5 billion and had an annual turnover of approximately \$13 billion. As described, the steel industry is also a major manufacturing exporter.

In many respects, Australia is a natural place to manufacture iron and steel. Australia is one of the few countries in the world with large, high quality reserves of the key iron and steelmaking raw materials, such as iron ore, metallurgical coal and limestone. Labour costs, typically a source of competitive advantage for manufacturers in developing countries, comprise a relatively small proportion of upstream iron and steelmaking costs. This is particularly the case as capital has been substituted for labour over recent decades. This distinguishes steel manufacturing from traditional labour-intensive manufacturing industries, which have typically experienced sharp declines in production in Australia over recent years.

Those steelmakers with ready access to raw materials therefore have a degree of inbuilt competitive advantage compared to steelmakers in some countries who need to ship their raw materials. Energy costs also comprise a significant proportion of costs and Australia has historically enjoyed low energy

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<sup>2</sup> Trade Data International

costs by world standards (albeit energy costs are now increasing, and will inevitably increase further with the introduction of a carbon price in Australia).

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;
- Strong technical and product support for domestic customers; and
- Supply chain and manufacturing capabilities that present customers a broad product offering, relatively short 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, including the automotive sector, white goods, machinery, pressure vessels, transport equipment, and mining equipment sectors.

The Australian Steel sector has built on its competitive strengths with sustained capital investment programs. Over the past decade, BlueScope Steel has invested over \$1 billion in capital in its Australian operations. Highlights of this investment program include:

2004 – Sinter Machine Emissions Reduction Project - \$94 million

2006 – Hot Strip Mill upgrade - \$100 million

2007 – Western Sydney Service Centre (COLORBOND® steel plant) - \$150 million

In excess of a further \$1 billion of investment is currently being planned for the Port Kembla Steelworks alone, including a \$370 million re-line for one of two blast furnaces at the plant.

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

- High product complexity and sometimes sub-scale manufacturing operations relative to overseas producers; and
- High distribution costs, largely due to the dispersed nature of the Australian domestic market.

One of the reasons for the closure of BlueScope Steel's tinplate manufacturing plant in April 2007 was the sub-scale nature of this operation compared to overseas plants. A lack of scale is also apparent in relation to the Australian automotive sector. Declining production volumes in this sector have led to declining economies of scale and increased unit costs for some automotive steel products, making ongoing investment by BlueScope Steel to supply the automotive sector more difficult to justify.

## Trade policy overview

Given its very large network of manufacturing facilities across 17 countries, significant exports from Australia and New Zealand, and importing of feedstock for Asian mid-stream operations, BlueScope Steel has a strong interest in trade policy, and particularly bi-lateral and plurilateral trade agreements.

As mentioned, the Australian steel market is characterised by low tariff and non-tariff barriers (flat steel imports from developing countries, such as China, typically enjoy zero tariff) and negligible levels of government assistance. By contrast, many overseas steel producers against which BlueScope Steel competes (in both domestic and export markets) enjoy relatively high levels of tariff assistance.

Governments in many countries also utilise a range of other policy tools to encourage the development of their steel industries, including tax incentives; non-tax subsidies; loans from state-owned enterprises at non-market rates; price controls or subsidies for raw materials and inputs; sector-specific industrial policies; land grants; subsidised utility charges, government procurement procedures favouring domestically owned companies; and other forms of 'guidance'.

Tariffs, non-tariff barriers and other forms of subsidies have the effect of artificially inflating the competitiveness of some foreign steel producers, generally to the detriment of BlueScope Steel's Australian and other businesses.

For this reason, and as a general principle, BlueScope Steel believes government policy should support free *and* fair trade. That is, trade policy, industry policy and other elements of public policy should work together to promote both the liberalisation of trade barriers and the elimination of market distorting subsidies. We have, for example, been a strong supporter of the process facilitated by the OECD to eliminate subsidies and introduce market discipline to the global steel industry. Given the low level of tariff and non-tariff assistance to the Australian steel industry, we believe trade policy should be focused on achieving reciprocal tariff and subsidy reductions amongst Australia's trading partners, particularly those with higher levels of assistance than Australia's.

While trade barriers in the steel industry are generally low worldwide (compared, for example, to very high peaks for some agricultural commodities) nevertheless, in very competitive global industry, even tariff barriers in the order of 5-10% can equate to the entire selling margin on some steel products. Removal of these should remain a constant goal for Australian negotiators in the WTO and when negotiating bilateral and regional trade agreements.

BlueScope Steel is a major foreign investor in international markets, with significant manufacturing businesses in the United States, China, Vietnam, Malaysia, Thailand, Indonesia and India. In fact, BlueScope Steel is the largest Australian investor in China.

Liberalisation of both tariff and non-tariff barriers in these markets should be a priority. Non-tariff liberalisation should include removal of discriminatory measures against foreign companies. These include restrictions on the level of foreign ownership and the types of business foreign companies may engage in as well as terms of residence, nationality and tax treatment of executives and employees.

BlueScope Steel is disappointed that better progress has not been made in the Doha Round of trade negotiations. It believes that for the sake of preserving the integrity of the multilateral trading system, it would be better to bring the round to conclusion, even if the result is modest.

Prolonged stalling of the Doha Round risks undermining the authority of the WTO system. Preservation of the integrity and authority of the rules is vital for the tasks the system faces in future. Foremost amongst these is serving as a neutral court to settle trade disputes amongst the largest trading economies and ensuring China remains within the rule of the multilateral trading system.

The Australian Government should also continue to pursue improved access to foreign markets for Australian exporters through multilateral fora such as APEC, ASEAN and the WTO and bilateral initiatives.

Of the various models for ultimate regional liberalisation that are under discussion, BlueScope Steel ultimately favours a free trade area based on APEC member countries, which would therefore include Australia and the United States. An alternative approach would be to negotiate a free trade area based on ASEAN membership, with the addition of China, South Korea, Japan, Australia, New Zealand and the United States.

Steel trade access should be a component in the range of bilateral trade agreements currently under negotiation or consideration by Australia. These include the Australia – China FTA, Australia – Japan FTA, Australia – Malaysia FTA, and potential FTAs with Korea and Indonesia.

### **Priorities for trade policy**

While the specific issues vary from country to country (and in a number of cases the company has made separate written submissions or had dialogue with Australian Government officials), at a high level BlueScope Steel's views about the priorities for trade policy are summarised in the following section:

#### *Tariffs*

Policy and trade agreements should seek to ensure a level playing field with regard to tariffs. For example, most flat steel products can enter Australia from China tariff-free. This is the result of China being accorded developing country status in its WTO accession negotiations. By contrast, BlueScope Steel faces tariffs of up to 8 per cent (on ZINCALUME® steel) if we choose to send product from Australia to China. While this is not a high tariff compared to tariffs in some industries, nevertheless in the highly competitive steel industry it is a significant trade barrier. And although China is still a developing country in many senses, its steel industry is the largest in the world and some seventy times larger than Australia's.

Our understanding is that the China – New Zealand FTA, which has recently been signed, will liberalise steel tariffs and could provide the opportunity for our New Zealand Steel business to export feedstock to the company's Suzhou plant in China. A similar liberalisation of tariffs under an Australia – China FTA could provide an opportunity to export this feedstock from our Australian operations.

Policy should also seek to ensure low or zero tariffs on semi-finished steel products that comprise feedstock. For example, BlueScope Steel's Asian mid-stream COLORBOND® and ZINCALUME® steel manufacturing plants take as their feedstock cold rolled coil. This feedstock is typically sourced from a combination of imports and local suppliers in each country. Imported feedstock is generally sourced from a combination of ASEAN and non-ASEAN sources, with our Australian operations typically

supplying a proportion of this feedstock. We have experienced a number of cases where governments in Asia have increased tariffs on feedstock, thereby compressing margins and profitability in some of our Asian mid-stream businesses. Partly as a result of such a tariff change, the company recently announced a \$35 million write down in the value of its metal coating facility at Ba Ria Vung Tau, Vietnam.

### *Subsidies and non-commercial behaviour*

Trade policy should seek to address any subsidies or other policy tools that some foreign governments use to encourage the development of their domestic steel industries. These subsidies can damage our Australian and New Zealand businesses (in particular) by artificially inflating the competitiveness of some producers. They also damage the competitiveness of other domestic manufacturers.

Subsidies and related policy tools can include: tax incentives; non-tax subsidies; loans from SOEs at non-market rates; price controls or subsidies for raw materials and inputs; sector-specific industrial policies; land grants; exemptions from local, regional or national requirements that a foreigner might be subject to; subsidised utility charges; or other forms of "guidance".

Other forms of non-commercial behaviour, although not subsidies, can also act to artificially inflate the competitiveness of foreign manufacturers. For example, opaque transfer pricing arrangements by vertically integrated steel manufacturers in some countries can create the suspicion that these manufacturers are effectively using upstream operations to cross-subsidise midstream and downstream operations. As well as damaging Australian steel manufacturers, it can also damage the competitiveness of foreign-owned midstream and downstream operations in these countries. It is notable that in a number of countries, including China for example, foreign investors are not permitted to own upstream iron and steelmaking assets, but are permitted to own mid-stream and downstream operations which compete against domestically-owned vertically integrated steel companies.

Lack of effective competition policy or enforcement in some countries can also act to tilt the playing field in favour of competitors based in these countries.

### *Contingent Protection*

BlueScope Steel regards effective international arrangements that provide contingent protect against unfair trade practices (anti-dumping, countervailing and safeguards) as important to its capacity to trade in international markets.

### *Safeguards*

Governments should ensure, where possible, that FTAs incorporate robust safeguards provisions to address the short-term problem of injurious surges in imports as a result of trade liberalisation. Given the prospects of continuing increases of exports of Chinese steel on world markets, BlueScope Steel is concerned that Australia's capacity to use the safeguards provisions set out in WTO rules may now be in question.

BlueScope considers it likely that China's share of world trade in steel will continue to increase. Typically, steel prices in global markets are higher than in the domestic Chinese market. Notwithstanding measures taken by the Chinese Government to restrict exports, such as cutting export

rebates and increasing taxes on energy intensive manufactured exports, the commercial incentive for Chinese steel producers to continue to export remains. It is also stated Chinese policy to encourage Chinese companies to become “global businesses”.

Chinese steel exports have expanded steadily into international markets, including Australia. If a situation arose where authorities in other countries or regions, such as the US and EU, took action to restrict Chinese steel imports this would likely result in surplus being redirected to other open international markets, such as Australia. Whether temporary or permanent, such a development would have potentially drastic implications for Australian steel production.

The safeguards provisions in the GATT and the WTO Agreement on safeguards were designed precisely to enable Governments to use temporary trade barriers to provide relief where import surges injure or threaten to injure domestic producers. Such measures are designed to provide breathing space while industries re-adjust to manage these conditions.

It is a requirement stipulated by regulation that the Australian Government may not impose safeguards measures under the WTO provisions without first having the Productivity Commission determine that the conditions exist to impose such measures. We note that a number of Australia’s trading partners do not impose such onerous regulations, and do not require investigation of safeguards cases by independent statutory authorities.

BlueScope Steel is concerned that the recent decision by the Productivity Commission in relation to temporary safeguards for the Australian pork industry, may suggest a reluctance to support safeguards measures, which could have negative implications for other industries facing damaging import surges.

Although the Commission argued in the pork case that a range of domestic factors, including higher feed costs and the strengthening Australian dollar had made the domestic pork industry less competitive and encouraged imports, we are concerned that comments in the Commission’s report, such as “creeping legalisms are undermining the proper role for safeguards measures in a liberal trading order”<sup>3</sup>, may indicate a desire not to invoke safeguards measures for reasons relating to the politics and efficacy of the multilateral trading system, rather than simply the merits of each case.

BlueScope Steel believes the Government needs to be able to enforce its WTO rights as it wishes and based on the merits of each individual case.

### *Anti-dumping*

Policy should also ensure maintenance of effective anti-dumping laws and administrative capacity in Australia. One concern the Australian steel industry has in this regard is administrative decisions by the Australian Bureau of Statistics (ABS) since 2005 relating to the confidentiality of data, which have obscured the value, origins and destinations of various steel imports into Australia. This unnecessarily hampers the ability of domestic manufactures to understand overall market activity, which is essential to making investment decisions. It also prevents effective monitoring of imports and undermines Australia’s anti-dumping regime.

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<sup>3</sup> Productivity Commission, *‘Safeguards Inquiry into the Import of Pigmeat’*, No.44, 31 March 2008, p.XXVI

### *Countervailing duties*

BlueScope Steel has experienced the misuse by other Governments of the right to impose countervailing duties under WTO rules if national authorities determine Governments of exporting states subsidize exports in way that damages domestic producers. It has suffered imposition of countervailing duties by US authorities for discovery of trivial subsidies on steel produced in Australia, usually as the by-product of action taken against other more heavily subsidized steel imports from third countries.

BlueScope Steel sought protection from this abuse in future by requesting the Australian Government to secure for Australian producers the same lesser liability to countervailing duties that Canada secured for Canadian exports in the North American Free Trade Agreement. That right was not secured in the Australian US FTA.

If the current Government entertains the thought of seeking changes to the Australian US FTA, BlueScope Steel requests that it seek this change.

BlueScope Steel also favours the provisions adopted in the Uruguay Round to extend the scope of the WTO Agreement on Subsidies and Countervailing Measures to provide rights to contest under WTO rules damage caused by competing, subsidised products in third country markets. Those provisions also included rights to provide subsidies to serve environmental purposes.

BlueScope Steel recognises that it is too late to seek to restore these provisions in the Doha Round of trade negotiations, but proposes they be adopted as longer-term trade objectives in the WTO.

### *Repatriation of profits and movement of capital*

As a major Australian investor in Asia (amongst the largest Australian investors in China and Vietnam) policy measures to facilitate investment are also of significant interest to BlueScope Steel. These measures include policy in destination countries relating to the repatriation of profits and the movement of capital from domestic subsidiaries to the Australian parent company.

In a number of countries in which BlueScope Steel maintains subsidiaries, domestic legislation or regulation acts to restrict the ability of local subsidiaries to lend money from profits to the Australian parent. Restrictions can also include the need to utilise local banks or financial intermediaries to facilitate such transactions, even where the subsidiary is wholly-owned by the parent and the parent has its own existing banking and treasury arrangements. Although dividends from foreign subsidiaries can be repatriated, such dividends may not equal the desired loan amount, thereby restricting the effective ability of the parent to repatriate profits from the subsidiary. So-called 'thin capitalisation' rules can also act to restrict the ability of the parent to withdraw equity from foreign subsidiaries.

### *Double taxation agreements*

Double taxation agreements or treaties are another measure that can be help facilitate foreign investment. Such agreements act to streamline investment, and the absence of an agreement typically adds cost and complexity – usually by requiring the investor to make its investment via a third-country 'holding' location.

Such agreements need to include appropriate withholding tax regimes for dividends, interest and royalties. Australia's current double taxation agreements with the United States, United Kingdom and Japan are appropriate models, which should be emulated in existing double tax agreements with other countries and in any new agreements.

A number of Australia's double taxation agreements are, however, not conducive to a preferred holding company location with respect to capital gains. BlueScope Steel believes that the preferred arrangement should be for the country in which the investor is resident to have sole taxing rights in relation to foreign capital gains. A number of other countries already have such provisions in their double taxation agreements. Although Australia's domestic tax laws have been substantially improved in recent years to make Australia a more attractive holding company location, Australia's double tax agreements have not been amended to achieve this objective.

#### *'Border adjustments'*

A potential emerging trade issue is the suggestion – most recently by the EU and in the US – that tariffs (or 'border adjustments') be used to penalise imports from countries that are not judged to have sufficiently robust controls on greenhouse gas emissions from their energy-intensive manufacturing sectors. This suggestion is most often made with regard to China, but also has the potential to penalise exports from BlueScope Steel's Australian and New Zealand operations, depending on the policy approach taken by the EU and US and the detail of an Australian emissions trading scheme.

We endorse and support comments made recently by the Trade Minister, Mr Crean, that:

"... any measures to address climate change must be consistent with open trade policies. We do not want to see climate change used as an excuse to impose new trade restrictions. Such action would be contrary to the spirit and letter of the WTO. It would also run counter to the goal of building a consensus for a post-2012 global climate change regime that is fair, equitable and economically effective."<sup>4</sup>

Further discussion of the competitive impact of an emissions trading scheme on the Australian steel industry is contained later in this submission.

#### *Australia- China Free Trade Agreement*

BlueScope Steel Limited attaches high importance to negotiation of a free trade agreement with China.

As already mentioned, such an FTA provides an opportunity to reduce or remove tariffs on Australian imports to China. The FTA is also an opportunity to improve BlueScope's capacity to do business within China. To this end, BlueScope has urged the Federal Government to pursue provisions on investment, repatriation of profits and intellectual property rights in the FTA.

In addition to measures to improve market access, BlueScope supports provisions for dispute resolution in the FTA. These could include safeguards against surges in Chinese exports.

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<sup>4</sup> Hon Simon Crean MP, *'Trade Policy Briefing: Meeting the Challenges'*, 12 March 2008

## Improving competitiveness

BlueScope Steel believes that in addition to specific trade policy measures, there is a range of other policy measures, which affect the competitiveness of Australian manufacturing exporters. BlueScope Steel strongly endorses the need for ongoing economic reform and sectoral policy development, in order to help underpin the competitiveness of manufacturing and to make Australia a more attractive country for manufacturing investment.

While a detailed analysis of public policy in areas such as industry policy, education policy, taxation and regulatory reform is beyond the scope of this submission, the following are offered as general comments:

- **Research & Development** - BlueScope Steel believes Government needs to give consideration to related public policy designed to encourage local research and development, such as the Research and Development Tax Concessions. The R&D tax concession is the subject of a separate, joint submission by BlueScope Steel and OneSteel (dated 30 April 2008) to the Federal Government's current *Review of the National Innovation System*. In short, however, reforms to the R&D tax concession program are required to make it simpler to administer and more effective in encouraging the development and commercialisation of new and improved products and processes. It needs to be broader in scope including a wider range of R&D activities and must provide benefits that are competitive with overseas regimes which provide import competition and which offer alternatives for the location of R&D activities. In particular, the current method of a 125 per cent deduction for eligible R&D expenditure and an additional 50 per cent (175 per cent in total) deduction for only some eligible R&D so long as it is over the previous 3-year average is difficult to administer and complex to plan for. Accordingly, we have urged the government to replace the split rate with a single, flat rate such as 150 per cent.

We also believe internationally competitive accelerated capital write-off rates are needed to ensure investment in capital-intensive Australian manufacturing. Write-off rates are a critical factor in determining return on investment and thereby strongly affect decisions about the location of investment. However, the current review of write-off rates being undertaken by the Australian Taxation Office (ATO) is extending the lives of plant for depreciation purposes, which would appear to be at odds with the desire to attract capital investment in manufacturing, such as the automotive sector.

Applicable tax depreciation rules have a critical impact when assessing the international competitiveness of a country's tax system. Tax depreciation is an important factor in the cash flow returns from a capital project. The slower these returns are realised, the lower the net present value and the longer the payback period. We believe that the commercial exploitation of innovation is a vital last step in the innovation cycle and that accelerated depreciation regimes should be provided as an incentive to help ensure that Australian companies continue to operate manufacturing operations domestically.

- **Skills & Training** – Given current skills shortages being experienced in many industries, governments and industry need to think creatively about ways to attract, retain and further develop

skilled personnel. From BlueScope Steel's perspective, two issues that especially need addressing are:

- Making it easier for high school graduates to transition directly into key TAFE mechanical and electrical engineering Advanced Diploma programs - rather than requiring prerequisite trade qualifications.
- Streamlining the complexity involved in having Diploma and Advanced Diploma courses accredited - particularly when much of the subject matter is pre-existing (e.g. Metal and Engineering Training Package - Metallurgy). The current approvals process typically takes many months, despite pressing needs in this area.

Both these initiatives affect our ability to attract, develop and fast track suitable candidates into relevant Diploma / advanced Diploma courses - which establish direct career paths into the technical and supervisory ranks of the steel manufacturing industry.

- **Regulatory Burden** – The Business Council of Australia (BCA) has observed that the volume of government regulation in Australia is growing at three times the rate of economic growth, with Federal and State governments adding some 30,000 pages of new laws and regulations per year. Notwithstanding the recent Federal Government review of regulation, BlueScope Steel believes there is a need for a permanent, ongoing mechanism to review government regulation, with a view to eliminating duplication, redundant regulations, and the cost and complexity of regulation. Such a mechanism needs to encompass all levels of government in Australia.

Two examples (amongst many) of unnecessary, duplicated or overly burdensome regulation faced by BlueScope Steel include:

- **Emissions, energy, water and waste reporting** - BlueScope Steel is required to report emissions and energy usage to multiple State and Federal agencies. For example, we currently report emissions to State EPAs, as well as data on energy use, water use and solid waste. Reporting is also undertaken for the National Pollutant Inventory, and energy usage and improvement data will soon need to be reported to the Federal Government for the purposes of the Energy Efficiency Opportunities legislation (and now for NGERs). State Governments in NSW and Victoria now also require BlueScope Steel to prepare mandatory energy and water savings plans. Fuel intensity is reported to the Australian Bureau of Agricultural and Resource Economics. This duplication of reporting is costly and time consuming.
- **Development approvals** – We note the wide disparity in the time taking for State development approval processes in Australia, and between Australia and many of the countries in Asia in which BlueScope Steel invests. For example, government development approvals for BlueScope Steel's new coating and painting plant in Suzhou, China, were granted in three days. While this is an extreme example, the relative speed of development approvals in many Asian countries contrasts with the months and even years sometimes required to obtain development approvals in Australia.

## The impact of greenhouse gas regulation on competitiveness

BlueScope Steel believes that reducing greenhouse gas (GHG) emissions is an important issue, and that governments need to ensure a regulatory framework that allows long-term investments in clean technology and efficient production.

As the Minister for Trade, Simon Crean, has said: "The significance of the emissions trading scheme should not be underestimated. It will constitute possibly the most significant economic reform undertaken in Australia."<sup>5</sup>

As a general principle, BlueScope Steel endorses the use of economic instruments such as an emissions trading scheme (as envisaged in the Kyoto Protocol) to address climate change and reduce GHG emissions, provided there are appropriate transitional arrangements for trade-exposed, emissions-intensive industries such as the steel industry.

Transitioning to a lower carbon future will require industry to make large investments in long-lived assets, to replace assets that are still productive today. Governments will need to provide long-term certainty with regard to future carbon costs in order for these investments to proceed.

The presumption among some climate change policy-makers appears to be that an effective global price for carbon can be secured in the near future. However, we believe such an outcome is unlikely. The Governments of leading global steel producer countries in the developing world, such as China, have made clear in the negotiations for a new UN climate change instrument that they will not adopt abatement measures which reduce economic growth, and that they intend to give emphasis to adaptation measures as well as measures to mitigate an increase in emissions.

These countries may adopt strategies to reduce emissions at a later time. China has referred to 2030 as the date by which it expects its emissions of greenhouse gases to peak. Nevertheless, there is no evidence that countries such as China plan to enter binding commitments to reduce emissions at any time in the foreseeable future.

In these circumstances, any strategy by the Australian Government to impose a cost of carbon on Australian steel producers ahead of international competitors would disadvantage BlueScope Steel. Absent a technology breakthrough, the imposition of a carbon cost in Australia ahead of major competitors would simply result in steel production becoming uneconomic in Australia, with Australian consumers changing their purchasing to source steel and manufactured products from non-carbon constrained overseas producers.

Such an outcome would potentially cause a misallocation of resources within the steel industry, and would arguably lead to higher emissions per unit of product when transport emissions were taken into account (or if steel products are sourced from less efficient overseas producers). We believe, therefore, that it is both economically efficient and environmentally effective to provide transitional assistance to trade-exposed emissions-intensive industries. The simplest and most effective form of assistance is likely to be the free allocation of emissions permits until such time as major competitors face effective carbon constraints.

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<sup>5</sup> S Crean, *Ibid.*

The manner in which GHG emissions are regulated by governments will have a critical influence on the ongoing viability of the domestic manufacturing industry, including local steel industry.

There is an evident inclination to regard transitional assistance for TEEIs as only temporary, or to use a high carbon price to encourage the development or adoption of technologies that use less carbon. In the case of iron and steelmaking, such technologies either do not exist at the moment, or are many years (likely decades) away from commercialisation.

Australian industries, including the iron and steel industry, are price takers in the global market, not price setters. Unilateral action by Australian authorities to drive development of new global standards of innovation carries a level of risk that no commercial enterprise in this environment could support.

With these implications, it would wise for policy makers to move cautiously in designing an emissions trading scheme. The guiding principle at this stage should be to test how emissions trading can be used to achieve reductions of emissions of carbon dioxide in a way that has least impact on the competitiveness of the economy, while also cutting global GHG emissions.

BlueScope Steel accordingly believes that to ensure the competitiveness of Australian industries that are trade-exposed emissions-intensive, an Australian emissions trading scheme should include the following features:

- Trade exposed industries should receive free permit allocation to ensure they are not competitively disadvantaged in both export and domestic markets during that period;
- The cap for the initial period should be generous to minimise the transitional and other risks to TEEI industries and the economy as a whole;
- The subsequent trajectory for emissions reduction should reflect the technical and economic capability of the industry to reduce its emissions;
- Regular re-assessment of the scheme to review the direction in which the global public policy architecture on climate change is moving, including assessment of how Australian industry can most effectively contribute to measures to reduce emissions without putting at risk its capacity to trade and operate in global markets.

We note that the recent Carbon Pollution Reduction Scheme Green Paper, released by the Federal Government on 16 July 2008, makes clear the government's intention to assist TEEI industries (referred to in the Paper as 'emissions-intensive trade-exposed' or EITE industries). BlueScope Steel supports this intention and is currently examining the detailed proposals contained in the Green Paper. Our objective is to ensure the design of an emissions trading scheme maintains the long-term competitiveness of iron and steelmaking in Australia.

## Conclusion

Thank you again for the opportunity to make a submission to the Government's Review of Export Policies and Programs.

We would welcome the opportunity to provide further information in support of our submission, either in person or in writing. In the first instance, please contact David Jenkins, Manager Government Relations on (03) 9666 4022 or e-mail: [david.jenkins@bluescopesteel.com](mailto:david.jenkins@bluescopesteel.com) if you require more information.

Yours sincerely

(signed)

**Paul O'Malley**  
MANAGING DIRECTOR AND CEO