

2 October 2017

Steven Bailey  
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New Zealand Productivity Commission  
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Via email: [info@productivity.govt.nz](mailto:info@productivity.govt.nz)

Dear Steven

### **Low-Emissions Economy**

New Zealand Steel is pleased to have the opportunity to provide a submission to the Productivity Commission (the 'Commission') on its 'Low-Emissions Economy' Issues paper, dated August 2017.

#### **Key Messages:**

- The Commission needs to fully understand the global nature of the steel industry and how New Zealand Steel competes within it before setting domestic emissions policy.
- There is no known way to produce steel without carbon emission. When there is, New Zealand Steel will be eager to use it, as long as it is not so expensive as to be uncommercial.
- Imposing carbon cost will seriously negatively impact New Zealand Steel's competitiveness (because of free trade in steel) until most global producers are under the same carbon cost. In the meantime, we are state of the art in terms of our general environmental footprint.
- Our steel plant is here. It is a huge investment that will simply be lost and wasted if it closes. It uses our resources and it employs our people and ensures we have know-how and capacity in a production sphere that has always been seen as strategically vital.
- If New Zealand Steel's net carbon cost marginally increases, steel making in NZ will be imperilled. A substantial increase would mean the end of steel making in NZ altogether. If we stop doing what we do, the emissions will continue – just not from here.
- There is no known good substitute for steel in many of its uses. When there is one, steel making will reduce accordingly as long as there is a fair carbon price applied across the world. If not, those who load their industry with a price not charged elsewhere will simply export the jobs, the expertise, the strategic capacity & the environmental footprint.

- New Zealand Steel remains acutely aware of its environmental responsibilities. We will continue to take all realistic measures to reduce our carbon footprint and mitigate the environmental impact of our business.
- Any transition to a low emissions economy should be about keeping pace with technological developments without unduly distressing the local industry.

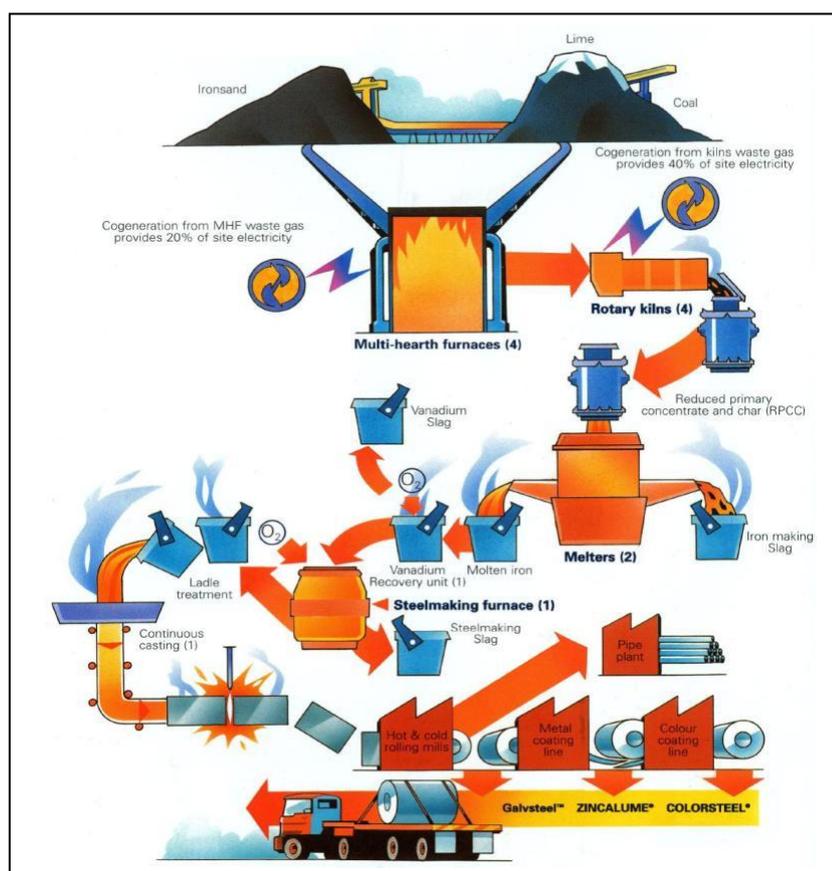
## Combating climate change and the role New Zealand Steel plays

1. New Zealand Steel<sup>1</sup> is a champion of innovative, efficiently produced and high quality steel, and a guardian of its communities as well as the natural environment. We are the only fully integrated flat steel maker in New Zealand and a leading domestic supplier of flat and long products all driven by our unique ability to extract steel from West Coast beaches ironsand.

***New Zealand Steel is fully aware of the global risk that climate change presents. We believe that combating climate change is a collective endeavour and involves collective accountability.***

2. New Zealand Steel contributes over \$278M annually directly to the national economy; the additional indirect economic contribution of our operation has been independently assessed at more than \$351M (Deloitte 2017). We also provide jobs for around 1400 people directly and a further 2500 indirectly. We are an industry leader in innovative, safe and sustainable steel manufacturing operating a fully integrated steel mill in Glenbrook, South of Auckland.

### Our Process: From Sand to Steel



<sup>1</sup> By "New Zealand Steel" we are referring to BlueScope's steelmaking, metal coating and paint line operations at Glenbrook, South Auckland and its ironsand mining operation at Waikato North Head. Pacific Steel (NZ) a sister company of New Zealand Steel located in Otahuhu, Auckland and is a producer of long steel products. Due to the nature of its operations, Pacific Steel has a substantially lower carbon emissions profile.

3. Steelmaking by its very nature is an emissions intensive industry. Not only does the process consume large amounts of energy but it also requires coal and coke as essential chemical reductants. It is the reduction of iron sand by coal that accounts for at least 80% of New Zealand Steel's emissions.

***There is currently no technology anywhere in the world that allows for steel to be made from raw materials without coal.***

4. Notwithstanding the coal-centric reality of iron and steel making, New Zealand Steel continues to examine ways to innovate always with the underlying goal of more effectively managing its environmental responsibilities including its carbon footprint. We outline some of these initiatives:
  - a. New Zealand Steel has been working on solutions to reduce the impact of its production on the environment and limiting, where possible, emissions. One of the most striking examples of this was to completely restructure our operations and channel to market upon purchasing Pacific Steel (Otahuhu, Auckland) in 2014. We decided to shut down the electric arc furnace at Pacific Steel and have billet supplied direct from Glenbrook. This enabled us to substantially reduce our net export volume (of both long and flat products at both Pacific Steel and Glenbrook) and thus our net carbon emissions profile.
  - b. New Zealand Steel actively seeks to collaborate with third parties to synergise and capitalise on resulting environmental benefits. For example, New Zealand Steel has supported many clean tech initiatives including well-known companies such as CarbonScape and LanzaTech. (CarbonScape is a start-up seeking to turn forestry waste to environmentally-friendly (green) coke for use in steel production - CarbonScape's patented technology accelerates the carbon process, achieving in minutes what nature takes millions of years to do. Meanwhile, LanzaTech's technology converts carbon waste (carbon dioxide) using a fermentation process, into fuels.)
  - c. BlueScope has heavily invested in New Zealand Steel's co-generation plant at Glenbrook. Off-gases and waste heat from the ironmaking process are used to generate up to 60 per cent of total site electricity requirements. The balance of requirements comes from the national grid and is generated from an average of greater than 80% renewable fuel sources.
  - d. Around 70,000 tonnes of scrap steel is recycled each year in the steel making process. Aggregate by-products are used in road making, replacing material that would otherwise be quarried.
  - e. Further energy efficiency measures are being implemented where they are technically and commercially feasible, and are largely focused on reducing natural gas and electricity consumption through process optimisation. Within existing facilities, a range of initiatives have been implemented, or are under investigation, to improve energy and greenhouse gas performance. These include:
    - i. Improving process control
    - ii. Optimising operational and materials efficiency (for example, we constantly and rigorously test various coal types/variants to ensure that coal is used in the most efficient way possible)
    - iii. Optimising operational process yields
    - iv. Decommissioning or upgrading older, inefficient equipment
    - v. Optimising steam and gas systems
    - vi. Increasing use of natural light or high efficiency lighting in buildings
    - vii. Turning off or idling equipment when not in use

- viii. Increased use of environmental measurement tools to monitor processes
  - ix. Capturing and reusing by-product gases from iron making for heating and to generate electricity.
- f. New Zealand Steel (and the wider BlueScope Group) is currently restructuring its sustainability division and reconsidering its broader strategy - we are very excited by some of the additional opportunities this will present for our business.
5. It should be stressed that New Zealand Steel fully supports the transition to a low-carbon energy future where we play our part in reducing carbon emissions in a phased and targeted way. However, New Zealand Steel (and other similar domestic producers) cannot do it alone.

***Progress in breakthrough technology development in steel making and implementation must be maintained or accelerated requiring the financial burden to be shared by both government and the private sector.***

## Understanding steel

6. Until a suitable replacement for steel is found, New Zealand will always have demand for, and thus **consume**, steel. There is no known like-for-like replacement for steel – certainly not one that provides the breadth of benefits to the construction and manufacturing sectors that steel does. Steel is used in everything from tow bars and commercial refrigeration, to major transport infrastructure like the Waikato Expressway. It is also integral to large scale builds such as the Vodafone Events Centre in Manukau, and the University Of Auckland Business School.
7. Steel provides intrinsic benefits above and over alternative products. It has a favourable strength to weight ratio making it easier to transport and thus, reduces fuel costs and accelerates project schedules. It is also energy efficient and can be recycled, creating minimal raw material wastes. It is extremely ductile meaning it does not buckle, distort, rotate, clink, warp or splinter; yet it can be rolled or cut and turned into a variety of sizes and shapes without changing its composition or physical property through structural steel fabrication. These physical properties make it an essential component in earthquake prone areas (like Wellington and Christchurch).
8. Given the comparative benefits of steel, New Zealand companies and end consumers will always consume steel in various forms. The question then becomes whether that steel should be locally produced, exclusively imported or a mixture of both models. We submit that it is the later for a number of critical reasons outlined further below.

## Understanding New Zealand Steel's place in the global steel industry

9. Since as much as 35% of steel is traded internationally<sup>2</sup>, policies must promote a level playing field to ensure that steel companies in one region are not put at a disadvantage with steel makers from other regions.

<sup>2</sup> Worldsteel Association "Steel's contribution to a low carbon future and climate resilient societies (Position Paper – page 2)

10. We invite the Commission to carefully consider how our business model works and the practical reality of steel making in New Zealand. We are a trade exposed business. That is, we set our pricing for 90% of our domestically sold steel products relative to the pricing of similar imported steel products. If we did not take that approach, we would immediately lose market share as soon as import pricing materially decreased. As you can appreciate, for a business of our complexity and size that is not an option.
11. New Zealand Steel takes great pride in being able to compete vigorously with any other steel producer. However, we compete in a global steel market – our competitors are offshore steel mills that import steel into New Zealand. To effectively compete with them, **we must be able to trade from the same starting position** – in relation to carbon policy, we have to coexist within the same or similar emissions regulatory regimes as our competitors (more on this later).

## Strategic value of locally made steel

12. Steel has many linkages throughout the New Zealand economy that are pivotal to not only the survival of our communities but it also aids many manufacturing businesses which in turn help support the national economy. Strategically steel provides the foundation of manufacturing and construction sectors and so is vital to New Zealand's economic prosperity and unique small market.
13. The short lead times required by New Zealand small businesses due to their relative isolation means local steel production often needs to meet a lead time of only a few weeks (or less for urgent project requirements or critical infrastructure demands). On a 100% import model, the delay would be at least three months or longer depending on the global supply curve for steel at that point in time. The New Zealand construction and manufacturing sectors (and importantly the end consumers that rely on these supply chains to deliver on time and to spec) would not be protected from these delays which would slow growth, production and also raise overall costs – direct and indirect.

***At a broader level, local steel making provides greater flexibility for the local economy in responding to changes in global supply and demand, as well as local shocks (such as natural disasters) and the ability to maintain standards tailored to the local market. (Deloitte Access Economics Report<sup>3</sup>)***

14. Our steel is central to a huge variety of New Zealand manufactured products that consumers need – for example Christchurch was rebuilt largely on our three-plate welded beams, supplied by our subsidiary STELTECH®. New Zealand Steel plate steel goes into wharves, bridges, tunnels and farm equipment, while our square and round pipe is used for everything from fluid transmission to manufacturing air-conditioning units.
15. Moreover, if steel production was to disappear from New Zealand then we would lose invaluable skills, knowledge and industry know-how. The reversibility of closing steel making at Glenbrook would be close to zero as the capital cost to restart would be billions.
16. The strategic advantages of domestic steel making may not be as apparent during times of global over supply (as has been the case over the last few years), but as soon as a global steel shortage manifests (which has occurred several times over the last few decades) then the above issues become all too real. This, together with the fact that locally produced steel is considered a strategic national asset was noted by an Australian regulator:

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<sup>3</sup> Deloitte Access Economics Report, September 2017, Executive Summary, page 5.

***“In an increasingly uncertain international climate, the national interest is not served by a reliance on imports to supply a strategic product that is vital to the manufacturing, construction and defence industries”<sup>4</sup>***

17. Our strong view is that this same principle applies in New Zealand, but even more so due to New Zealand’s greater geographic isolation and its smaller scaled economy.

## Understanding our local communities and culture

18. New Zealand Steel mines ironsand to make 650,000 tonnes of steel a year – the only place in the world that converts ironsand into steel. While a boutique operation by international standards, it’s a world-class company providing enormous economic and strategic benefits for all New Zealand. To fully appreciate this, you must first understand our story and where we come from – our company is a classic pioneering Kiwi tale of extraordinary vision and ingenious execution. It is a history that is deeply entwined around the local Waiuku and South Auckland communities together with the connected iwi and hapū of those areas.
19. Since those early times, the process of turning ironsand into steel has been driven by world-leading technology and engineering expertise combined with the vision and smarts of many people both local and offshore. Today that same passion for excellence is focused on reducing emissions in a practical businesslike way while also ensuring the continued survival of a business that New Zealand cannot afford to lose.

***The continued existence of our local industry replenishes our communities allowing them to continually flourish.***

20. A one-size fits all climate change model is unrealistic. There is no doubt that unless we work together and look for new, smarter ways of doing things then climate risk will eventually overwhelm businesses and reduce their ability to contribute to the economy and local communities.

## Higher net carbon cost - the end of steel manufacturing in New Zealand

21. Manufacturing in the first world is challenging at the best of times and this is particularly the case with steel making in New Zealand – it requires substantial amounts of on-going capital and relies on the assumption that our competitors are subject to similar regulatory rules. As has been reported recently in the media, we have been vigorously defending our rights to ensure that WTO rules around free and fair trade are applied to all stakeholders in the global market. In a similar vein, we ask that New Zealand Steel is only exposed to a carbon cost that is approximately equivalent to our competitors. Any unilateral increase to New Zealand Steel’s current net carbon costs would result in the “perfect storm” to our business.

***To be crystal clear, without further refinement of our ETS regulations any increase to our net carbon cost will put steel making in New Zealand into jeopardy. A significant increase will result in the closure of steel making in New Zealand.***

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<sup>4</sup> Page 10, Submission from the South Australian Government, February 2017 (Senate Economic Reference Committee into the Inquiry to the Future of Australia’s Steel Industry), page 10.

22. Our above assessment may appear hyperbolic, but we can assure you it is not. New Zealand Steel operates in a challenging, difficult environment where we are often at a disadvantage vis-à-vis many of our trading partners. Put simply, unless our competitors face a similar carbon cost profile then we will be unable to effectively compete in the global steel market place.

## The counterfactual

23. We ask the Commission to carefully consider the counterfactual that would unfold should steel making cease in New Zealand.
24. In addition to losing all of the strategic benefits of steel making in New Zealand (as mentioned in the previous section) the obvious and direct consequence of closing steel making in New Zealand is the loss of thousands of direct and indirect jobs in the South Auckland area not to mention the massive community disruption that would result (Deloitte 2017).
25. However, that would not be the worst of it. New Zealand still needs steel and will thus still consume steel - except under this scenario that steel would be imported. Imported steel still produces emissions via carbon leakage. The net reduction in global emissions would be minimal if at all and the New Zealand Government would have limited to no visibility over the emissions resulting from the steel consumed in New Zealand.

***Selective greenhouse gas emission regulations on a national or regional basis will inevitably lead to the relocation of production capacity without achieving a more than negligible reduction in worldwide greenhouse gas emissions.***

26. In addition, steel produced overseas is very likely to be produced with a worse overall environmental footprint, a far worse safety impact, lower quality standards, with lower wages and minimal benefits for our Kiwi communities and local iwi.
27. The resulting offshore emissions (that will still eventuate via our domestic consumption of steel) will inevitably and adversely impact New Zealand's environment. To state the obvious, we don't have walls that protect Aotearoa, New Zealand from global emissions.
28. We must take care not to choose the wrong future.

## A level playing field

29. New Zealand Steel is asking for a level playing field. We have recently experienced a market imbalance on product quality and international trade issues. As such, we are sensitive to the same happening with potential changes to New Zealand emissions policy – the reality is that climate policy is not trade neutral and so it does mean that there are variations in the relative costs of production between countries that have differences in their approach to implementing policy.

***New Zealand Steel advocates an industry specific approach to climate change because to take any other approach would result in unintended but very real changes to our local industry.***

30. It is salient to briefly mention how Australia has dealt with the issue of carbon leakage. Australia's Productivity Commission has specifically considered the "70% of competitors test". We expand on this in

Schedule 2 below, but to summarise, this test effectively delays a phase down of carbon credits until at least 70% of relevant competitors globally face similar emission reduction measures.

31. This test (or a derivative of it) reflects the reality of the bottom up non-enforced nature of the Paris Agreement:

***“Countries have made broad emission reduction commitments but the precise detail of policies to achieve the reductions are not yet clear. This lack of clarity means that comparing the costs of climate change action in individual sectors in different countries is difficult, if not impossible, and therefore presents challenges in understanding the competitiveness impacts of any proposed....policy” (Centre for International Economics, Canberra 2017)***

32. We acknowledge that the Commission is focused on New Zealand domestic emissions, but it is essential the Commission highlight the issue of carbon leakage through ‘forced’ relocation of businesses offshore. Carbon leakage will not result in reduced global emissions, but the short and long term impact on New Zealand needs to be assessed.
33. Paris COP21 accord continues to focus on carbon measures based on production. While this measure will remain, we recommend the Productivity Commission’s report back to the New Zealand Government highlight the distortionary affects including regulatory asymmetry in the global steel market. **In contrast to production, a consumption approach to setting emissions policy remains trade neutral regardless of timing or implicit carbon price**<sup>5</sup>. Other references relating to production vs consumption discussions are included in the footnotes<sup>6, 7, 8</sup>.

***Attempts to price carbon require the determination and creativity of governments to find the right level of arbitrage between the economic efficiency and political and social responsibility of climate policies.***

34. We would welcome the opportunity to sit down with the Commission and go through some of the possible policy approaches recognises the role consumption plays in global carbon emissions.

## Financial Impact

35. The New Zealand ETS currently imposes costs in excess of \$2m p.a on domestic steel making that our international competitors do not face. The removal of the one-for-two surrender obligation is doubling these costs and risks further undermining the competitiveness of NZ Steel.
36. The purchase of coal is not just a significant cost in our operations but the highest cost in the steel making (above even electricity and labour). This massive relative cost of coal heavily incentivises New Zealand Steel to reduce the consumption of coal without the additional ETS carbon costs, which effectively just reduces our competitiveness.
37. The NZ Climate Change Response Act contains provisions for the phase-down of allocations, including industrial allocations. If the phase-down is activated, the costs to New Zealand Steel would start at an additional \$0.7m p.a. and build to more than \$50m p.a. at \$25 per tonne of CO<sub>2</sub>.
38. Starting a collaborative conversation that recognises the need to work together is the first part of the solution – the impacts of climate change are highly complex and require that a detailed holistic analysis

<sup>5</sup> Page 4 AIGN paper.

<sup>6</sup> <https://www.carbonbrief.org/the-uks-outsourced-emissions-almost-double-its-carbon-footprint>

<sup>7</sup> <http://www.pnas.org/content/107/12/5687.full.pdf>

<sup>8</sup> [https://issuu.com/policyexchange/docs/carbon\\_omissions\\_-\\_oct\\_\\_10](https://issuu.com/policyexchange/docs/carbon_omissions_-_oct__10)

is made of the materials, resources and facilities of each company's operations where and how these fit into New Zealand's overall social, cultural and economic wellbeing.

39. We welcome the Productivity Commission to come up and visit our steel making plant at Glenbrook, South Auckland. An on-site tour and close interaction with our business, our people and our communities will put this submission in the right context.

We have submitted detailed responses to some of the relevant questions raised in the Issues Paper – these can be found at Schedule 1 of this letter.

We would be happy to discuss these and any other issues the Commission considers relevant to progressing its inquiry.

Yours sincerely,



John Nowlan  
GM New Zealand Steel & Pacific Islands

## Schedule 1: Responses to specific questions relevant to NZ Steel

### **Q1 How can the Commission add the most value in this inquiry?**

NZ Steel agrees with the factors identified by the Commission. The inquiry provides an opportunity to develop a New Zealand specific resource for policy makers and stakeholders to use as a reference point on the challenges and opportunities ahead and as a sound foundation for decision making. We also suggest the following could enhance the scope and effectiveness of the inquiry.

- Identify the policy decisions required to achieve the inquiry's desired outcomes to ensure any decrease in carbon emissions does not bring an unintended disproportionate cost to the economy.
- Highlight and evaluate the degree of carbon emissions leakage and increase in global carbon emissions of any domestic carbon policy.
- Consider the validity of UK and EU claims to be leading the world in decarbonising their economies. Much of this depends upon how you allocate responsibility for carbon emissions between countries. Under the UN Framework Convention on Climate Change, countries are responsible for carbon emissions produced within their borders. But in an increasingly globalised world, citizens of wealthier countries are consuming a growing percentage of goods and services produced in developing countries. Are we simply off-shoring our carbon emissions?
- Ensure a more detailed assessment approach to the lumpy nature of the New Zealand carbon emissions profile to allow for accurate assessment of large industrial emissions intensive operations such as Steel. The incremental reductions achieved in larger economies are not relevant to NZ. Emission reduction studies often fail to recognise that in the NZ setting, single plant manufacturing means only two options – continuing operations or stop manufacturing completely and relocate off-shore. The long-term macro impacts of change through closure are usually not adequately factored into the modelling and assessment. Given the continue-or-close alternative above, the Commission can add significant value by ensuring these wider implications are taken into account.
- Clearly identify the price responsiveness of different sectors of the economy to emission pricing and factor this into the consideration of domestic policy options.
- Recognise and evaluate the rate of technology adoption across different industries that will differ in relation to asset life and value to ensure any consideration of domestic policy options factor in the fact that policy certainty increases the propensity for high capex / long asset life emissions reducing investments.
- Identify the risks associated with premature asset closure caused by policies that do not take into account the rate at which sectors of the economy can respond.

### **Q2 Chapter 3 of this issues paper mostly looks at ways to reduce emissions directly at their source. What other approaches would help identify opportunities to effectively reduce emissions?**

- Given New Zealand Steel's limited options for reducing its carbon emission directly, it has developed and progressed a number of indirect opportunities to reduce carbon emissions. These are detailed below and may be a useful reference point for the Inquiry:
  - Industrial processes requiring low-grade heat are the prime example of co-location activities with symbiotic energy requirements. Co-locating other processes would also reduce emissions at source. For example, a waste heat from a data centre could be used as heating input for a greenhouse.
  - New Zealand Steel has a well resourced site for electricity, natural gas, process water, steam, rail, road, cryogenic gases, and some untapped low-grade heat sources. It already has a number of effective initiatives – greater overall efficiency and lower overall emissions could be achieved for some business activities on our Glenbrook site with appropriate resource consents.
  - We reference the paper by Paul Woodfield, *Innovating in Traditional Industries*<sup>9</sup>, which identifies the benefits of traditional industries and emerging technology working together to the benefit on NZ Inc.
  - NZS continues work maximising the use of production waste and by-products. This includes generating up to 60% of the site's electricity requirements using the off-gases from iron making and further processing of slag for paving and in specialist roading applications in lieu of quarried material.
  - Steel is theoretically 100% recyclable<sup>10</sup> although opportunities need to be weighed up against costs.

**Q10 *In addition to encouraging the use of electric vehicles, what are the main opportunities and barriers to reducing emissions in transport?***

- Inadequate rail options vs road, both from a network and cost viewpoint. For example:
  - Road is the only realistic option for transporting steel coils from NZ Steel's Glenbrook plant to the port of Auckland as there is no specific freight network and the rail network is clogged with commuter traffic.
  - In the lower North Island, the combination of rail, depot then truck for delivery is more expensive than just using a truck from Glenbrook. A lot of the cost is materials handling and new intermodal technology should help when the rail, trucks & ferries all align in the next 5 years allowing for simple transfers.
  - Still no effective rail network in the South Island. The connection has re-opened but offers an unattractive and restricted service with a pre-booking take or pay deal to get anything onto the line. Even when the rail network was running properly, Christchurch in NZS was the only sensible destination with trucks delivering onwards from there.

<sup>9</sup> <http://www.uabr.auckland.ac.nz/pdfs/innovatingintraditionalindustrie.pdf>

<sup>10</sup> A Bridge to the Future, ESTEP, March 2009. [http://cordis.europa.eu/pub/estep/docs/steelpaper\\_en.pdf](http://cordis.europa.eu/pub/estep/docs/steelpaper_en.pdf)

Delivery times to other points on the rail network were unacceptable with days being lost in shunts as NZ Rail try to make up a freight train worth sending onto another city such as Dunedin.

- The fundamental problem with rail in NZ is that there is no national strategy, a lack of scale and a lack of competition (i.e. a monopoly with a single service provider).
- Ineffective coastal shipping options. While it is cheaper and options have improved greatly since the earthquake with other carriers and extra ships, the service is still far less reactive to customer demand than rail (which itself has major issues as described above). Many South Island ports are also an issue with very limited goods handling and storage options.
- The Commission also needs to assess the further impact on these limiting factors if changes in Climate Change policy result in further exit of manufacturing from NZ (i.e. some of the existing rail networks would become further underutilised and thus uneconomic likely forcing their closure thereby increasing net road use).

**Q11 What are the main opportunities and barriers to reducing emissions from the use of fossil fuels to generate energy in manufacturing?**

- NZ Steel is a comparatively low user of process heat. The majority of emissions are a physical result of the chemical reactions when manufacturing steel products and carbon is an intrinsic requirement for the reduction of iron oxide in the iron and steelmaking process.
- Policy settings to encourage onsite “clean” cogeneration of electricity. This may include a review of the Electricity Industry Participation Code.
- Renewables (in a broader context).
  - ongoing potential for co-location of new plants with geothermal sources for industry requiring low grade heat
  - wood biomass has a low energy density and so efficiency and transportation (e.g. increased truck movements) can be a barrier to implementation – pre-processing of biomass into high energy density fuel is one option to be considered.
  - fuel switch from coal to gas (as a lower emissions transition fuel) remains an option as with some North Island locations.
- At a more general level, businesses crave policy certainty which enables them to make long term investments. In an energy context, this would include certainty around the Emissions Trading Scheme, Transmission Pricing and the Resource Management Act. Without reasonable certainty on policy settings, reinvestment in aging or new long-term assets is problematic.

**Q12 What changes will be required to New Zealand’s regulatory, institutional and infrastructural arrangements for the electricity market, to facilitate greater reliance on renewable sources of energy across the economy?**

- RMA revision to enable large scale wind and solar energy (with suitable back-up on base load), as well as further hydro, to be built and connected to the transmission grid and/or distribution networks without undue restrictions.

- A regulatory regime that incentivises the use and recognises the value of cogeneration and avoids overly restricting industrial cogeneration applications.
- Real-time information readily available to electricity consumers as to the fuel source of [dispatchable generation]. Consumers can then take an informed decision real-time as to the level and timing of electricity use relative to the carbon output for the required generation.
- Encourage demand response initiatives for both instantaneous reserves and the energy market.

**Q15 What are the main opportunities and barriers to reducing emissions in industrial processes (such as the production of steel, aluminium and cement) and in product use (such as the use of hydro fluorocarbons in refrigeration and air conditioning equipment)?**

- For the production of steel, the majority of emissions are a physical result of the chemical reactions when manufacturing steel products (rather than, say, the consumption of electricity as is the case with other manufacturing). Carbon is an intrinsic requirement of the steelmaking process for which there is currently no substitute.
- Through our World Steel membership, BlueScope and NZS are able to stay connected with developments regarding research into breakthrough technologies for low emissions steelmaking. There are currently no such technologies commercially available. Through this membership, work is continuing to find alternatives or reduce carbon requirements in the steelmaking process<sup>11</sup>.
- Importantly, the by-products/waste from the NZS site activities are used wherever possible to feed into other activities including:
  - waste hot gases from iron making are the fuel for approximately 60% of site electricity
  - site scrap is all recycled back into steel making
  - recovered slag into roading aggregates
  - process off-gases were the fuel for the LanzaTech pilot ethanol plant.
- While carbon is an essential ingredient in steel making, capture and storage of the resulting CO<sub>2</sub> is another technology being considered by the world steel makers. Again the technical realities means this currently remains unachievable for the scale required in the steel industry. However, due to the increased focus in this area internationally we remain hopeful that a breakthrough technology is identified soon and commercialised on a suitable scale.

**Q16 What policies and initiatives would best promote the design and use of buildings that produce low greenhouse gas emissions?**

- R&D support for development of new systems to improve the thermal performance of buildings, such as photovoltaic-thermal roofing.
- Encouragement for building owners to generate and store energy or reduce energy use and that move consumers to lighter coloured roofing materials to deflect heat or darker colours to absorb heat.

<sup>11</sup> <https://www.worldsteel.org/en/dam/jcr:c4532192-07eb-43ba-955c-cec8aead6763/Climate+Change+Position+Paper+FINAL+WEB.pdf>

- Recycling initiatives for building materials. Steel is infinitely recyclable. Policy should look past emissions in the production phase and take into account the full life cycle. Policies should not encourage use of materials that cannot be comprehensively recycled and thus end up in landfill. Please reference World Steel Association<sup>12</sup>
- Use of sustainability planning mechanisms such as the BASIX program used in NSW  
<https://www.planningportal.nsw.gov.au/planning-tools/basix>
- Encourage Product Lifecycle Analysis (LCA) such as this work on behalf of the US Metal Construction Association.
- Ecolabelling including looking further at the Dutch government procurement policy which has been working on a model that allows for bidders to register their products at a CO2 rate that shows its benefit of the product and its energy consumption during use for buildings for instance.

**Q17 What are the main opportunities and barriers to reducing emissions in waste?**

- Recycling of steel (“circular economy”)
- Steel is infinitely recyclable<sup>13</sup>. The long-life nature of steel, complemented with adequate recovery mechanisms at product end-of-life, can effectively eliminate waste.
- NZS is actively engaged to use by-products thereby minimising the use of local land fills. Slag from iron making is now a sought-after substitute for quarried aggregates used for paving and roading. It is specified for anti-skid roading applications by the NZTA.

**Q18 Policies to lower emissions from particular sources, technologies and processes can have interactions with emission sources in other parts of the economy. What are the most important interactions to consider for a transition to a low emission economy?**

The article “innovating in Traditional Industries” by Paul Woodfield will be of interest to the Commission:

<http://www.uabr.auckland.ac.nz/pdfs/innovatingintraditionalindustrie.pdf>

**Q20 Acknowledging the current review, what changes to the New Zealand Emissions Trading Scheme are needed if it is to play an important part of New Zealand’s transition to a low-emissions future?**

- NZS generally supports retention of NZ ETS providing it does not impose additional costs on New Zealand Steel that our competitors do not incur. The scheme is in place and maturing and focus needs evolution not revolution to achieve the required outcomes. Although we would like to reiterate that coal is the highest cost in the steel making process. This heavily incentivises New Zealand Steel to reduce coal consumption and increase coal efficiency and thereby lower net

<sup>12</sup> <https://www.worldsteel.org/en/dam/jcr:c4532192-07eb-43ba-955c-cec8aead6763/Climate+Change+Position+Paper+FINAL+WEB.pdf>

<sup>13</sup> <https://www.worldsteel.org/en/dam/jcr:c4532192-07eb-43ba-955c-cec8aead6763/Climate+Change+Position+Paper+FINAL+WEB.pdf>

emissions – arguably, any additional carbon cost impost just makes us less competitive. Or put another way, applying a cost on cost model to industries that are inelastic is a rather blunt instrument that threatens their competitiveness.

- Predictability of and certainty around policy settings is critical – one of the main criteria shareholders assess before making any investment is the regulatory certainty relevant to the underlying asset. Stage II outcomes of the ETS Review are still largely unknown. The criteria for ongoing exposure for trade exposed industry is critical to allow future investment in NZ Steel's assets and to avoid premature loss of economic contribution.
- While planned capital improvement expenditure can sometimes be deferred at NZ Steel, critical sustaining maintenance cannot. An example is where a critical piece of high-value equipment needs replacement, yet policy uncertainty undermines the investment case and can lead to premature closure of the whole asset.
- Continually pushing the carbon price up through a domestic NZ ETS may yield emission reductions through premature closure of plant and increase cost to the overall economy when a industry focused policy will be more effective.
- Inappropriate ETS setting will result in carbon leakage which hurts the local economy without reducing global emissions. The UK claim to achieving around a 24% reduction in net emissions is tainted by those emissions being outsourced<sup>14</sup>. Again, we ask the Commission how such outsourcing of emissions really achieves any type of credible sustainability on a global basis. Individual countries can “virtue signal” all they want, however we submit that the only real way to combat climate change is through a measured and globally integrated response.
- The NZ carbon price at circa NZD18 is currently out of step with the rest of the world. Australian Emissions Reduction Fund has averaged under AUD12 across the 5 auctions thus far. EU price is just under 7 euro. Access to ‘accredited’ International markets for the purchase of ‘approved’ units is essential in assisting with global trade neutrality<sup>15</sup>. This will also go some way to levelling out the playing field *with* jurisdictions that do not stay within the Paris Accord.
- Auction is being considered by the Government, but is effectively Government control of unit price through volume unless there is (open) access to international units

**Q21 What type of market-based instruments would best help New Zealand transition to a low-emissions economy?**

- Policy settings are more important than the delivery structure.
- NZS supports retention of NZ ETS. The scheme is in place and maturing and focus needs evolution not revolution to achieve the required outcomes. The ETS and allocation formula for EITE Defined Activities provides real incentives for reducing emissions at the current market price

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<sup>14</sup> <https://www.carbonbrief.org/the-uks-outsourced-emissions-almost-double-its-carbon-footprint>

<sup>15</sup> AIGN report

of emission units. The Government has recognised this was not the case when carbon obligations could be acquitted through the surrender of low value Units.

**Q22 What type of support for innovation and technology would best help New Zealand transition to a low-emissions economy?**

- Large industrial electricity users have, through compulsory levies, provided significant funding for energy efficiency initiatives (\$350k pa in the case of NZS). The recent broadening of the EECA focus to climate change issues will spread the funding base and importantly provide facilitation and assistance in the transition to a low-emission economy.
- Mechanisms to encourage coordination of ideas for cross business cooperation e.g. where the output from one activity provides input to another with energy saving potential.
- NZS encourages such activities e.g. through membership of the NZ Sustainability Council.
- Regulators to ensure barriers to technology uptake are avoided by keeping abreast of developments i.e. lead not follow, or at the very least stay out of the way.
- We again draw the Commission's attention to the Article by Paul Woodfield, Innovation in Traditional Industries. The author notes the Innovation of these firms is not always captured in R&D statistics. Initiatives to develop the scientific and technological competencies and requirements of these traditional industries builds the countries knowledge base and provides a development ground for new technologies including transition to a low-emissions economy.

***“2014 report by the New Zealand Productivity Commission which identifies the paradox that lies in our average performance against key economic indicators as reflecting an underinvestment in knowledge-based capital – sometimes referred to as intangible assets. This average performance needs to be lifted, and I will argue that our traditional industries have an important role in accomplishing this.”***

- Most NZ industry, including NZS, is small on a global scale. It is proportionally harder to fund development work.

**Q24 What type of alternative approaches (such as voluntary agreements or support for green infrastructure) would best help New Zealand transition to a low-emissions economy?**

- For some sectors voluntary agreements / green branding approaches may be more effective e.g. building refits, and new building eco standards
- Industry experience of voluntary agreements led to increased emissions monitoring and awareness which was beneficial to government and industry when price based measures were designed and implemented. There is high confidence in GHG emission dataset and early identification and action taken on emission reductions.

- Q25** *In addition to “core” climate policies and institutions, what other changes to policy settings or institutional frameworks are required to effectively transition New Zealand to a low-emissions economy?*
- Q26** *What are the main uncertainties affecting New Zealand businesses and households in considering investments relevant to a low-emissions future? What policies and institutions would provide greater confidence for investors?*
- Q27** *What approaches, such as regulatory frameworks or policy settings, would help embed wide support among New Zealanders for effective reduction of domestic greenhouse gas emissions?*
- Q28** *Is New Zealand’s current statutory framework to deal with climate change adequate? What other types of legislation might be needed to effectively transition towards a low-emissions economy?*
- Q29** *Does New Zealand need an independent body to oversee New Zealand’s domestic and international climate change commitments? What overseas examples offer useful models for New Zealand to consider?*

Q25-Q29 (collective response)

- The Commission’s role is critical in ensuring policy setters and their advisors, as well as commentators, are fully informed on the implications of transitioning to a low emission economy i.e. the transition is achieved in an efficient way and not just ‘going there’ anyhow.
- There is danger of overlaying additional policy and mechanisms on the ETS. As a country we need to avoid multi-layering.
- NZ already has the Environmental Protection Agency.
- Whether establishment of an independent body is the ‘right’ approach for NZ needs further consideration. Any such body would need to be made up of ‘independent thinkers’ and have separation from day-to-day political interference. Pharmac and the Electricity Authority are organisational models worth considering (although, the senior management within those regulators must be grounded in pragmatism and understand the real environments that business operate in).
- Consider that the UK has been held to have a 24% reduction in emissions. However, this is reported to have largely come from the UK off-shoring production *“the figures also reveal that the UK’s 2009 carbon footprint was 20 per cent greater than it was in 1990, with a huge doubling in CO2 emissions related to imports. When the CO2 embedded in imported goods and services is taken into account, the UK carbon footprint calculated on the basis of consumer spending is nearly double the figure that comes from measuring emissions from UK production – just over 700 million tonnes of CO2 as opposed to around 400 million tonnes.”*<sup>16</sup>

<sup>16</sup> <https://www.carbonbrief.org/the-uks-outsourced-emissions-almost-double-its-carbon-footprint>

- A key aspiration for the Commission's work is that it provides a sound factual basis for a political consensus to emerge. In the absence of political consensus on stringency of NZ's domestic policy and targets means that putting in place an independent body now would be too soon.
- Cross political party support for NZ ETS policy is important to ensure longevity of policy settings. In this respect the work of Globe is valuable. Globe NZ was successful in bringing political party representatives together, at the aspiration level. However, the election campaign has shown increasing diversity of views (NZ First, Act, and Greens now carbon tax focused).
- Stability in the policy settings is extremely important for emission intensive industries with long-life assets. The work of MOTO with signalling a minimum of five years and 10-year indicative trajectories for changes in settings is a relevant concept. Amendments to the RMA to enable implementation of renewables and other projects in a cost effective and timely fashion.

**Q30 *How can adaptability best be incorporated into the system supporting New Zealand's low-emissions transition?***

- It is clear that policy settings (including those of the NZ ETS) will need to adapt over time. These need to be signalled well in advance to:
  - provide confidence in the policy platform for investment decisions in long-life assets and adoption of new technologies; and
  - avoid the inefficiencies and cost to the economy of early decommissioning of productive assets.
- Key inputs to be considered would include:
  - the science - extent of observed and measured climate change (physical changes)
  - the extent of international action taken by NZ's trading partners (and in particular, the degree and nature of implementation of ETS regulation (and enforcement) in the jurisdictions of our competitors)
  - the availability of new technologies
  - NZ domestic economy developments and emissions profile changes.
- These could usefully be updated on a regular basis so that all stakeholders have a common basis for decision making and proposed changes to policy.
- It is important that adaptability be approached with an open mind and be open to the full breadth of technological possibilities. That is, the policy mechanisms avoid 'picking winners'. Electric vehicles are an example. To champion EVs over other forms of transport with reduced/nil emissions would be a mistake and preclude other potential options such as hydrogen. This is supported by the Toyota strategy of remaining open to other technologies, as well as electric<sup>17</sup>

<sup>17</sup> <https://www.bloomberg.com/news/articles/2017-09-19/toyota-president-says-hybrid-still-central-as-ev-momentum-grows>

**Q31 What types of analysis and underlying data would add the greatest value to this inquiry?**

- Analysis to the level of detail that allows the impact of policy settings to be assessed in respect to both environmental benefit and economic cost. Moreover, a considered analysis of how domestic producers are managing their broader “environmental footprint” in addition to just their “carbon footprint”.
- It is pleasing to see gaps are acknowledged in the Issues Paper and we encourage the Commission to explore in depth the implications. All the points identified are substantive and need to be addressed. Many are common to points raised in this submission.
- There is significant risk of overstating emission reduction potentials from international studies when looking at large emitters.
- We highlight the issues paper bullet points 2 & 3 “*elasticities*” and “*emissions at the level of individual firms, farms and households*”.
- We caution against relying on sector definitions used in published NZ climate change analysis. Particularly for large NZ industry there is a small number of participants, in some cases such as steel manufacture, there is only one. Looking at the aggregated Industrials sector obscures the actual impacts. The analysis needs to be done on an Industrial activity by Industrial activity basis.
- Given industries in NZ, such as steel manufacture only has one participant, there can be no “elasticity” around supply and choices in response to carbon prices. The equation is straightforward – be able to continue to produce and make sustaining capital re-investments OR cease steel making. The concept of partial reduction is not applicable.

**Q32 What should be the mix, and relative importance of, different policy approaches (such as emissions pricing, R&D support, or direct regulation) in order to transition to a low-emissions economy?**

- We stress the importance of the point made under Q31, i.e. a sector by sector, industry by industry, approach is required.

**Q33 What are the main co-benefits of policies to support a low-emissions transition in New Zealand? How should they be valued and incorporated into decision making?**

- It is valuable the Commission identifies co-benefits.
- Obvious examples include:
  - forestry – avoiding soil erosion, supporting domestic added-value timber processing
  - EV’s – health benefits from reduced pollution in cities.
- Less obvious examples include:
  - continued presence of large industry contributing to critical mass of manufacturing supporting industries and training grounds for new entrants (process control, electrical

- engineering, mechanical engineering, fabrication etc.) - these all support new technology (and in particular, green tech) implementation as it develops
  - while a low emissions economy may lead to new exports, closure of current activities will not increase diversification
- Co benefits should be “valued” and factored into policy making BUT not bluntly through a single policy such as the NZ ETS, e.g. co-benefits of forestry are high, therefore pushing the carbon price up to ensure afforestation achieved with resultant (unplanned) impacts on other sectors.

**Q34 *Who are the most important players in driving forward New Zealand's transition to a low-emissions economy?***

- Importantly, the Commission needs to recognise that any initiative to reduce NZ's domestic emissions needs to take into account the consequential and broader economic, social and environmental costs. Climate change is a global phenomenon and New Zealand must do its part, but only to the extent that it builds towards a global workable solution.
- Ultimately business makes investment decisions in response to customer demand and government regulation. The level of global emissions largely comes back to consumer demand driven from lifestyle choices/necessities.
- Policy makers should emphasis ultimate net emissions are driven by market factors not production, i.e. each consumer of goods in NZ has a responsibility for emissions. The current production model recognises carbon produced in meeting consumer demand. The former is a NZ consumer issue, the later a global manufacturing issue.
- The NZ Government has the overall responsibility for policy settings which are at the base of business decisions.
- Policy decisions need to be taken mindful of the international context where manufacturers are impacted by regulatory and market settings and compete off-shore in export markets and domestically with imports.
- Regional policy, e.g. Auckland Unity Plan, potentially introduces multi-layers in relation to emission policy (refer response to Qs 25-29) and may in fact inadvertently, or otherwise, thwart central Government policy settings. The NZ economy is not large enough to sustain this complexity and multi-layering of regulation.
- In summary, while emissions are driven by consumer demand, the NZ Government is the key player in providing NZ wide policy settings with sufficient information and certainty for business to take decisions and commit capital.

**Q35 *What measures should exist (and at what scale and duration) to support businesses and households who have limited ability to avoid serious losses as a result of New Zealand's transition to a low-emissions economy?***

- This is the key role of the ETS industrial allocations. This is important until such time as a more level regulatory playing field is achieved through other nations placing a price on carbon:
  - As far as can be ascertained, few if any NZS import and export competitors face carbon costs on their steel industries. Where countries have introduced or plan to introduce an ETS or similar policy, assistance mechanisms to steel producers are in place e.g. free allocation under the South Korean Emissions Trading Scheme to name but one (NZ Steel directly competes with steel products imported into NZ).
  - Any comparison of different countries' policy stringency requires an assessment of not just having a carbon price but also:
    - the comparable assistance e.g. allocation / exemptions on other offsetting subsidies or assistance; and
    - the degree of integrity and ethical compliance in those countries. This is very important as the robustness and effectiveness of any regulatory regime is only as good as the integrity and ethics of those who participate in it (governments, regulators and industry participants). The Commission should be cognisant of the fact that many offshore jurisdictions do not operate on the same transparent basis that NZ does when it comes to regulatory compliance and enforcement.
  - Decisions on withdrawal of industrial allocation should be based on clearly established criteria as to when the playing field is "level enough", e.g. 70% of relevant competitors are covered by carbon price internationally as per Australia Clean Air Act 2011. (Refer Schedule 2 for a more fulsome explanation for how this test works). This is but one regulatory example for how the Commission could go about setting a level regulatory playing field.
  - Any reduction in allocation levels should be activity dependent, e.g. the steel industry may remain exposed while a level playing field for another activity has been achieved.
  - The rate of phase out of allocation should align with trading competitors and only occur after careful review.

**Q36 *What are the essential components of an effective emissions-mitigation strategy for New Zealand that will also be economically and politically sustainable?***

- Retain options and be flexible – the world, its politics and technology are rapidly changing.
- Ensure that NZ does not head down a single path that may be regretted with unnecessary loss of economic activity and jobs, and 'picking winners' relating to dead-end technology selection.
- Do not take too early action which leads to a loss of critical capacity ahead of other nations, and leads to high cost uptake of technology prior to it becoming truly cost competitive.
- Avoid "picking winners". Let sound economics determine outcomes, but be prepared to remove barriers to uptake and /or initiate critical enabling infrastructure.
- Do give long-term signals on policy direction. Again the MOTU paper (referred to at Qs 25-29) is relevant.
- Do be prepared to set out clear boundaries for future emission source development e.g. should new entrants face full cost of emissions?

**Q38 How should the issue of emissions leakage influence New Zealand's strategy in transitioning to a low-emissions economy?**

- It would be environmentally irresponsible (and arguably unethical) for NZ to simply export its emissions by shutting down its domestic production. Whilst NZ has stringent requirements as to business conduct, not all countries meet nor aspire to these standards and the Commission needs to make quite clear to policy makers that off-shoring NZ emissions impacts in several ways:
  - in many cases closing NZ production will not decrease global emissions, and may even increase them
  - NZ reduces its on-shore emissions, by importing them (while this may allow NZ to “virtue signal” to the rest of the world, we argue that it serves no real role in combatting global climate change and actually worsens the net global environmental foot print).
  - closing NZ production may lead to manufacturing in countries with poor quality standards, environmental practices, inadequate safety standards, and poor human relation practices potentially involving exploitation of labour including children.
- It would also be economically irrational if in the absence of support mechanisms, domestic production become uncompetitive when facing international firms with no or low effective carbon prices, leading to premature closure.
- The loss of manufacturing to NZ reduces critical mass (this is a risk unique to NZ due to our smaller scaled economy c/f those larger European jurisdictions). NZ Steel contributes to a range of industries – electricity, gas, mining, South Auckland community, and education – engineering, scientific, trades. Again we refer to the Paul Woodfield article, Innovating in Traditional Industries<sup>18</sup>.
- The Commission's own work in 2014<sup>19</sup>, which the “Innovating in traditional industries” article argues traditional Industries play an import role in building knowledge based capital the Commission as being so important to closing the NZ GDP gap to the OECD average.

**Q39 What do you see as the main benefits and opportunities to New Zealand from a transition to a low-emissions economy?**

- Certainty as to the NZ climate change policy settings over that of other developed countries will attract investment (both local and offshore).
- However, we caution against using CO2/GDP ratios from other nations as evidence of benefits of transition when in some cases export of manufacturing (carbon leakage) has been a significant contributor. Refer the response to Q29 re the UK.

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<sup>18</sup> <http://www.uabr.auckland.ac.nz/pdfs/innovatingintraditionalindustrie.pdf>

<sup>19</sup> <https://www.productivity.govt.nz/sites/default/files/international-perspective-working-paper.pdf>

- Opportunity may arise from:
  - increased economic resilience against higher fossil fuel prices
  - maintaining NZ international reputation
  - clear policy signals can avoid stranded asset investments
  - if global action eventuates, avoidance of some of the adaptation costs may result.
  - Remaining vigilant to any new technologies that can materially reduce emissions in emissions intensive industries. Once these technologies are identified, the establishments of public/private partnerships to ensure that this is incorporated into business in a cost effective way.
- We quote the last paragraph in this section on Page 63 of the Commissions Issues Paper, headed “Benefits of a Decarbonised Economy”:

***“Finally, decoupling economic growth from carbon emissions is not only possible, but already underway for many countries, including major economies such as the US, France and Germany. Taking into account New Zealand’s unusual emissions profile, this shows that it is possible to transition to a low-emissions economy while at the same time continuing to grow incomes and wellbeing”.***

- While anything is possible, we would caution the Commission from drawing incorrect parallels or making a false equivalence between offshore progress and what can or could happen in NZ. As explained earlier in this submission, NZ has many features (mainly a far smaller scaled economy and production base and geographical remoteness) that make it unique to the examples in Europe. By way of example, NZ producers do not have the opportunity to further decarbonise their energy sources in a material way as the bulk of NZ energy sources are already hydro supplied (compare this to many overseas jurisdictions where they have the ability to simply move away from coal fired power plants in order to drastically reduce their emissions).

**Q40 What does your long-term vision for a low-emissions economy look like? Could a shared vision for New Zealand be created, and if so, how?**

- A diverse growing economy
- Producing products NZ needs cost effectively
- Internationally competitive
- Business and individuals with a sustainability focus.

## Schedule 2: Summary of 70% of competitors test



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### Summary of the Australian Clean Energy Act's 70% of competitors test – an option for New Zealand

A serious implication of an ETS scheme is the fact that domestic steel making is subject to a financial cost that its international competitors do not face. In Australia, this issue was managed through a 70% of competitors' test in that the *Clean Energy Act 2011* (CEA). It delayed the phase down of allocated (free) emissions units to emissions-intensive trade-exposed (EITE) industries until at least 70% of competitors globally faced similar emission reduction measures. This was intended to mitigate the reduction in competitiveness suffered by these industries when faced with carbon costs, that were not faced by their major international sectoral competitors.

#### The intention/purpose of the 70% of competitors test

The 70% of competitors test was the Australian Government's response to concerns expressed by its EITE industries that the legislated 1.3% annual reduction in permits allocated to these industries would progressively disadvantage them, when compared to overseas competitors who did not face equivalent carbon costs.

The Australian carbon tax only ran for two years (1 July 2012 – 30 June 2014) before being repealed by the Coalition Government in 2014. While regulations for the 70% of competitors test were developed, they were not implemented before the CEA was repealed.

What was clear was the intention of the measure, which provided the Australian Government or a liable EITE industry with the opportunity to seek a review if they believed they were unfairly disadvantaged compared to overseas competitors that did not face similar carbon costs.

#### How it worked

The CEA contained provision for parties to apply to the Australian Productivity Commission for a review to be conducted according to criteria set out in the Act.

One of the questions that would be examined in such a review was the extent to which foreign countries had emissions reduction measures with an impact comparable to the impact of the emissions reduction measures that applied in Australia.

Part of the Productivity Commission's remit included taking into account any offsets or associated assistance, and whether the assistance should be changed.

If the Productivity Commission found that less than 70% of international sectoral competitors faced comparable carbon costs to those faced by their Australian EITE counterparts, it could recommend that the annual 1.3% reduction in permit allocation cease, so that the permit allocation rate would be frozen at a floor of 90% of eligible emissions for highly emissions-intensive industries, and 60 per cent for moderately emissions-intensive industries.

Specifically, the Act required the Australian Productivity Commission to consider whether the results of the above-mentioned review justified a pause in the reduction of permit allocation.

The relevant part of the legislation was s.s.156(3), which stated:

- (a) whether less than 70% of the relevant competitors of each emissions-intensive industry are located in foreign countries where the impact on those competitors of emissions reduction measures (including the impact of associated assistance) is comparable to the impact on the industry of Australian emissions reduction measures (including the impact of associated assistance);
- (b) whether, having regard to the matter in paragraph (a), the application of the rate of assistance for a specific industry should pause when assistance rates reach:
  - (i) 90% for highly emissions-intensive industries; and
  - (ii) 60% for moderately emissions-intensive industries.

The Productivity Commission would report to the Government on the question of whether an industry's international sectoral competitors were not facing comparable carbon costs, and it would be up to the relevant minister to determine the response. In Australia, the relevant minister was the Treasurer.

The effect of these provisions was to:

- provide a potential floor on permit allocation to firms if major competitors had not adopted comparable carbon policies
- give a degree of confidence about future carbon costs and their effect on the competitiveness of our operations.

The Australian Government worked closely with industry including BlueScope, in developing this process. The test was deliberately narrowly focused on net carbon costs (including reviewing any assistance) faced by the steel industries, not costs faced by the relevant countries' economies as a whole.

In developing the policy, emphasis was put on ensuring a robust and thorough review that considered more than simple 'headline' carbon costs in other economies, and which also considered any possible exemptions or free/allocated permits.

### **Further information**

We would be happy to share some of the experience from our Australian business with your office and officials if that would be useful, and we would also be happy to develop some examples of how New Zealand legislation could be amended to accommodate a competitors test similar to that outlined above.

[Here is a link to the full Clean Energy Act \(2011\).](#)