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NSW SUMMIT ON TEEIS

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1. The Steel Industry

- A Global Industry
 - 2006 1.25bn tonnes
 - 2006 417M tonnes exported
- Continued strong growth – especially BRIC's
- Very high recycling
 - 79% recycled
 - Approximately 450M tonnes per annum
- Energy and greenhouse intensive technology
- A significant global emitter of greenhouse gas
 - Estimated 3.2% of global green house gas
 - No alternative technology
- Steel plants require very large investment on long-lived assets

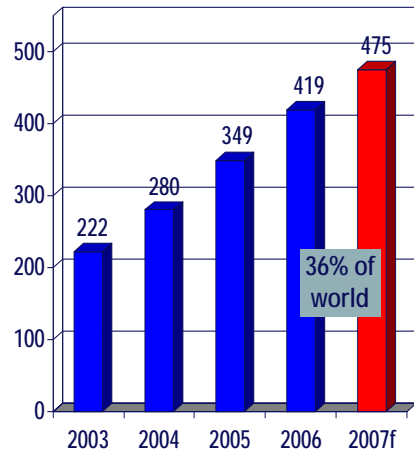
2. The Australian Steel Industry

- Australia is one of the best locations in the world to make steel
- 2 players producing approximately 7.9 million tonnes per annum (<0.6% of global production)
- Significant employer and exporter e.g.
 - BlueScope Steel and One Steel each have 10,000 employees in Australia
 - In 06/07 BlueScope exports from NSW valued at \$1.6bn.
- Modern competitive facilities and technology
- Trade and energy exposed - about 50% of BSL's production is exported, steel imports increasing.

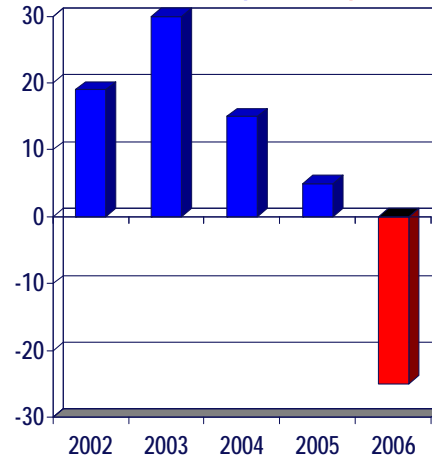
Australian Steel Faces Fierce Competition in Both Export & Domestic Markets

- Brazil, Russia, China and India comprise 55% of world steel production
- China a net exporter - exports surging to many BSL markets (e.g. Australia; Asia; US)
- Strong growth in import competition in Aust – 6% p.a. in flat products

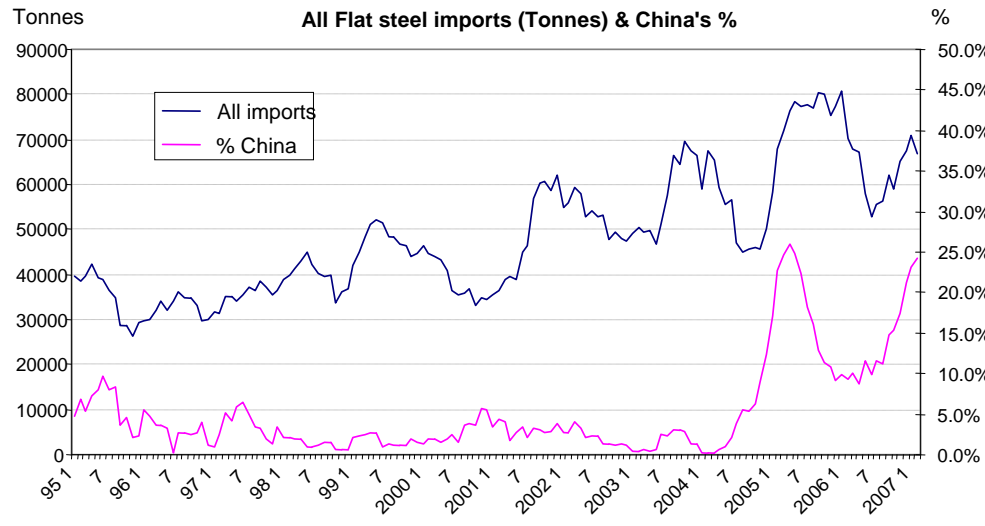
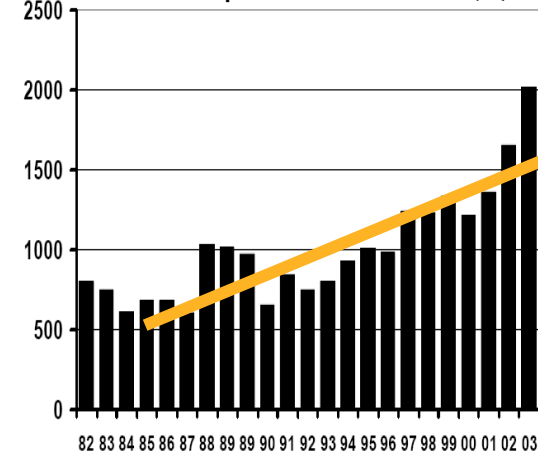
China Steel Production (Mt)



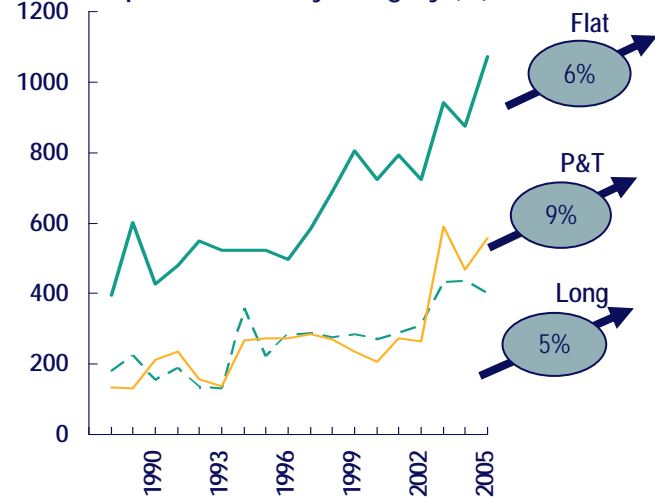
China Annual Net Imports/Exports (Mt)



Total steel imports to Aust 82-03 (kt)



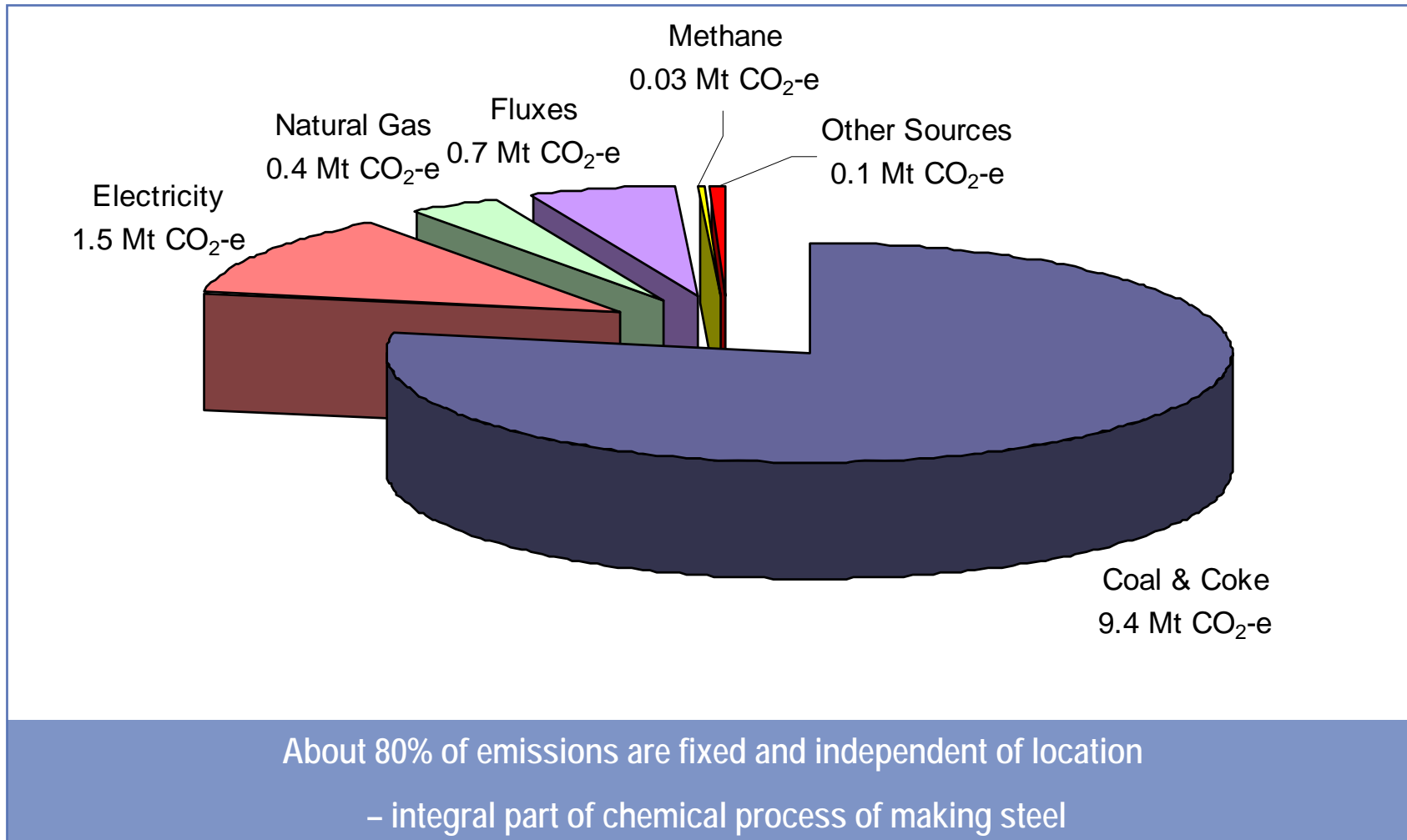
Imports to Aust by category (kt)



3. GHG Emissions From Steel

- Chemical reduction of Iron Ore produces CO/CO₂ as by-product in BF process.
- Recycling scrap via EAF electricity intensive
- Rolling and processing steel is energy intensive.
- Example: In Australia in 2007 BlueScope Steel
 - Consumed 3.7M tonnes Coal
 - Purchased 1.7M MWh of Electricity

Most of the GHG Emissions from Steel Plants Result From Chemical Reactions eg PKSW



Emissions Trading – The Right Regulatory Environment is Essential to Maintain Steelmaking in Australia

- Steel is a globally traded commodity – ability of small producers like Australia to pass on a 'carbon cost' to customers is negligible
- Unilateral action to reduce Australian greenhouse gas emissions in advance of international action would significantly affect our competitiveness
- Cap on emissions would constrain growth needed to maintain scale economies
- Long lived assets – danger of gradual shift in steelmaking off-shore
- 'Carbon leakage' – moving steelmaking off-shore will not cut global emissions
- To maintain viability, free allocation of permits under ETS will be required until such time as there is technology breakthrough or competitors face carbon cost

4. What Can the Steel Industry Do To Reduce Emissions?

- Direct (Scope 1) emissions already close to technical minimum
 - Fuel rate of Australian BFs comparable to Western Europe.
- A small opportunity to reduce Scope 2 (mainly purchased electricity) by improving equipment efficiency (motors, lighting, pumps etc)
- Significant potential in abatement by capturing and using waste heat or waste process gases e.g. PKS Co-Generation Project.
- Support international programmes
 - IISI “CO₂ Breakthrough Project”
 - Asia Pacific Partners for Clean Development & Climate

5. What Does Australian Steel Industry Need from the AETS to Secure Future of Steelmaking & Manage On-Going Investments?

- “Protection” as a TEEI until alternative technology available or competitors covered by comparable ETS
- Greater certainty regarding medium-long term arrangements for TEEI’s (ie 20+ years) to enable major investments
- An “improvement” trajectory that is consistent with the capability of the technology and financial capability of firms.
- Recognition that almost all greenhouse gas “reduction” potential is indirect and structuring the AETS to encourage this
- Not constrain growth to the point where we become uncompetitive.