

12 December 2006

National Emissions Trading Taskforce Secretariat,  
The Cabinet Office,  
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Sydney NSW 2001  
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**Submission on the  
Discussion Paper on a Possible Design for a National Greenhouse Gas  
Emissions Trading Scheme released by  
the National Emissions Trading Taskforce August 2006**

Dear Sir/Madam,

OneSteel appreciates the opportunity to make a submission in regard to this Paper through the public consultation process.

If the submission review panel requires any further clarification of our attached comments, we would be most happy to respond.

Regards,



Mark Gell  
General Manager  
Corporate Development

## Introduction to OneSteel

- OneSteel is the largest manufacturer of steel long products and is the leading metals distribution company in Australia, with revenues of over \$3.9 billion Australian dollars. OneSteel has over 160 operational sites in Australia and New Zealand, more than 30,000 customers and employs over 7,000 people.
- Within our organisation we operate an integrated Steelworks at Whyalla SA, and a scrap steel fed Electric Arc steelmaking facility in Sydney, to feed our downstream steel processing and distribution sites. OneSteel manufactures and distributes structural, rail, rod, merchant bar, cold finished bar, chrome plated bar, reinforcing, wire, tube and pipeline steel products. The majority of OneSteel™s products are used in the construction, manufacturing, housing, mining and agricultural industries.
- OneSteel has annual greenhouse gas inventory footprint of normally around 3.2 million tonnes CO<sub>2</sub>-equivalent, which is made up of
  - our direct greenhouse emissions including iron and steelmaking fluxes and the proportion of our coal use as a reductant in our steelmaking process, and
  - the indirect greenhouse from electricity purchase and use.
- In our utilisation of coal/coke and fluxes like dolomite and limestone at our Whyalla and Sydney Steelworks, around 50% of OneSteel's total greenhouse emission is attributed to materials use as a chemical reductant, and around 50% as an energy use.
- We annually provide a summary of our greenhouse inventory data to the AGO for the NNGI.

## OneSteel's Submission

OneSteel's response to the National Emissions Trading Taskforce's (NETT's) Discussion Paper in August 2006 on a *"Possible Design For A National Greenhouse Gas Emissions Trading Scheme"* (NETS) complements OneSteel's previous submission to the IJWG in November 2005. Accordingly, OneSteel's response focuses principally on design issues raised in the NETT Discussion Paper.

### Premise on which OneSteel Makes this Submission

- Firstly, and most importantly, whilst recognising the importance of climate change as a global issue, OneSteel emphasises that the company's decision to respond should not be construed as endorsement of the introduction of any NETS; rather it is OneSteel's intention to provide its opinions such that an informed evaluation occurs on the merits and impacts on introducing a NETS, and the merits and impacts of differing NETS formats, particularly in relation to the Australian Iron & Steel industry and OneSteel.
- Any NETS should only be implemented in Australia after it is determined, through comprehensive analysis and consultation, to be in the national interest. This assessment should involve a formal Regulatory Impact Statement (RIS).
- Any NETS should only be introduced with the full support and involvement of the Federal Government, in order to ensure such a scheme is equitable and consistent across State jurisdictions, long-lasting and adequately funded. In particular, Federal Government commitment will be necessary to cover the considerable costs involved in evaluating, introducing and administering any NETS in Australia.

- The investigations into a NETS need to take account Commonwealth initiatives such as the Asia Pacific Partnership which involves Australia, USA, China, Japan, India and Canada, especially when the work program in that Partnership includes cleaner fossil fuels, power generation, energy efficiency, and sectoral programs e.g. for aluminium.
- The Australian iron and steel industry has significant trade exposure under a NETS as a number of developing economies that are subject to less stringent greenhouse constraints than Australia are also significant iron and steel producers. A discrepancy in greenhouse gas policy would place the Australian iron and steel industry at a significant disadvantage relative to its international competitors. This could potentially lead to the migration of iron and steel production to countries with no or relatively liberal greenhouse gas emissions constraints. This could result in a counterproductive increase in greenhouse gas emissions associated with the production of steel, and transportation of iron ore and finished steel. It is critical that any NETS includes robust measures to protect the competitiveness of trade-exposed companies, taking into account companies' individual circumstances.
- Emissions trading by itself is insufficient to achieve significant emissions reductions required to meet the challenges presented by climate change. The development and commercialisation of new technologies required to meet this challenge will require other targeted policy measures.

## Responses to Specific Design Issues

### Coverage

OneSteel's integrated steel making operation comprises a complex set of industrial process and energy flows. Under the NETT preferred coverage option<sup>1</sup> OneSteel will be liable for power generation activities at Whyalla from 2010 and a range of Stationary Energy emissions from a number of sites from 2015.

OneSteel makes the point that generation of electricity is a by-product of steel manufacturing. The generation of electricity at Whyalla Steelworks is integrated with coke oven, and blast furnace operations, in that, the use of a proportion of these waste gases from steel manufacturing is utilised to generate electricity. Blast Furnace Gas and Coke Oven Gas are used primarily in various heating processes at the steelworks and not all of the Blast Furnace Gas and Coke Oven Gas are required by steelworks processes (eg. pellet plant kiln, steel reheating etc) and the surplus energy in these gases are used in the production of steam. Some of the steam is used for steelworks processes (e.g. blast furnace turbo blower, coke ovens by-product plant) and the remainder for power generation via condensing steam turbo generators.

Based on the above, OneSteel wishes to make the following points.

- Under the National Greenhouse Gas Inventory (NGGI) emissions associated with the creation or combustion of Blast Furnace Gas are treated as industrial process emissions. Consequently, OneSteel submits that the emissions factor associated with the combustion of Blast Furnace Gas for power generation should be zero.
- Under the NGGI emissions associated with Coke Oven Gas which are not used for reductant purposes are treated as stationary energy emissions. As Coke Oven Gas used in power generation at Whyalla Steelworks is a waste stream, OneSteel submits that the emissions factor associated with the combustion of Coke Oven Gas for power generation should be zero.

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<sup>1</sup> Staged liability approach whereby electricity generation is liable from 2010 and all stationary energy is liable from 2015.

OneSteel concurs with the NETT preference for the staged introduction of coverage – in particular the initial focus on electricity generation and subsequent expansion to other stationary energy sector activities after 5 years.

## **Permit allocation**

Permits (and any offsets created under the scheme rules) must embody property rights with legislative certainty of compensation in the event that the scheme rules are changed in a way that fundamentally changes their value.

OneSteel is supportive of the proposed approach to permit allocation in principle, subject to further details relating to implementation. In particular, OneSteel is pleased that the NETT has:

- Addressed the issue of windfall profits to electricity generators through a permit allocation process based on adverse impacts on profitability; and
- Included specific provisions to neutralise direct and indirect impacts on trade exposed industry sectors.

However, OneSteel has serious concerns that the process of permit allocation to the generation sector is open to manipulation and gaming, and would therefore require the development and application of appropriate safeguards to prevent this from happening.

The use of a similar “lost profitability” based approach to stationary energy sector activities to be covered after 5 years will also need to take into account the diversity of business operations, and markets they operate in.

## ***Compensatory allocation to trade exposed industry sectors***

The proposed compensatory mechanism to trade exposed industry sectors must be sufficiently robust to accommodate the requirements of the sectors supporting question. OneSteel has concerns that the modelling carried out to date may understate the compensation requirements to the power sector, to the detriment of the trade exposed sector. OneSteel would urge the NETT to consider how it could provide assurance regarding the adequacy of the compensatory allocation to trade exposed industry sectors.

In regard to the criteria for eligibility for a compensatory allocation, OneSteel is opposed to the use of a threshold based on energy costs as a percentage of total costs, as this is not a meaningful proxy for need. OneSteel submits that the criteria chosen must relate to the nature, quantum and impact on trade exposure. OneSteel therefore recommends that this threshold be expressed in terms of an absolute energy consumption threshold – i.e total energy consumption of X MWh/year. A similar approach was adopted in the case of the NSW Electricity Distributor Levy in the late 1990s.

The process used to determine the baseline energy intensity for the purpose of calculating the magnitude of the compensatory allocation should take into account any significant changes in production or market circumstances that could result in a distorted benchmark. Accordingly, OneSteel recommends that there be a degree of flexibility around the choice of period, for example by stipulating a 3 year consecutive period during the years 2000 – 2006.

Any reset of energy intensity baselines should take into consideration individual company circumstances, industry best practice and industry investment timescales. The steel industry has an incentive to become greenhouse efficient in a situation where an international trading scheme is likely to be introduced at some point in the future, but is constrained by long life assets and capital turnover.

OneSteel's business structure comprises a cluster of mutually interlocking business that is designed to maximise the company's competitive advantage in the market it competes in. It is this business cluster that must be shielded from the impacts of any NETS. Consequently, the NETT's trade exposure mitigation provisions should be applied across the entire enterprise (incorporating all related companies within the Group), rather than at a company or site level. This should apply in particular to the establishment of energy intensity baselines for the purpose of calculating the size of the compensatory allocation.

Finally, there should also be legislative certainty in regard to the provisions that govern permit allocation to the trade exposed industry.

## ***Auctioning of permits***

OneSteel submits that revenue raised through the proposed auctioning process should be recycled to support new low emissions technology development and commercialisation or purchase emissions reductions.

## **Offsets**

OneSteel supports provisions that widen the options available to liable parties to manage their compliance obligations. This includes a wide definition of offsets and inclusion of instruments eligible under the Kyoto Protocol's flexibility mechanisms. In particular, there should be no limits placed on the volume of CERs recognised as equivalent to offset credits.

As with the Kyoto Protocol (and unlike the NSW Greenhouse Abatement Scheme) project proponents should be able to propose methodologies for consideration and acceptance by the scheme regulator or another body acting under its auspices, with appropriate appeal provisions.

In particular, OneSteel submits that 'carbon buyback' and GHG emissions avoidance through the use of recycled steel in the manufacturing process should be eligible for creation of offsets, as should the use of steel slag in cement manufacture and substitution of biomass for coke in steel manufacture.

To ensure an efficient permit market, accredited or registered offset activities should be required to create offsets within a specified time after abatement has occurred.

Finally, OneSteel understands that there have been discussions on the treatment of NGAC revenues within the proposed NETT that are outside the scope of the Discussion Paper. OneSteel therefore reserves the right to make further submissions on this issue when more information is at hand.