

BlueScope needs to engage with the future

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The importance of carbon in global markets is rising inexorably, which BlueScope Steel should recognise, writes **Andrew Nelson**.

Call me cynical, but BlueScope Steel might just be the first of many companies lining up for exemption from the proposed carbon tax. Economists have a theory called the “tragedy of the commons”, which observes where groups of people deplete a shared and limited resource that should be in everyone’s common interest to maintain; the tragedy being acting on self-interest instead of combining self-interest with the common good.

No one wants to pay a carbon tax, as Graham Kraehe, chairman of BlueScope Steel, declared emphatically this week when he demanded the steel industry be excluded. No surprises there.

At its heart the carbon tax is not aimed at levying additional costs on business, but at forcing equivalent cost reduction through changes in the way corporate leaders take responsibility for carbon pollution.

No one needs to pay the full carbon tax: you just need to reduce your pollution. And according

to BlueScope’s own environmental policies a carbon tax or emissions trading scheme are preferred methods of achieving least-cost abatement. It’s just that BlueScope believes it should be exempt.

The problem for BlueScope is that carbon dioxide is a fundamental by-product of smelting iron ore. There are experimental “carbonless” production methods but until one is perfected BlueScope has no hope of ever completely offsetting all its CO₂ production. It will have to pay tax.

So we need to be supportive of industry transitional arrangements, including putting international pressure on countries such as Japan, China, India and Korea to follow suit; otherwise all we will do is export our carbon production. But it is illogical to argue that the steel industry should be completely exempted, precisely because it is one of the greatest polluters.

I love BlueScope. Forty-odd years ago my dad worked on the production floor of Lysaght, now part of BlueScope. He was proud of it then and I thought my dad worked at what has become an iconic Australian business that helped to build the country.

But we are disappointed in the chairman and CEO, who believe the interests of BlueScope’s shareholders, workers, customers

and suppliers is defended by arguing that one of our most carbon-polluting industries should be exempt from its responsibilities because of other “honourable” stuff it does. Mitigating circumstances there might be, but that should not exempt a rational entity from community responsibilities.

The public is used to seeing, and now even expects, this sort of short-sighted self-interest from companies. Many will even buy into the usual arguments of job losses and stopping this “in the national

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interest”, particularly in their own self-interest if they are vulnerable. And BlueScope can make a lot of people feel vulnerable, just as the miners did with the resource super profits tax.

BlueScope operates in a long-haul cyclical industry. The argument that a carbon tax will make BlueScope globally uncompetitive should be viewed as an admission of short-sightedness and scenario planning failure. Just exactly who at BlueScope doesn’t think that

reducing its pollution is a good thing? And who didn’t see the carbon tax and emissions trading system coming?

For some years now BlueScope has appeared to be focused on lowering costs but not adding any significant new value and not seeking new areas of true differentiation. It is a “me too” producer. Some might conclude that BlueScope is pursuing a purely competitive strategy based on a race to the bottom.

To have any hope of a long-term future this business needs value innovation: strategic moves that simultaneously pursue both lower costs and differentiation. It can take steps to combine self-interest and the broader community interest in reduced carbon equivalents. And in the current global market any supplier that can demonstrate low carbon emissions compared with the competition has a value advantage combined with a cost advantage.

This advantage will increase as the global carbon market also increases in value.

This isn’t easy and cannot be achieved overnight. But what is BlueScope’s investment time horizon? Surely when my dad worked there it expected to be producing steel in 2011. Does the current leadership expect to be

producing 40-odd years from now? Surely not in the same carbon polluting manner as it does now.

To exclude trade-exposed industries from a carbon tax only ensures they keep polluting. It allows putting off the hard decisions and actions that need to be taken and palming the effects off onto company successors and others in the economy — at least until the entire world forces a carbon tax on their major international competitors and everyone takes responsibility.

But because of self-interest and the tragedy of the commons, that day is a long way off.

I am not saying BlueScope should butt out of the carbon tax debate, but it could step up as a leader and make a truly valuable contribution to this important debate, not simply a blatant self-interest play.

The board and management of BlueScope, rather than placing themselves in a plastic bubble to avoid the tax, would better serve stakeholders if they redoubled their efforts to innovate and reposition in a global market where the importance of carbon is inexorably increasing.

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