



BRIEFING

Meeting with BlueScope Board 13 March

Date:	10 March 2023	Priority:	High
Security classification:	Sensitive	Tracking number:	2223-2898

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Energy and Resources	Note the background information and suggested talking points ahead of your meeting with NZ Steel on Monday 13 March from 7.00 – 9.00 pm. Forward this briefing to the Minister of Climate Change	13 March 2023

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Sharon Corbett	Policy Director, Energy & Resource Markets	Privacy of natural persons		✓
Nick Gillard	Senior Policy Advisor, Industrial Use Policy			

The following departments/agencies have been consulted
Energy Efficiency and Conservation Authority, Ministry for the Environment

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



BRIEFING

Meeting with BlueScope Board 13 March

Date:	10 March 2023	Priority:	High
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Purpose

To provide you with information and talking points ahead of your meeting with the BlueScope Board regarding the potential Government Investment in Decarbonising Industry (GIDI) project to install an Electric Arc Furnace (EAF) at NZ Steel's Glenbrook site.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the background information and suggested talking points ahead of your dinner with members from the BlueScope Board on Monday 13 March from 7.00pm – 9.00 pm

Noted

- b **Forward** this briefing to the Minister of Climate Change

Agree

Privacy of natural persons

Sharon Corbett
Policy Director, Energy & Resource Markets
Buildings, Resources and Markets MBIE

Hon Dr Megan Woods
Minister of Energy and Resources

10 / 03 / 2023

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Background

1. You have agreed to meet with the following members of the BlueScope Board with Minister Shaw over dinner:
 - a. John Bevan, BlueScope Board Chair;
 - b. Mark Vassella, BlueScope Managing Director and CEO; and
 - c. Robin Davies, BlueScope Chief Executive New Zealand & Pacific Islands.
2. Vicki Woodley, External Affairs Manager at NZ Steel and Marg Joiner, a Partner at SenateSHJ may also attend the dinner.
3. The purpose of the meeting is to discuss progress on the potential Government Investment in Decarbonising Industry (GIDI) project to install an Electric Arc Furnace (EAF) at NZ Steel's Glenbrook site.

Negotiations are close to completion

4. In 2022 NZ Steel requested financial support for an NZD Commercial Information capital investment in an Electric Arc Furnace, which would drastically reduce its emissions.
5. It proposed a combination, or sole use of, either grant funding through the GIDI Fund or bespoke treatment of its industrial allocation under the New Zealand Emissions Trading Scheme (NZ ETS) to create a comparative 'return on investment'.
6. Negotiations between NZ Steel and EECA are well advanced for a GIDI-funded government contribution to the EAF project, which would contract NZ Steel to deliver 800,000 tonnes of carbon dioxide equivalent (CO₂e) emissions reductions per annum for nine years from the date of commissioning – the equivalent of keeping 300,000 cars off the road each year. The deal includes offramps for NZ Steel for detrimental commercial events, and clawbacks for the government for under-delivery of the Carbon abated. It also ties a portion of the funding on early commissioning of the EAF and to overperformance in terms of emissions reductions by 2030.
7. NZ Steel is seeking to establish a mechanism to maintain an ongoing dialogue with the government on issues which arise during the EAF project and after the commissioning which may have a material impact on the viability of its investment.
8. Matters NZ Steel may seek further engagement on include:
 - a. Ongoing access to scrap steel
 - b. Confidential advice to Government [REDACTED]
 - c. Confidential advice to Government [REDACTED]
 - d. Resource consenting.
9. Such a forum will also provide an opportunity for the Crown to ask questions and raise issues relating to the wider public interest, for example, potential impacts on employment, the electricity system and the scrap steel market and circular economy.

BlueScope will be keen to hear the Government's position on its proposal

10. When you meet with members of the BlueScope Board on 13 March you will know the outcome of Cabinet's consideration of your paper *Engagement with Very Large Emitters: Investment Package for Significant Decarbonisation Proposal*.

11. The BlueScope Board is meeting in Auckland on 15 March. The Board will be discussing whether the project should progress to a full feasibility study of the EAF. The level of support being offered by the Crown is likely to be a significant factor in that decision.
12. You sought Cabinet approval for a government contribution to NZ Steel of up to \$140 million as a grant via the GIDI fund for the purchase and installation of an EAF. This amount is supported by due diligence completed by KPMG, which has confirmed that it represents good value for money for the Crown and will likely be sufficient to make the EAF investment the commercially preferred option for NZ Steel.
13. You also asked Cabinet to agree that you and the Minister of Climate Change write to NZ Steel outlining the Government's offer. We have provided, at Annex One, a letter for you and Hon Shaw to sign and send or give to NZ Steel, in the event that Cabinet supports the proposal.

You could also (assuming Cabinet agreement) say:

- *We have discussed your proposal with our Cabinet colleagues, and they have agreed to the Crown supporting the EAF project through a GIDI grant up to \$140m, assuming negotiations finalise successfully.*
- *Please ensure you work closely with officials on any future announcements.*

The dinner provides an opportunity for you to identify your priorities for the project

14. As well as hearing more about NZ Steel's plans for the EAF, the dinner provides an opportunity for you and Hon Shaw to highlight your priorities for the project.

You may wish to ask the following:

- *How are you thinking about the impact on your workforce and how will you ensure good worker transition and retraining?*
- *What plans do you have for remediating sites relating to your production process, such as your ironsands extraction sites?*
- *What complementary innovation opportunities are you interested in pursuing?*
- *How are your engagements with the scrap steel market going and what contract periods do you think you will be successful in securing?*
- *How are matters progressing for the PPA for the supply of electricity and will demand response conditions be part of any contract?*
- *What critical equipment supply timelines are required in order for the EAF to be fully operational by 1 January 2027?*
- *What has BlueScope learnt from the operation of EAFs in other BlueScope operations such as the US?*

Regarding industrial allocation, you may wish to advise the following:

- *The Select Committee process of the Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill will provide an opportunity to consider how NZ Steel could be able to receive industrial allocation for the output of the EAF under current settings.*

Next steps

15. Subject to Cabinet's decision, EECA will complete negotiations for the funding agreement with NZ Steel which are well advanced. You have sought Cabinet agreement to authorise you, the Minister of Climate Change and the Minister of Finance to agree the final negotiated package of support, subject to it not exceeding \$140 million.
16. Officials have begun working on a communications plan. We have not yet discussed a communications approach with NZ Steel in any detail, although we have flagged that any announcements would need to be coordinated if negotiations are successful. An appropriate announcement timing may be after a conditional agreement is struck (depending on the conditions), which is most likely to be in May. We will engage with your offices on further communications planning, assuming Cabinet support for the proposal.

Annexes

Annex One: Draft letter to Robin Davies

Annex Two: Biographies of attendees

Annex Three: Suggested talking points

Annex 1: Draft letter to Robin Davies, Chief Executive, New Zealand and Pacific Islands at BlueScope

Hon Dr Megan Woods

MP for Wigram

Minister of Housing

Minister for Infrastructure

Minister of Energy and Resources

Minister for Building and Construction

Associate Minister of Finance

Hon James Shaw

Minister of Climate Change

Associate Minister for the Environment (Biodiversity)



Robin Davies
Chief Executive New Zealand & Pacific Islands
BlueScope
By email: Privacy of natural persons

Tēnā koe Robin,

When we met on Thursday 23 February, we indicated that we would be seeking agreement from our Cabinet colleagues for the Government to support NZ Steel's proposed investment in an electric arc furnace (EAF) to help to decarbonise your operations. We understand the BlueScope Board is also meeting currently to discuss this investment.

We are pleased to advise you that Cabinet has discussed this proposal and recognises both the opportunity this project presents to significantly reduce New Zealand's emissions, and the need for Government support to enable this investment. Cabinet has agreed that, subject to successful completion of negotiations, the Crown could contribute up to \$140 million (plus GST) as a grant via the GIDI fund, with a portion of this funding tied to timely commissioning of the EAF and delivery of significant emission reductions before the end of 2030. The Crown's contribution would be contingent upon a range of terms and conditions set out in the funding agreement to be negotiated between EECA and NZ Steel.

We ask you to continue prioritising your engagement with EECA to complete the negotiation and advance the project through the full feasibility study.

As we discussed on 23 February, we are keen to meet with NZ Steel at regular intervals to hear about progress and communicate our priorities for the project. Assuming BlueScope progresses with a full feasibility study, we also expect NZ Steel and government officials to have a regular forum to discuss matters related to the project, including matters that may be relevant to the full feasibility study. We have asked officials to arrange this forum, and to keep us regularly updated on progress.

Regarding Industrial Allocation

The purpose of industrial allocation is to reduce the risk of emissions leakage from eligible industrial activities. By maintaining a marginal net cost on emissions, the policy does encourage emissions abatement.

Some changes and updates to the Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill (the Bill) are needed to ensure you would be able to receive an accurate allocation under your new operating model. These changes will be pursued through Select Committee.

We also look forward to the Select Committee exploring how more certainty could be provided to industrial allocation recipients, like NZ Steel, around future baselines updates and updates to phase-out rates.

While it is going through this process, Ministers cannot provide any certainty, or pre-empt any recommendations the Committee might make. However, we encourage you to provide a submission to the Select Committee on the need for changes to the Bill to achieve these outcomes.

We look forward to updates on the progress of this exciting project.

Warm regards

Hon Dr Megan Woods
Minister of Energy and Resources

Hon James Shaw
Minister of Climate Change

Copy to:

Andrew Caseley, Chief Executive, EECA, Andrew.Caseley@eeca.govt.nz

Sharon Corbett, Policy Director, MBIE sharon.corbett@mbie.govt.nz

Melody Guy, Director Markets, Climate Group, MfE, Melody.Guy@mfe.govt.nz

Annex Two: Biography of attendees



John Bevan, Chair of BlueScope Board

Director since: March 2014

Directorships of other Australian listed entities in the past three years: Non-executive Director of Ansell Limited (August 2012 to date), Alumina Limited (from January 2018 to date).




John was CEO and a director of Alumina Limited from 2008 to 2014. Before joining Alumina Limited in 2008 he spent 29 years in a variety of senior management roles with BOC Group, including as a director on The BOC Group plc board, Chief Executive Process Gas Solutions with responsibility for the bulk and tonnage business for the entire BOC group, Chief Executive Asia and country lead roles in the United Kingdom, Thailand and Korea. He is Chairman of Ansell Limited, is a non-executive director of Balmoral Iron Pty Ltd and is the former Deputy Chair of the Humpty Dumpty Foundation.



Mark Vassella, Managing Director and CEO, BlueScope

Mark Vassella joined the Company following BlueScope's 2007 acquisition of Smorgon Steel Distribution where he was the Chief Executive. He was appointed Chief Executive Australian Distribution and Solutions before moving to the US as President, BlueScope Steel North America in 2008. He returned to Australia in 2011 to take up the role of Chief Executive BlueScope Australia and New Zealand.

Mr Vassella is on the Executive Board of Directors at World Steel Association (worldsteel) and holds the office of Treasurer. He is a past Board member, President and Treasurer of the Family Life charitable organisation.

	<p>Robin Davies, Chief Executive New Zealand & Pacific, BlueScope</p> <p>Robin has a depth of international and operational experience, having worked for Tata Steel Europe prior to joining BlueScope in 2008. He held a number of roles in New Zealand before moving to Ohio in 2017 as President North Star BlueScope Steel. Returning to New Zealand in 2020, Robin took up roles as General Manager Sales & Marketing NZPI / General Manager Pacific Steel, Chief Operating Officer. He has been Chief Executive New Zealand & Pacific since the start of 2022.</p>
	<p>Vicki Woodley, External Affairs Manager at NZ Steel</p> <p>Vicki has worked for NZ Steel for 33 years.</p>
	<p>Marg Joiner, Partner, SenateSHJ</p> <p>Marg Joiner is a public policy specialist in SenateSHJ's Auckland office and has a role in their government relations practice and energy and resources practice.</p> <p>Before joining SenateSHJ, Marg was at the Office of Treaty Settlements supporting the Crown to negotiate and successfully conclude historical Treaty of Waitangi Settlements with Māori groups across New Zealand. Marg is experienced at mediation and conflict resolution in a bi-cultural setting.</p>

Annex Three: Suggested talking points

Finalising the negotiations

- **(Assuming Cabinet agreement)** We have discussed your proposal with our Cabinet colleagues, and they have agreed to the Crown supporting the EAF project through a GIDI grant up to \$140m, assuming negotiations finalise successfully.
- Please ensure you work closely with officials on any future announcements.

Next steps on the EAF project

- How are you thinking about the impact on your workforce and how will you ensure good worker transition and retraining?
- What plans do you have for remediating sites relating to your production process, such as your ironsands extraction sites?
- What complementary innovation opportunities are you interested in pursuing?
- How are your engagements with the scrap steel market going and what contract periods do you think you will be successful in securing?
- How are matters progressing for the PPA for the supply of electricity and will demand response conditions be part of any contract?
- What critical equipment supply timelines are required in order for the EAF to be fully operational by 1 January 2027?
- What has BlueScope learnt from the operation of EAFs in other BlueScope operations such as the US?

Industrial allocation

- The Select Committee process of the Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill will provide an opportunity to consider how NZ Steel could be able to receive industrial allocation for the output of the EAF under current settings.