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WORKING DOCUMENT

on developing a sustainable European base metals industry

Committee on Industry, Research and Energy

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Interim Report

This report has been drawn up on the basis of ideas and proposals that emerged from discussions held with company managers and employees’ trade unions and regional authorities during our on-site visits.

We wish to thank all those who have made such visits possible.

Introduction

The European Union has seen over 40 MT of steel production capacity close since 2008 and has lost more than 60 000 jobs directly and over 100 000 jobs indirectly linked to the sector. This steady haemorrhaging is the result of the fall in demand which, in 2014, was still 40 MT below that of 2007.

The successive closures of European aluminium electrolysis plants are due not to the fall in European demand for aluminium, but to the increase in electricity prices accompanied by its increasing volatility.

Steel and aluminium – these are two examples of base metals industries that are experiencing an unprecedented investment crisis.

I. The basic metals industry: a primary and strategic necessity for Europe

Europe has a shortfall in most base metals owing to a lack of primary mining and metallurgical plants and the insufficient exploitation of secondary sources.

The exploitation of secondary metals must be developed as a competitive circular economy, but cannot meet the base metals needs of European economies in terms either of quality or quantity.

This is especially true of energy transition in which base metals are at the heart of the new technologies needed for it to take place.

1-1 Base metals: an industry with a highly skilled workforce

As the social partners of the sector recognise, today, in a modern steel industry, emission and energy issues are more important than the cost of labour in arbitration regarding investments.

II. The need to minimise environmental and health impacts on workers and the surrounding population

The basic metals industry in Europe must be exemplary in environmental matters by minimising its impact both for workers and the surrounding population.

It is on this basis and subject to this condition that a sustainable base metals industry can develop in Europe.

The opening-up of the governance of the most sensitive and strategic companies to internal
and external stakeholders representing the regions is a path that deserves to be taken into consideration.

III. The imperative of the fight against climate change

3-1: Border adjustment measures, a tool in the fight against climate change in Europe and beyond

The creation of the carbon market in 2005 (Directive 2003/87/EC) represents the implementation by the European Union of a strategy to combat climate change whereby investments are supposed to reduce carbon emissions.

This scenario has not been realised for many reasons and in particular the risk of carbon leakage that has developed despite the generous distribution of free rights.

Border adjustment then appears as the way to avoid two pitfalls:
- Distributions of free rights that will become increasingly costly as the CO2 price increases on the market.
- The abandonment of the constraint of emission rights imposed on energy-intensive industries as long as no international agreement has been signed.

In both cases, this would mean abandoning the fight against climate change by European energy-intensive industries.

IV. Border adjustment measures

To allow border adjustment measures is equivalent to creating a level playing field for undistorted competition between European and non-European producers in the internal market and for exports.
- By subjecting imports to the same rules regarding the purchase of emissions rights on the carbon market as European producers on the basis of a customs declaration regarding the carbon content of imported products;
- By exempting exports of CO2 emission right purchases.

The perimeter of the border adjustment would be identical to that of the current emission rights.

4-1 Border adjustment is not a tax

4-2 Border adjustment is neither a barrier to trade nor a protectionist measure

Border adjustment aims to impose the same obligations on European importers and producers as regards compliance with CO2 emissions standards for products sold in Europe. It is legitimate as a world-wide public health protection measure in accordance with the commitments of the European countries vis-à-vis the WTO (GATT Article XX).

4-3 Compensation for indirect emissions: unfair competition between European countries

The Commission, recognising the unfairness of competition because of the rise in the price of electricity due to CO2 emission rights paid by electricity producers, has authorised compensation to be paid by national authorities (SWD Communication (2012)).
For example, Spain is spending EUR 5m over 3 years (2013-2015) on this measure, while Germany is spending EUR 756 million during the same period.

Border adjustment makes it possible to scrap this compensation for indirect emissions to address carbon leakage, the reason the measure was adopted in the first place.

Conceived as a transitional measure, compensation should decrease rapidly and especially be undertaken at European level in order not to distort competition between European producers.

4-5: Prevent carbon leakage by taking the whole sector into account
Border adjustment measures should apply to all intermediates between minerals and metals and to coke used in steel making where the relocation of their import source represents a carbon leakage.

4-6 Border adjustment, a temporary and flexible measure
An international agreement on the fight against climate change that would place all base metal producers in a situation of fair competition, would render border adjustment unnecessary.

If equivalent rules existed, there would be fair competition.

4-7: Free allowances to invest in the production of low-carbon base metals
The free allowances will be allocated on the basis of the investment programmes in new equipment, R & D and personnel training during the fourth phase covering the period 2020-2030. Border adjustment will initiate a virtuous cycle of a base metals economy linking the reduction of CO2 emissions to low-carbon investments which will thereby be recouped.

4-8 A carbon content for each product subjected to emissions trading
This is imperative in building any international system to fight greenhouse gas emissions. The establishment of the border adjustment measures is thus the forerunner of an international system to fight against CO2 emissions.

4-9 The need for transparency
We propose that CO2 allowances be published along with annual accounts as off-balance sheet items.

4-10 An R & D policy supported by public subsidies

V. The issue of electricity supply contracts

It is still possible to conclude long-term contracts under certain conditions which must be compatible with a return on the investment that may not be less than 10 years in the case of highly capital-intensive industries.

VI. European trade protection measures in respect of base metals: prevention rather than a cure that comes too late

We suggest a first phase consisting of a preliminary investigation by the Commission lasting a
maximum of one month for an initial review of anti-dumping and anti-subsidy complaints which, on the basis of the initial evidence, may announce preventive protection measures that will be followed by a thorough investigation.

VII. The question of the scope of the relevant markets in M&A

In the case of stainless steels as for all base metals, which are subject to global competition, it is urgent that the Commission analyse as a reference market the global market (definition of relevant market).

Provisional Conclusion

This interim report is a first stage whose purpose is to provide information about the progress of our ideas and proposals in order to stimulate a wide-ranging debate on the conditions for the sustainable development of the base metals industry in Europe.