

Emissions Trading System (ETS) post 2020 EUROFER comments

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STEEL INDUSTRY PRODUCTION SITES IN THE EU28

- Primary steelmaking
(Blast Furnace and/or Blast Oxygen Furnace)
- Secondary steelmaking
(Electric Arc Furnace)
- Processing of steel

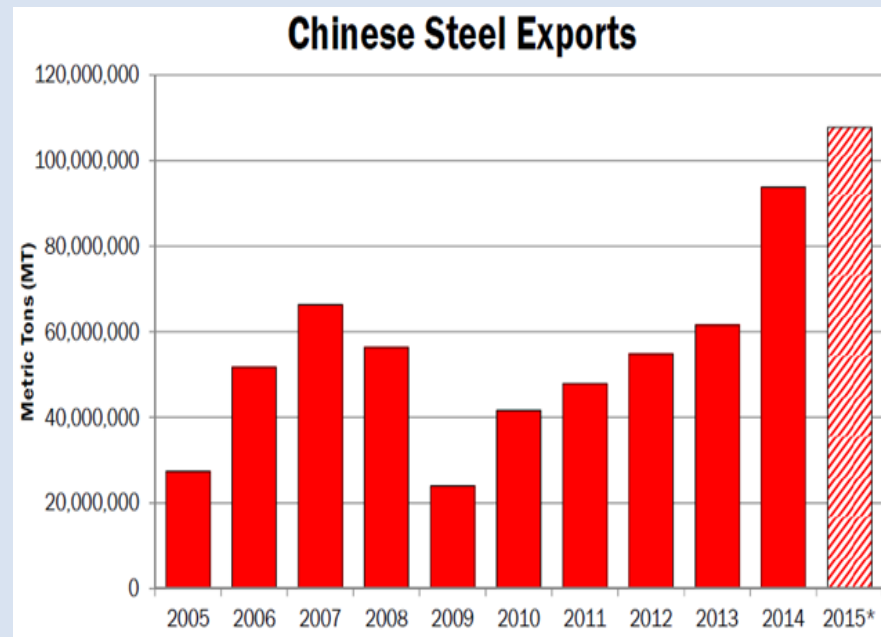


EU steel industry

- 500 production sites
- 166 bln € turnover
- 1.3% of EU's GDP
- 320,000 direct jobs
- Millions of dependent jobs in value chain & service sectors
- 100% recyclable, endlessly, steel: a permanent material
- 25% CO₂ reduction since 1990
- 500 mio. t CO₂ savings p.a. by 2030 with innovative steel
- 22% employment drop vs. 2007
- 25% drop in EU steel demand (2007/2015), imports benefit from current modest recovery
- EU: high energy prices
- EU: unfair trade practices from non-EU countries

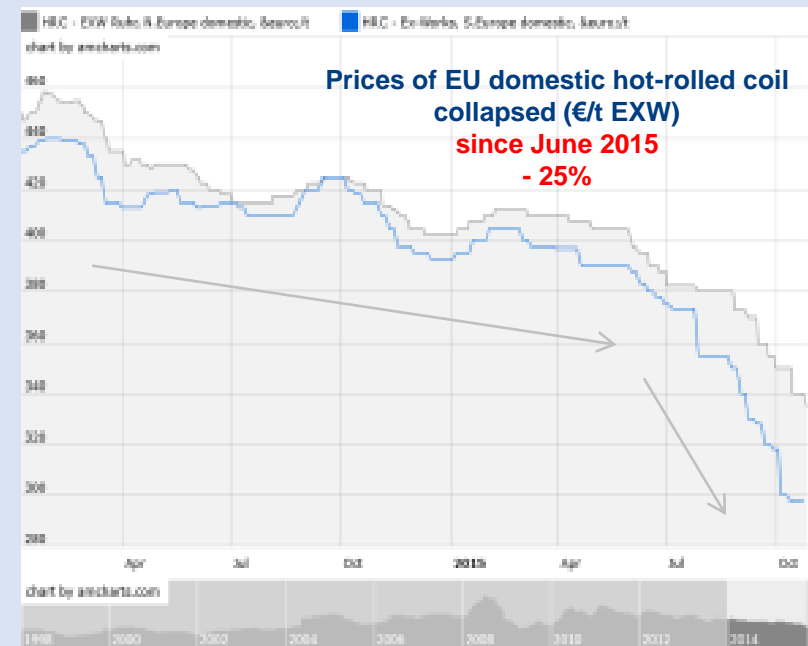
A global perspective on the steel industry

- Steel overcapacity in China: 400 mio. tonnes = 2.5 times of total EU steel consumption
- Chinese steel exports exploded in 2014
- China's steel prices spiralling down below variable costs depressing prices
- EU steel industry highly exposed to international and unfair trade and an uneven playing field on climate & energy policy



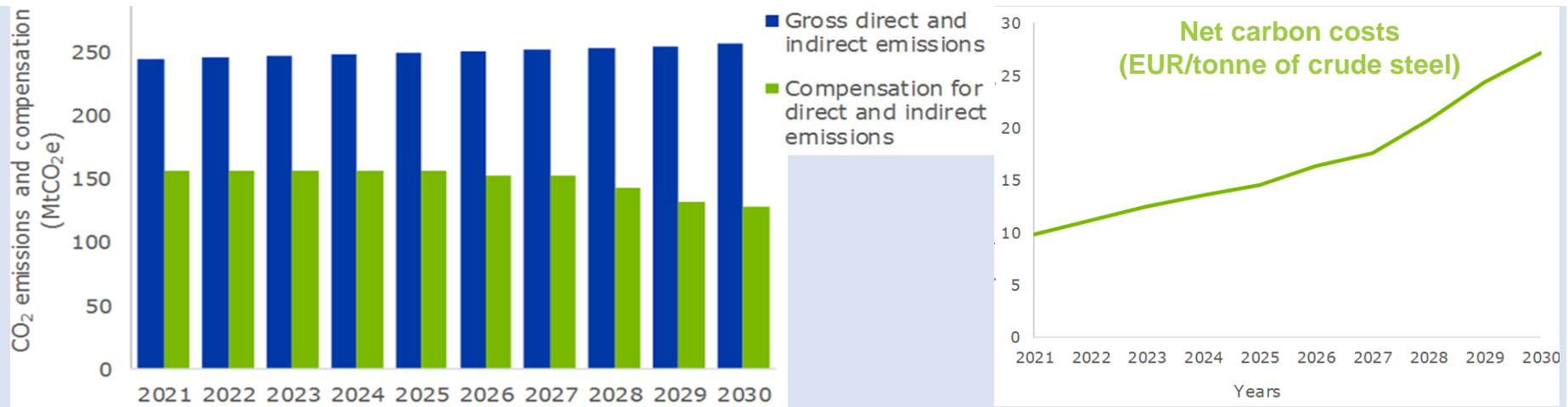
Source: worldsteel

*2015 Annualized using Chinese export data through August 2015 WorldSteel Association, Government of China



Source: SBB steel / Platts

ETS post 2020 COM proposal: impact on steel



Source: Ecofys study published in November 2015

- Total carbon costs 2021-2030: € 34 billion
 - €26 billion of direct costs - **48% shortage** in free allowances in 2030
 - €8 billion of indirect costs
- **Carbon costs** up to **€ 28 / tonne** of crude steel in 2030
- **EBITDA** ca. **€ 35 / tonne** of steel (2009-2014, source: EUROFER)
 - EBITDA = Earning before interests, taxes, depreciation and amortisation
 - Profit margins wiped out, making investment impossible and EU steel uncompetitive
- Nonetheless, COM recognised **steel at “very high risk” of carbon leakage**

Arbitrary linear decrease of the **benchmarks** by -0.5% to -1.5% every year

- does not reflect the real technological progress of best performers
- is simply a second linear correction factor
- cuts free allocation below best performers' level

Free allocation share (40.4%) insufficient for carbon leakage protection

- creates huge shortage for even the most efficient plants
- does not reflect the abatement potential of power sector (57% share) and industry

No legal certainty for compensation of **indirect costs** (CO2 cost pass-through in electricity prices)

- today, only few member states compensate because there is no legal obligation
- current state aid guidelines allow offsetting of max. 75% of costs (2020)

- **No direct and indirect costs at the level of our 10% most efficient plants**

Benchmarks

- No linear reduction factor should be applied
- Must be based on recent, real and consistent industry data
- Should be updated before and not change during the trading period

Free allocation for carbon leakage protection must have priority over auctioning

- Delete the Cross Sectoral Correction Factor for carbon leakage sectors
- Modify the 57% auctioning share in favour of the free allocation share
- Add the unused allowances from current period and MSR to the free allocation share
- Move Innovation Fund (NER 400) to the auctioning share
- As last resort, focus available free allocation on sectors at very high risk

Indirect costs

- *shall* be offset at the level of best performers in all member states through harmonised and transparent rules

**THANK YOU
FOR YOUR ATTENTION!**

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