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IFIEC Energy Forum 2014

European Industrial Renaissance requires Competitive Energy

… and a balanced climate policy

Axel Eggert, EUROFER

Steel made in Europe is …

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350 000
skilled jobs

1 500 000
supply chain jobs, dependent on steel made in Europe

500
production sites

170 000 000
tonnes of steel produced each year

170 000 000 000 €
turnover = **1.4 %** of the EU's GDP

100%
recyclable, endlessly, a permanent material

25%
reduction in CO_2 emissions from EU steelmaking since 1990

75%
of a wind tower

450 mio.
tonnes of CO_2 savings per year by 2030 due to innovative steel applications

Steel made in Europe is under threat today …

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20%
jobs lost since 2007

20%
down in production levels

200%
industrial electricity prices in the EU compared to the US

300%
industrial gas prices in the EU compared to the US

European Council Conclusions of 21 March 2014

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… on industrial competitiveness and the energy and climate framework 2030

- ✓ "**Europe needs a strong and competitive industrial base as a key driver for economic growth and jobs**" (§ 5)
- ✓ "Industrial competitiveness concerns should be systematically mainstreamed across all EU policy areas and be part of **impact assessments** in view of getting a stronger industrial base for our economy. This should go together with competitiveness proofing" (§ 6)
- ✓ "invites the Council and the Commission to **rapidly develop measures to prevent potential carbon leakage** in order to ensure the competitiveness of Europe's energy-intensive industries" (§ 18)
- ✓ sets out the "**principle**" for the new framework to "ensure security of energy supply for households and businesses at **affordable and competitive prices**" (§ 17) stressing that "a coherent European energy and climate policy must address the issue of high energy costs in particular for energy-intensive industries" (§ 14).
- ✓ the European Council taking stock of progress in June with a final decision on the new policy framework by October 2014 aiming to provide "the necessary **stability and predictability for its economic operators**" (§ § 16, 18).

Impact assessment

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Regulatory costs for steel compared to EBITDA per tonne of steel, 2002-2011:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EBITDA t/steel	**€48**	**€71**	€99	€77	€142	€110	€92	**- €25**	**€38**	**€43**
EU regulatory costs	**28.1%**	**18.9%**	13.4%	17.3%	9.4%	12.2%	14.5%	**-53.9%**	**35.0%**	**30.9%**

Source: Centre for European Policy Studies, *Assessment of Cumulative Cost Impact for the Steel Industry*, 2013, p. 55-58
EBITDA: *earnings before interest, taxes, depreciation, and amortization*

- Already today huge impact on profit margins
- At an **Ø EBITDA of €69,5** (2002-2011) per tonne of steel a CO_2 price of €30 or €40 could wipe out all profit margins if there are no safeguard measures for direct and indirect costs.
- **A CO_2 price of €40 = up to €80 additional costs** per tonne of steel (BF/BOF route)

Impact EU ETS 2021-2030 on EU steel industry

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Scenario	CO_2 price EUR/t	CO_2 costs in billion EUR		
		Direct	Indirect	Total
A ➢ Current EU ETS (linear factor 1.74%, CSCF, no carbon leakage provisions post 2020)	30	70.0	8.6	78.6
	40	89.3	11.5	100.8
B ➢ Carbon leakage provisions post 2020 ➢ But CSCF continues ➢ 2.2% linear factor	30	31.0	8.6	39.6
	40	41.4	11.5	52.9
C ➢ 100% free allowances on benchmark level and real production (+0.8% p.a.) ➢ full off-setting of indirect costs ➢ 10% efficiency implementation by 2030 according to Steel Roadmap	30	12.8	0	12.8
	40	17.0	0	17.0

- With the Market Stability Reserve the Commission expects a price of €40 t/CO_2 in 2030, modelling presented by Point Carbon expects ca. €48/tCO_2 (source: www.ceps.eu/taskforce/review-eu-ets-issues).
- Accumulated shortage of allowances for direct emissions in 2030: (A) 2.23 bn t; (B) 1.03 bn t; (C) 0.43 bn t. Shortage for indirect emissions: 32 Mio t CO_2/year. Assumptions: a) Electricity consumption EAF = 550 kWh/t cs; BF/BOF = 150 kWh/t cs; Downstream processes = 136 kWh/t HRC; b) 10% electricity import for BF/BOF route; c) Electricity emission intensity in line with EU State Aid Guidelines; d) yield for hot rolling = 98%. (BF/BOF = Blast Furnace/Blast Oxygen Furnace, cs = crude steel, EAF = Electric Arc Furnace, HRC = Hot Rolled Coil).
- Source: own provisional calculations dated June 2014, based on available information.

What is needed …

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… to achieve these objectives for industrial competitiveness under the energy and climate framework 2030?

1. **100% free allocation at the level of the 10% most efficient installations** for sectors at risk of carbon leakage, based on realistic benchmarks, real production, no correction factor;
2. **full off-setting of CO_2 cost pass-through in electricity prices in <u>all</u> member states** for sectors at risk of carbon leakage;
3. **no piecemeal approach** - discuss proposals for structural measures for the EU ETS only jointly with legislative proposals to prevent carbon, investment and production leakage;
4. **no additional burdens for EU ETS sectors**, such as energy efficiency measures. Enhanced energy efficiency is part of our business optimisation;
5. **clear EU objective to reduce the gap in industrial energy prices** between the EU and its main competitors with clear policy measures;
6. **realistic impact assessments** on sectoral level, e.g. on the proposals for the EU ETS revision (43% target, Market Stability Reserve).

EP resolution on the Steel Action Plan, 4 Feb. 2014

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... adopted with 505 against 95 votes

- "*step up efforts to **decrease the energy price and cost gap** between the EU industry and its main competitors*"
- *"The 2030 climate and energy policy **targets must be technically and economically feasible** for EU industries."*
- *"**Best performers should have no direct or indirect additional costs** resulting from climate policies."*
- *"The **provisions for carbon leakage should provide 100% free allocation of technically achievable benchmarks**, with **no reduction factor** for carbon leakage sectors."*
- *"Encourages the Commission to develop strategies for the deployment of low-carbon energies in a cost-effective way and gradually phasing out subsidies, so as to foster the rapid integration of such forms of energy into the electricity market. In the meantime, **offsetting the costs of the overall electricity surcharges for energy-intensive industries** should be possible if these are costs which competitors outside the EU do not have to bear."*

An agreement is possible …

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Ambitious, realistic climate objectives

and industrial competitiveness

are compatible !

An agreement on the EU ETS review between the government, NGOs and industry is possible in the Netherlands (Ecofys model) !

Why shouldn't this be possible on EU level ?