European Industrial Renaissance requires Competitive Energy

... and a balanced climate policy

Axel Eggert, EUROFER
Steel made in Europe is ...

- **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 CO₂ emissions from EU steelmaking since 1990
- **75%** of a wind tower
- **450 mio.** tonnes of CO₂ savings per year by 2030 due to innovative steel applications
Steel made in Europe is under threat today …

- 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
“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

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

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
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<th>2005</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>EBITDA t/steel</td>
<td>€48</td>
<td>€71</td>
<td>€99</td>
<td>€77</td>
<td>€142</td>
<td>€110</td>
<td>€92</td>
<td>- €25</td>
<td>€38</td>
<td>€43</td>
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<tr>
<td>EU regulatory costs</td>
<td>28.1%</td>
<td>18.9%</td>
<td>13.4%</td>
<td>17.3%</td>
<td>9.4%</td>
<td>12.2%</td>
<td>14.5%</td>
<td>-53.9%</td>
<td>35.0%</td>
<td>30.9%</td>
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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 CO₂ price of €30 or €40 could wipe out all profit margins if there are no safeguard measures for direct and indirect costs.
- A CO₂ price of €40 = up to €80 additional costs per tonne of steel (BF/BOF route)
## Impact EU ETS 2021-2030 on EU steel industry

### Scenario | CO₂ price EUR/t | CO₂ costs in billion EUR |
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<tr>
<td></td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td><strong>A</strong></td>
<td></td>
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<tr>
<td>➢ Current EU ETS (linear factor 1.74%, CSCF, no carbon leakage provisions post 2020)</td>
<td>30</td>
<td>70.0</td>
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<tr>
<td></td>
<td></td>
<td>40</td>
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<tr>
<td><strong>B</strong></td>
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<tr>
<td>➢ Carbon leakage provisions post 2020</td>
<td>30</td>
<td>31.0</td>
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<tr>
<td>➢ But CSCF continues</td>
<td>40</td>
<td>41.4</td>
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<tr>
<td><strong>C</strong></td>
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<tr>
<td>➢ 100% free allowances on benchmark level and real production (+0.8% p.a.)</td>
<td>30</td>
<td>12.8</td>
</tr>
<tr>
<td>➢ full off-setting of indirect costs</td>
<td>40</td>
<td>17.0</td>
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*With the Market Stability Reserve the Commission expects a price of €40 t/CO₂ in 2030, modelling presented by Point Carbon expects ca. €48/tCO₂ (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 CO₂/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 …

… 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 CO₂ cost pass-through in electricity prices in all 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).
... 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 …

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?