



Attachment:

Date:  
February 27, 2013

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Your date:

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**ID 45269965773-87**

Officer  
Göran Bäckblom

Copy to

**Re: Public consultation on the structural changes  
to the EU ETS**

In response to the open consultation, please find the comments attached from  
**Luossavaara-Kiirunavaara AB (ID 45269965773-87)**

Kind regards  
LUOSSAVAARA-KIIRUNAVAARA AB (PUBL)

A handwritten signature in blue ink that reads 'Göran Bäckblom'.

Göran Bäckblom  
Vice-President Public Affairs  
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### **Our company**

LKAB can look back on more than 120 years of successful, sustainable mining in harmony with the environment and society in the Arctic region. LKAB presently produces over 90% of the iron ore mined in EU and specialises in high-grade iron ore pellets for steel producers. LKAB commands a market position as the world's third-largest and Europe's largest manufacturer of iron ore pellets. Our response to the market situation is to increase our production of iron ore products from 26 million tonnes to 37 million tonnes by the year 2015, creating a 40% larger company.

We are presently consuming around 4 TWh of energy annually and emitting around 750 000 tonnes of CO<sub>2</sub>. The corporate energy and climate strategy 2012-2020 entails the strategy to save 1 TWh annually by 2020 and phase out coal and oil (50% of the energy used). We strive to become CO<sub>2</sub> neutral by 2050.

LKAB is participating in the EU ETS system for direct ETS costs. Concerning methodology for free allocation of allowances, the fall-back approach will apply to LKAB during the third phase of the EU ETS (2013-2020). Although our pelletising plants are ranked #1, #3 and #4 in the world with respect to energy and CO<sub>2</sub>-efficiency, which should entitle us to free allowances for the direct costs, we - at present – expect to have to buy allowances for at least 10% of our company needs. Concerning the indirect electricity costs caused by the ETS, the sector NACE 1310 “Mining of iron ores” is one of the very few sectors eligible for state-aid due to the high risks for carbon leakage.

### **Any review of the EU ETS should sustain the EU industry's competitiveness**

LKAB supports the three mutually reinforcing priorities of the Europe 2020 (the smart, sustainable and inclusive growth) and the European climate-energy objectives. However, it should be considered that the competitiveness of the European industry is a prerequisite condition for the EU being able to meet its climate and energy objectives. For future EU competitiveness and re-industrialisation of EU (c.f. COM(2012) 582 on “Industrial policy update”), it is key that investments are done in Europe. A stable legal framework is important for any decisions and uncertainties could impede long-term investment for growth.

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LKAB endorses the EU's general climate policy, but not the uncertainties associated with the ETS system. LKAB identifies the following five policy-related uncertainties that the iron ore sector currently faces:

- The delivery of free allowances under direct emissions delayed until an uncertain date;
- The state aid for indirect emission costs created uncertainties and may still create uncertainties during the implementation phase;
- Commission's plans for back-loading a certain amount of allowances;
- Commission's plans for structural measures to the EU ETS;
- The work on the new carbon leakage list;

All these uncertainties influence the aptitude for investments in EU. LKAB believes that it is important to have a stable regulatory environment with respect to energy and climate policies in general and EU ETS in particular. This includes the number of allowances auctioned, timeline, volumes of free allowances as well as carbon leakage requirements. In a political and economic context marked by the need to re-industrialise Europe, special consideration has to be given to the European industries being vulnerable to carbon leakage.

Intervention by the Commission in the EU ETS market (e.g. increasing and/or decreasing the number of allowances at any moment that it would consider appropriate or changing the auctioning schedule), will send a strong signal of uncertainty to the industry that – without doubt - would delay or hamper the decisions on the necessary long-term investments for smart, sustainable and inclusive growth. It also sends a strong signal of uncertainty concerning the ETS as a truly market-based instrument

LKAB is concerned by the upcoming changes to the ETS system envisaged by the European Commission. LKAB believes that any assessment of the six options for structural changes to the EU ETS should include all relevant aspects of the emissions trading scheme with a potential impact on the industry. This includes, but is not limited to, possible impacts on

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electricity prices, correlation and implications for the carbon leakage list covering the 2015-2019 period and allocation methods (auctioning and free allocation).

We encourage the European Commission to closely coordinate the work on the structural changes to the EU ETS with the ongoing review of the carbon leakage list. In 2014, only one year after the start of the third EU-ETS trading period (2013 – 2020), the 2009 carbon leakage list will be reviewed. When this review was built into the current ETS Directive, there were optimistic perspectives regarding a binding international climate policy agreement by 2012. As the EU remains the only multi-national carbon market with binding emissions targets, LKAB asks the European Commission to prioritise the need to preserve and strengthen the competitiveness of the European industry.

LKAB believes that European energy and climate policies are inter-linked and therefore, a strong coordination between these two regulatory areas is needed in order to ensure their effective implementation while safeguarding the competitiveness of the European industry. The intriguing result of decoupled EU policies on energy and climate, is that the EU with stringent legally binding climate policies is increasing its CO<sub>2</sub> emissions (amongst others things due to a transition from nuclear to coal based power production again) while US, that has no legally binding climate policy, is experiencing a rapid decrease in its CO<sub>2</sub> emissions (amongst others things due to the use of shale gas),

In view of the above considerations, LKAB as the main iron-ore European producer supports a stable and predictable EU ETS regulatory framework.