REMARKS BY JOS DELBEKE, DIRECTOR-GENERAL FOR CLIMATE ACTION, EUROPEAN COMMISSION

AT EUROPEAN STEEL DAY

16 MAY 2013, BRUSSELS

- Many thanks for inviting me to make this intervention at European Steel Day 2013.
- Let me concentrate my brief intervention on 5 points:
  - the 2030/50 milestones
  - the EU ETS
  - The 2015 international agreement
  - Carbon leakage/free allocation
  - How to stimulate innovation

- First, the roadmap to 2050. Scientists tell us that to keep global warming below 2°C we should reduce our emissions in Europe by at least 80-95%. This is daunting. And the more we know about climate change, the worse the evidence gets. But the main conclusion I draw from this is that ALL sectors of the economy will have to contribute. Power, manufacturing industry, transport, agriculture, households, etc.
- At the same time economic logic also tells us that different sectors will make different contributions. A 'one size fits all' approach would be as inefficient as allowing a specific sector not to make further contributions to reducing emissions.
- Cost effectiveness is therefore a guiding pillar of EU climate policy. In this context, we welcome the low carbon Roadmaps for 2050 that energy intensive sectors have produced or are currently elaborating, including the steel sector. It is important that the sectors themselves think boldly and innovatively and look at the same time for new business opportunities.
- I fully realise that the challenges faced by each industrial sector are different. And I should underline that the transition to a low carbon economy will create lots of business opportunities for sectors such as steel, cement and chemicals given the investments that will be required in buildings, transport infrastructure and other areas.
- We now are translating the 2050 analysis into an operational policy perspective for 2030. Our own low-carbon Roadmap for 2050 indicates that a reduction of about 40 % will need to be achieved by 2030, compared to a cut of around 20 % under our 2020 target.

- We have opened consultations on the 2030 framework for climate and energy policies by publishing a Green Paper at the end of March. We recognise, for example, the long investment cycles of the steel industry.
- For the EU steel industry to remain competitive, more investments in energy efficiency and innovation will be the key. We cannot compete with volume, if – as some say - China has more over-capacity than our entire production capacity.
- Nor will we be able to compete on the basis of cheap energy prices. The US shale gas revolution is unlikely to be replicated in Europe any time soon. So we need to become ever more efficient and maintain our lead in product development, and particularly in products of high added value, over our competitors.
- Secondly, the EU ETS has been subject to a lot of debate in the past months. Let me underline that those who have have claimed that the EU ETS is dead are plainly wrong. The EU ETS is there to stay, and has no end-date. The real question therefore is how to modify the EU ETS so as to make it more effective.
- The main point I would like to make is that the ETS is technically working and is a cost-effective and flexible solution for industry. It has also proven its value to industry in difficult economic times, as free allocation has allowed companies to overcome liquidity constraints.
- I fail to see any logic in modifying the ETS towards a sectoral-based approach. Separate sectoral targets would represent a complete break from the current approach, would undermine its overall cost-efficiency and would be overly complex to manage.
- We should not forget that there is only one cap for all the sectors covered together. Hence the allocation to each industry is not an absolute straight-jacket but a relative starting point. If you cannot produce within the limits of the free allocation, there is always an option to buy on the market, at the most attractive price one can get.
- Cost-effectiveness reasons also explain why, as you may have noticed, our Green Paper places the EU ETS at the heart of the EU's strategy for 2030. We can differentiate allocation of allowances for specific sectors, but we cannot have sectoral targets inside the EU ETS.
- Thirdly, we are very conscious of the risks of carbon leakage as long as other countries do not take on similar targets. That is why we are determined to work very hard towards an international agreement in 2015, however difficult that may be. And those who have been following this know how much the EU and in particular the Commission, have spent time and resources to bring the emerging economies and the US into such an agreement.
- But let's not dream! In 2015 we are not going to have a Kyoto Protocol 'bis' in which all countries of the world are going to be united. There will be some differentiation in efforts and commitments. The realistic goal we need to work hard to achieve is to have shrinking

differentiation over time. But the important point is that the entire world is engaging in policies and measures and that we would attract all the major economies to participate.

- And that is already what we see today. For example, Australia, Korea, China, but also South Africa, Brazil, Mexico and others are either setting up their own emission trading schemes – some of which will be linked to the EU ETS - or implementing very tough national measures. South Africa is one of the latest players to get on board with work to introduce a carbon tax. These economies are no longer climate 'free riders', as is sometimes claimed.

- Fourthly, as it is realistic to expect some differentiation between countries to continue, we should also continue to deal with the potential risks of carbon leakage in a rational and pragmatic way. That is what we did with free allocation and access to international credits in the past. And it worked!

- Looking at the cost of steelmaking, the information we have indicates that raw materials, capital and labour represent the lion's share of the total costs. Raw materials and energy including transport (iron ore, coke) account for about 75% of the cost and labour and capital would be around 20%.

- Different ex-post studies show that, with the protection offered by free allocation and international credits, the ETS-related costs for energy intensive industries have been at most 2%, and in many cases even less. In addition, the steel industry has benefited from a considerable free allocation.

- Free allocation shields industry from the carbon price to a large extent. If you imagine yourself in a world of €30 per allowance and free allocation that covers 90 % of the needs of a steel plant, de facto the plant has to cover a carbon cost of no more than €3. And with a carbon price of €3 and the spare allowances as a result of the recession, the extra costs are in all likelihood negligible.

- Based on these considerations I cannot possibly accept the argument often heard that ETS has substantially affected the competitiveness of the steel sector. I do not intend to belittle carbon leakage. It is an important issue that we need to be vigilant about, and we remain committed to paying attention to minimising the risks of carbon leakage also in the 2030 framework.

- At the same time the new framework allows us to reflect and assess in a pragmatic and fact-based way what has worked and what has not. It also gives us the opportunity to address the issue of whether some sectors need more attention than others. And this work is being undertaken now by the DGs for Climate Action and Enterprise working together.

- Fifthly, we are preparing the ground for using part of the ETS related revenues to support energy intensive industries in the quest to develop innovative low-carbon technologies. This includes the steel industry, of course within the allowed state aid boundaries.
- I see a lot of merit in focusing specifically on supporting the final stages of the innovation cycle, that is to say large-scale demonstration and deployment. The ETS is already supporting innovation, mainly in the power sector, for example through the NER300 programme, and we could think of something similar for this particular support, but quantitatively much more important.
- I would think that the Commission and the steel sector have a clear common interest in making this case towards the Member States, both when it comes to the use of revenues in Phase 3 of the ETS but also when it comes to the design of the 2030 policy framework.
- Thank you.