

Climate Change & The Steel Industry

A Proposal for A Sector Approach

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CLIMATE CHANGE

A GLOBAL CHALLENGE REQUIRES A GLOBAL RESPONSE

- ❑ The Steel Industry **recognises the importance of the challenge** and that it has a role to play in reducing GHG emissions
- ❑ **Emissions trading is here to stay**
 - However **the current EU ETS ignores global reality** as far as steel is concerned
- ❑ CO₂ performance of European industry **must be seen in a global context**

Steel Production EU 25 (2005) 187 Miot

vs.

Steel Production China (2005) 356 Miot
(with at least twice as much specific emissions)

The current ETS does not deliver a global reduction in CO₂ emissions

STEEL INDUSTRY PROGRESS IN REDUCING CO₂ EMISSIONS

The past

1970–1990: 50% (major process & technical changes)

1990–2005: 20% (incremental progress, increased EAF share)

Steel is ready and willing to take on its share of the efforts provided the right instruments are put in place

2005 to 2020

With a baseline & credit system we anticipate (via process changes and energy efficiency with significant investment) a possible decrease of 10%, which would lead the EU steel industry to an overall contribution of -30% by 2020 compared to 1990

Beyond 2020

A long term approach to find breakthrough technologies – Ultra Low CO₂ Steelmaking (ULCOS) R&D project part funded by the EU aimed at achieving a 50% CO₂ reduction per tonne of primary iron produced

However, the current ETS will not help achieve these targets. Support is needed from the Commission/Member States to implement right policies

STEEL INDUSTRY PROPOSES AN ALTERNATIVE ETS

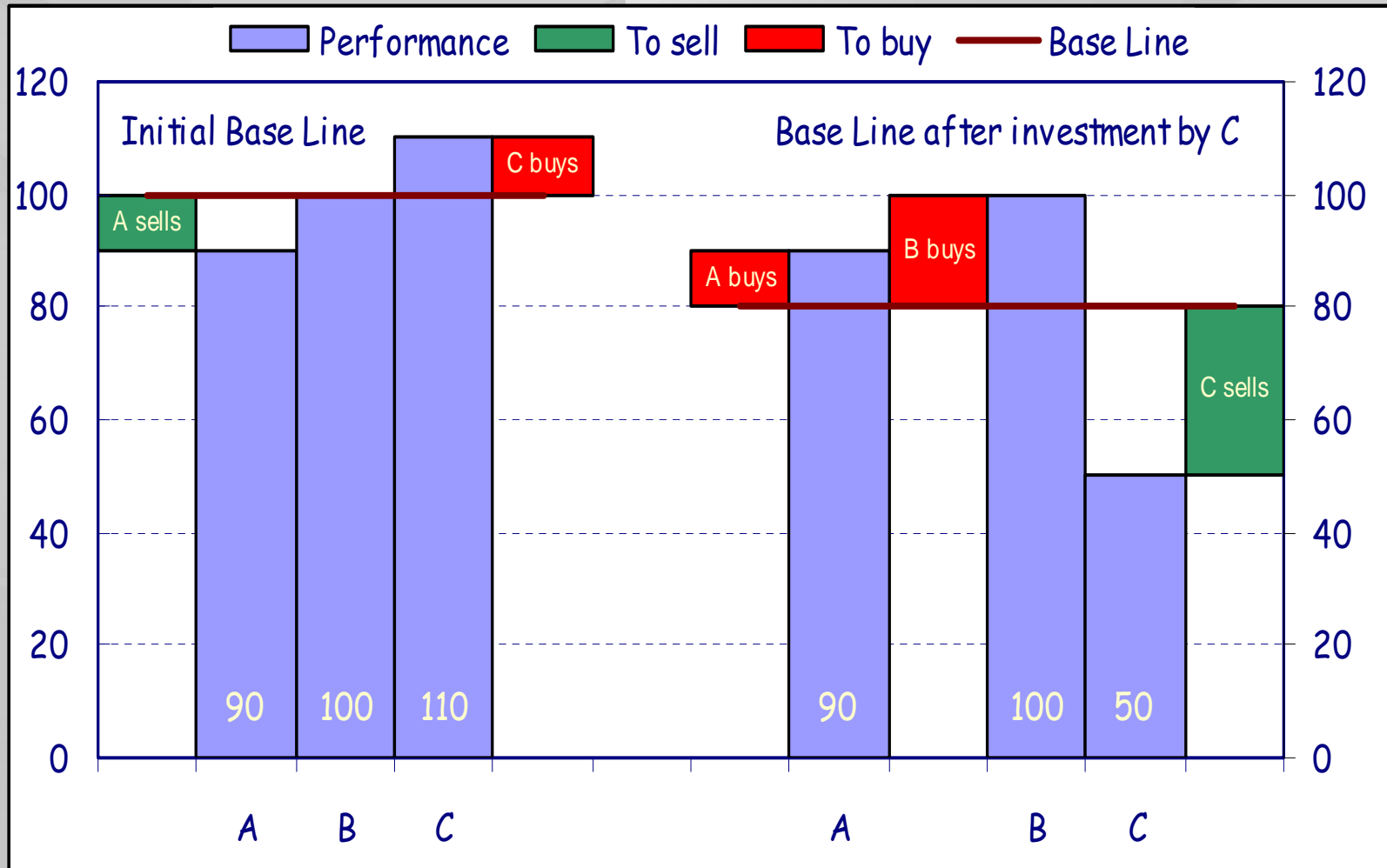
THE BASELINE & CREDIT SYSTEM

- ❑ The steel industry has a **proposal for a sector-specific approach** to climate change post-2012
- ❑ This **has the unanimous support of the steel industry in Europe**
- ❑ It is an approach which **addresses the weaknesses and shortcomings** of the present ETS
- ❑ The baseline approach **provides the incentives to invest** in the efficiencies needed to further reduce greenhouse gas emissions per tonne of production
- ❑ Such an approach is **attractive to operators outside of the EU** and, if adopted, **will play an important role in globalising emissions trading**

BASELINE & CREDIT SYSTEM: MAIN CHARACTERISTICS

- ❑ **A mandatory emission trading scheme for the steel sector**
- ❑ **System includes all emissions**, both direct and indirect
 - The weighted average of emissions per tonne of production for the sector serves as the basis for the allocation of allowances (the baseline)
- ❑ **Performance of each operator is compared against the baseline**
 - If performance is worse than the baseline (even after investment aiming at improving performance) operators must pay for allocations traded from operators performing better than the baseline
- ❑ **Offers a clear incentive to invest in improvements**
 - As efficiencies and investments take effect, the baseline level will be adjusted downwards, resulting in a dynamic process driving continuous efficiency improvements and emission reductions

BASELINE & CREDITS SYSTEM: FUNCTIONING



BASELINE & CREDITS: MAJOR ADVANTAGES

- ❑ **Results can be measured and emission reduction performance quantified**
- ❑ **Swift reduction of the baseline is possible**
- ❑ **There is a real reward for innovation and big cuts in emissions**
- ❑ **Delocalisation of emissions is avoided** by the inclusion of direct and indirect emissions
- ❑ **Ex-post adjustment of allocations** overcomes some of the operational difficulties of the present system
- ❑ **There is no barrier to growth, the system only targets efficiency – good performance is rewarded and good performers are allowed to grow**
- ❑ **The situation where full opportunity costs are passed through is prevented (only real costs can be passed through)**
- ❑ **The system has a real potential to become global** – the global steel sector through IISI aims to come forward with worldwide commitments on measurable emission reductions within the next six months (e.g. regional baselines converging towards a worldwide baseline after a negotiated transitory period)

CURRENT ETS vs PROPOSED BASELINE & CREDIT SYSTEM

Cap & Trade system

- ❑ **Cannot become truly global** – not attractive to outsiders
- ❑ Results are **not measurable** – reduction in global emissions cannot be assured
- ❑ **Distortion of competition** on an installation, at member state level and internationally
- ❑ CO₂ footprint is EU-limited. **Delocalisation of emissions** is a real possibility, therefore global emissions reduction could be negligible
- ❑ **Little reward/incentive** to improve performance
- ❑ **Compatible** with an absolute cap on EU society and Kyoto mechanisms (CDM to compensate for excess emissions)

Baseline & Credit system

- **Can become truly global**
- A **swift decrease in the baseline** will result from improved efficiencies fostered by the system, giving measurable results
- **No distortion of competition**
- Using a **total CO₂ footprint** (direct and indirect), including for imported raw materials and semis and not imposing a limitation on activity will avoid delocalisation
- A real **premium for innovation** improves position in the system – efficiency is rewarded
- **Compatible** with an absolute cap on EU society and Kyoto mechanisms (CDM to address growth)