Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

Response from European Metalworkers' Federation (EMF)

1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

First of all, and in general terms, the risk of carbon leakage has increased, as EU energy intensive industry's products have become less competitive because they are now more expensive.
The still ongoing economic crisis in the EU has, if possible, worsened the risk of carbon leakage for the European steel industry. While in Europe the recovery, if any, is very slow and the utilisation index of production facilities is still far from optimum capacity rates, other areas of the world are increasing their steel production capacity in the face of growing domestic and regional demand. This situation increases the risk of delocalisation of new investments and production capacity from the EU to other parts of the world, not subject to legislation on GHG emissions reduction or an ETS.
Today's instable recovery may be undermined completely by rising electricity prices and exorbitant international price increases in basic raw materials. While furnaces and smelters in the non-ferrous metals industries may be in the most obvious danger from these price rises, investment in processing plants and research and development in our basic metals industries has been hard hit at the same time threatening the broader workforce. Electricity, ore and coal prices must be affordable for our industries to survive.

2. Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?

The European Metalworkers' Federation regrets the overall result of the Copenhagen UN conference in December 2009, particularly the failure to reach a binding and comprehensive international agreement on the reduction of greenhouse gases (GHG) guaranteeing a just transition towards a low-carbon economy.
The EMF does not believe that the outcome of Copenhagen or the pledges currently made by relevant competitors will translate into additional greenhouse gas emission reductions. The level of imports of products manufactured outside EU not subject to high raw material and electricity prices due to greenhouse gas emission trade will certainly increase. The Copenhagen Accord will not lead to any significant extent to reductions in GHG emissions.
It is now time to stick to the objectives already decided, to maintain the current list of sectors at risk of carbon leakage and to see the revised Directive on the 3rd phase of EU emissions trading scheme (ETS), as adopted on April 23rd 2009, correctly implemented and enforced to ensure a stable and realistic regulatory environment for long-term investment in our industries.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

For the EMF, the price of raw materials and electricity for industrial consumption must be addressed. The EU should develop, or help to develop, an energy and electricity market enhancing windfall-profit free pricing.

More specifically, and in accordance with the provisions of the ETS Directive, the Commission must secure fully 100% free allowances for all sectors at risk of carbon leakage, based on achievable benchmarks. At least the average of 10% most efficient installations in these sectors must receive fully 100% of their needs for free, unless the cap ("correction factor") makes further cuts necessary according to the directive. To this end, we strongly advocate that member states demand that the forthcoming EU benchmark for the steel industry allocates waste-gas related CO2 emissions resulting from steel production fully to the waste gas producer. We consider that splitting the emissions rights allocations will result in higher GHG emissions as incentives to recycle gases will be undermined.

4. Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?

For the EMF, the free allocation of allowances is only the first step to avoid carbon leakage.

The EMF considers it essential for the future of the steel and non-ferrous metals sectors and to avoid carbon leakage that the Commission accept national electricity price compensation for passed-on costs for our industries from today and not only starting from 2013, with European coordination to avoid negative spillovers.

In addition, the EU must provide a credible framework of accompanying measures to manage the social consequences of these targets and the need for a sectoral just transition strategy, which explicitly includes the responsibility of the steel companies as well as public authorities in maintaining employment and promoting training and skills development for all workers, notably through the creation of a European sectoral skills councils for the steel and non-ferrous metals industries.

Substantial increases in financial support for R&D, pilot and demonstration projects of carbon-lean technologies in energy-intensive industries in Europe will be necessary in order to speed up the process significantly. We call on the European Council and member states to actively support politically and financially the R&D programme of the European Steel Technology Platform and especially the development of full-scale demonstrations in the context of the Ultra-low CO2 Steelmaking (ULCOS II) project.

The EU should strongly encourage companies to invest in BAT. Resources generated from the sale of emission rights, as well as those amassed through unused emission rights during the economic downturn, should be committed to maintaining and upgrading European steel production sites and employment.

If other countries will not commit to reduction of GHG emissions, the EU should seriously consider border adjustment measures on products from these countries as a last resort.