

Unclassified

DSTI/SU/SC(2006)67

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

14-Nov-2006

English - Or. English

DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE

EUROPEAN PERSPECTIVE TOWARDS THE CO₂ CHALLENGE

7-8 November 2006

Presentation by Jean-Pierre Debruxelles, EUROFER.

Wolfgang Hübner, Head of Structural Policy Division
Tel: +33 1 45 24 91 32 Fax: +33 1 44 30 62 63 E-mail: wolfgang.hubner@oecd.org

JT03217764

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format



DSTI/SU/SC(2006)67
Unclassified

English - Or. English

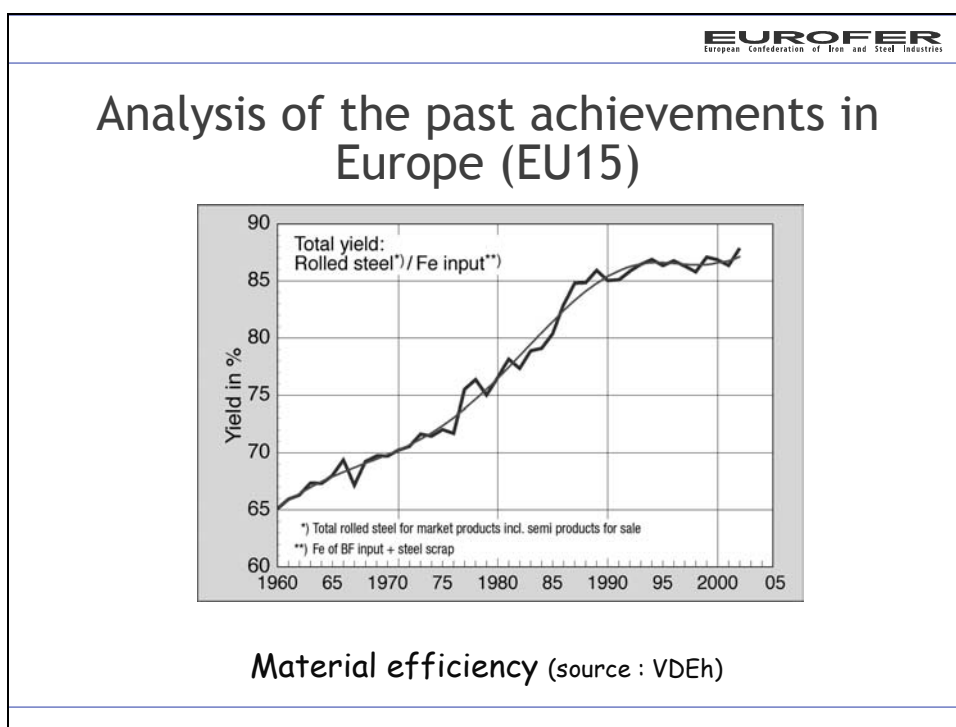
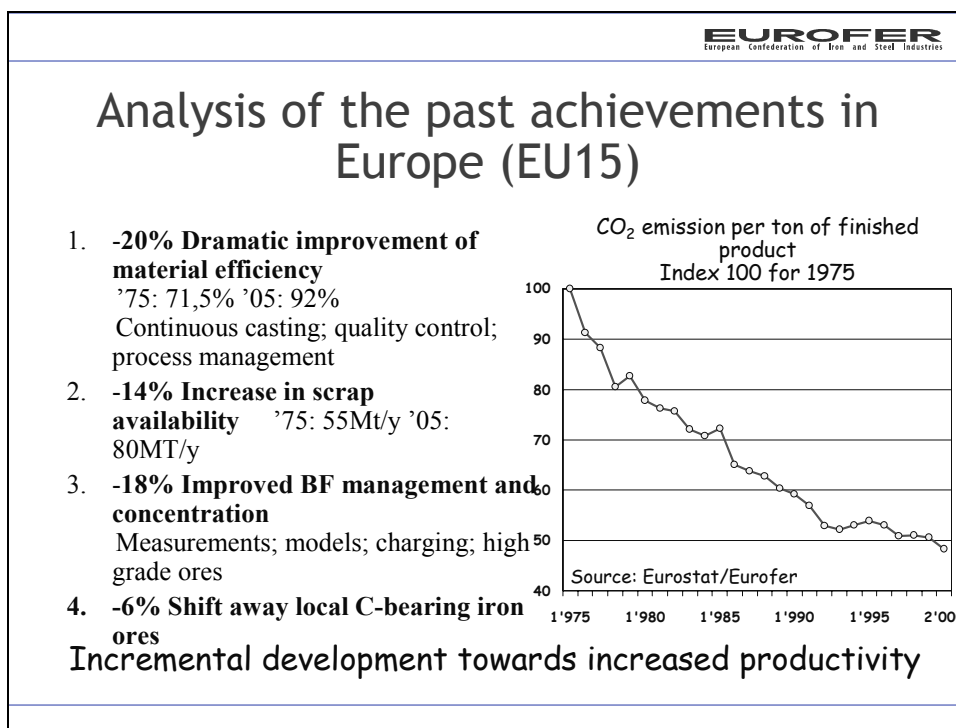
European perspective towards the CO₂ challenge

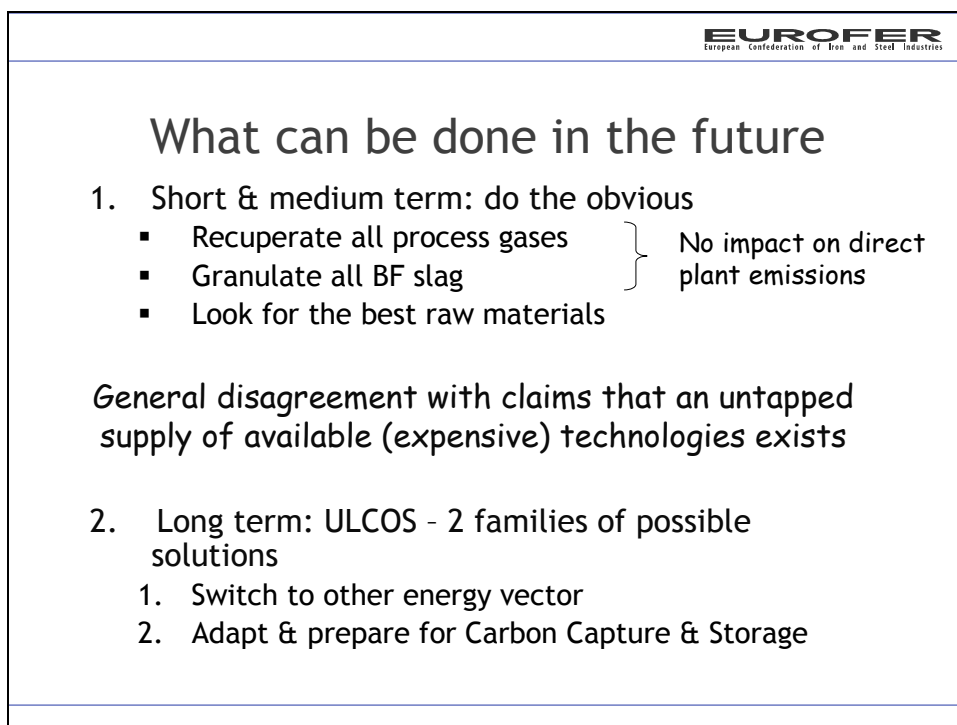
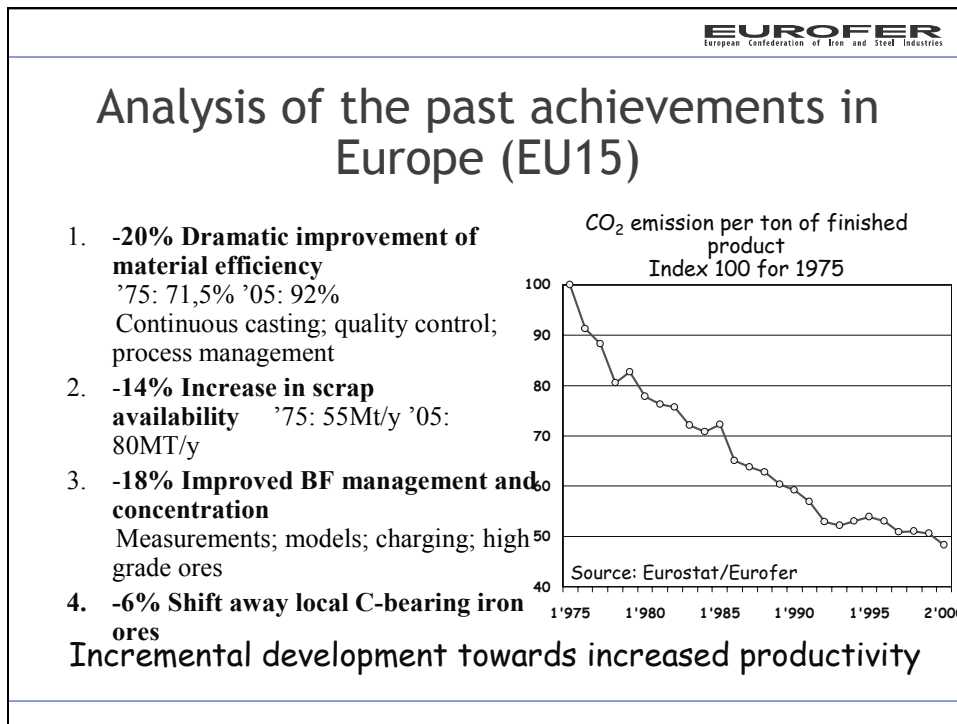
Jean-Pierre Debruxelles
Technical Director - Eurofer

OECD Steel Committee - IEA - IISI 7 November 2006

Outline

1. Analysis of the past achievements in Europe
2. What can be done in the future
3. Future of the EU steel production - the EU ETS
4. Need for a proper CO₂ constraint
5. Conclusion





Future of the EU steel production

1. **Past production level: remarkable stability over the last 30 years**
2. **Future steel production in Europe determined by CO₂ policy?**
 - **Past experiences with EU ETS**
 - The control on the activity level is clearly felt: Market is probably long
 - Power sector is making huge windfall profits and might even be increasing its emissions
 - Allocation rules remain political compromises: No hope to ever find a fair allocation system due to direct emission approach
3. **No bonus for innovation**
 - New activities receive adapted constraints

The EU ETS

- 1°) The Kyoto Protocol and the EU target (-8%)
- 2°) US and others did not ratify
- 3°) US CO₂ / capita = 2,3 x EU CO₂/capita
- 4°) Only 28 % of the total crude steel is produced in countries with KP mandatory targets
- 5°) In 2050: the EU industry (in ETS) will represent less than 2% of the worldwide GHG emissions

The EU ETS

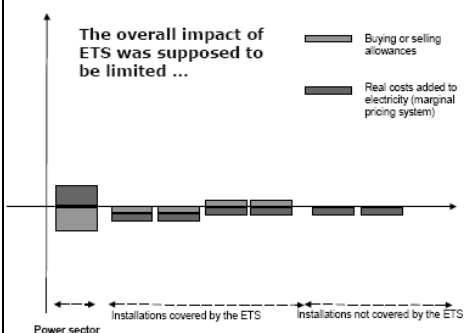
- A unilateral action from the EU on a ultra fast track procedure on the basis of a model which is beneficial for some players
- 46 % of the emissions covered
- lack of harmonisation and burden sharing are at stake
- Steel is in but not all its competitors (aluminium and plastic)

- 2005-2007 : a learning by doing phase?
- 2008-2012 : the commitment period with much more scarcity?
- Beyond 2012: an EU ETS ? an international ETS ?

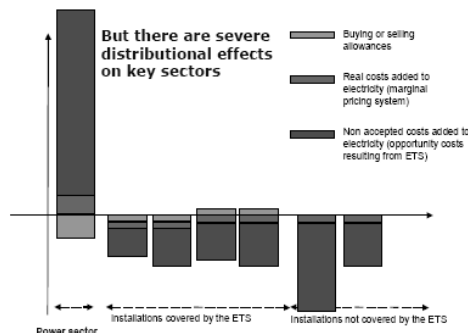
9

Opportunity cost based pricing of the electricity

What was supposed to happen?



What is happening?



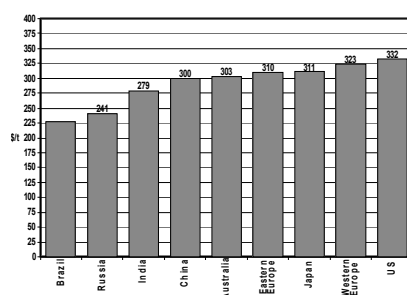
10

Future of the EU steel production

1. **Past production level: remarkable stability over the last 30 years**
2. **Future steel production in Europe determined by CO₂ policy?**
 - **Past experiences with EU ETS**
 - The control on the activity level is clearly felt: Market is probably long
 - Power sector is making huge windfall profits and might even be increasing its emissions
 - Allocation rules remain political compromises: No hope to ever find a fair allocation system due to direct emission approach
3. **No bonus for innovation**
 - New activities receive adapted constraints

Future of the EU steel production

Cost comparison slab production between
the different geographical areas



Source: WSD 2005

Future of the EU steel production

Leakage or dike burst?

- Gradual (=invisible) externalization of CO₂ intensive activities:
 - Transfer scrap from EAF route to BF route
 - Buy more raw material with a CO₂ footprint: Coke, pellets, HBI, DRI
 - Produce semi's elsewhere: slabs; HRC
- Minimize the production of non steel products
 - Granulated slag increases direct emissions -> try not to make it

Are we doing anything to decrease the overall CO₂ emissions?

Need for a proper CO₂ constraint

EUROFER believes that the current EU cap & trade system with ex-ante rules cannot be improved significantly since

1. **only a global system can resolve some of the discriminatory effects and other negative consequences of the current system;**
2. **such a system provides only a weak incentive for CO₂ reductions in the electricity producing sector as opportunity costs can be easily passed on to their customers, even if there is great improvement potential in the sector;**
3. **allocations cannot always be made on a fair basis, since the same processes with differences in upstream operations, different product mixes/raw materials and technologies used may not be comparable;**
4. **there is a strong signal to relocate through externalising CO₂ intensive activities.**

Need for a proper CO₂ constraint

1. Need for a global & uniform approach
 - To avoid distortion between inside & outside trading space
2. No Cap on activities & take the indirect impact into account
 - To get developing countries on board and to keep activities in Europe
 - Guaranteeing a global optimization for complex processes
 - Providing an understandable pressure on operators
3. No net transfer of cost to the market (no internalization)
 - As long as Life Cycle issues including end of life cannot be addressed properly:
 Primary steel (2tCO₂/t) will return 5 times (avg.0,7tCO₂/t)
 Polyolefin's (1,5tCO₂/t) will decompose (4,5tCO₂/t)
4. For a sectoral approach: no net transfer to other sectors

Conclusion

1. The European steel industry has achieved a remarkable achievement of CO₂ reduction over the last 30 years
 - Availability of raw materials and improvement of process management
2. EU ETS does not help us to improve further on the contrary
 - Steel production activity risks to relocate in phase with decreasing allocation
3. The industry might still have an interesting potential if given the right incentive