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Joint Press Breakfast

European Parliament, 25th June 2014

- **Comparison of European and US energy costs**
- **Climate Package 2030 - problems for steel**
- **Steel Action Plan - impact of policies on our profitability**

Gordon Moffat, Directeur General

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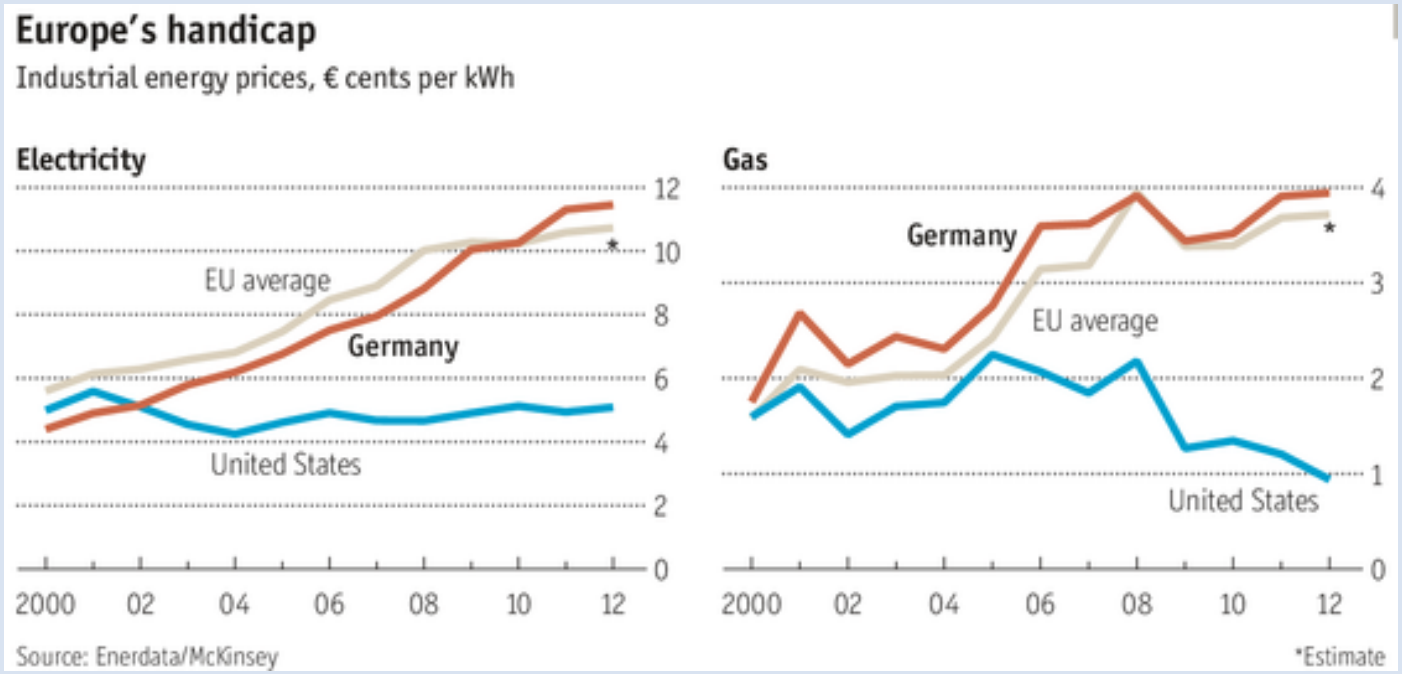
EU Energy Policy for Steel



Industry needs:

- Analysis of impact of the ETS on electricity prices
- long-term supply contracts
- Diversification of energy supply sources
- Exempt industry from renewable and network levies and tariffs

Climate Package 2030
Reality vs EC - Proposals up to 2030

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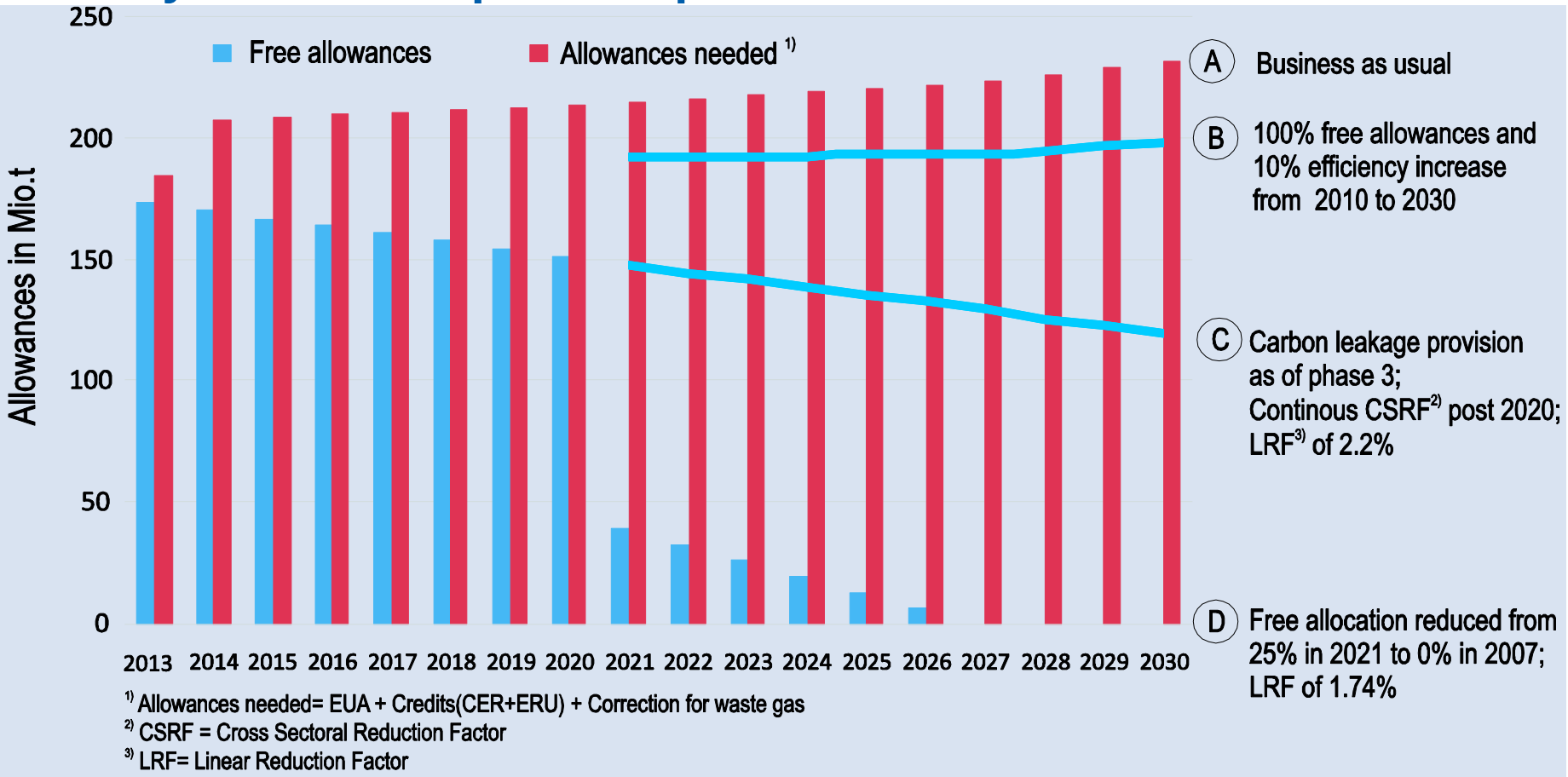

1) Allowances needed= EUA + Credits(CER+ERU) + Correction for waste gas
2) CSRF = Cross Sectoral Reduction Factor
3) LRF= Linear Reduction Factor

4) Accumulated shortage of allowances for **direct** emissions in 2030: (B) 0.43 bn t; (C) 1.03 bn t; (D) 2.23 bn t

5) Shortage for **indirect** emissions: 32 Mio t CO_2/year (Assumptions: (a) Electricity consumption EAF=550 kWh/t cs; BF/BOF = 150 kWh/t cs; Downstream processes = 136 kWh/t HRC; (b) 10% electricity import for BF/BOF route; (c) Electricity emission intensity in line with state aid guidelines; (d) yield for hot rolling = 98%)

Source: Own calculations dated June 2014, based on information available at that stage.

Impact of the EU ETS Post-2020 on EU steel - *Needs for full off-setting of CO_2 costs*

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Scenarios	CO_2 emissions, billion t		CO_2 price EUR/t	Needs for full off-setting of CO_2 costs, in billion EUR		
	Direct	Indirect		Direct	Indirect	Total
B: 100% free allowances on benchmark level and 10% efficiency increase from 2010 to 2030 (Steel Roadmap)	0.20	0.42	30	*[6.0]**	*[12.6]**	18.6
			40	*[8.0]**	*[16.8]**	24.8
C: Carbon leakage provisions continue; CSCF remains; 2.2% Linear Reduction Factor	0.88	0.42	30	26.4	12.6	39.0
			40	35.2	16.8	52.0
D: Current EU ETS	2.08	0.42	30	62.4	12.6	75.0
			40	83.2	16.8	100.0

N.B.: Assumptions: (a) Electricity consumption in 2010: EAF=565 kWh/t crude steel; BF/BOF = 154 kWh/t cs; Downstream processes = 140 kWh/t HRC; 5% efficiency increase from 2010 to 2030; (b) estimated electricity import for BF/BOF route =10%; (c) Country specific electricity emission intensities in line with State Aid Guidelines; (d) yield for hot rolling = 98%

*) Off-setting via free allocation or financial compensation

Source: CITL data (Community Independent Transaction Log); Crude steel production projections in line with Eurofer forecasts and the BCG/VDEh study on steel's contribution to low-carbon Europe 2050; Own calculations dated June 2014, based on information available at that stage.

Impact of the EU Com proposal for the EU climate and energy package 2030 on the EU steel industry

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- Preliminary assessments show that the implementation of the EU Commission proposal would lead to increased high additional costs and a further damage of the competiveness of EU energy intensive industries.
- EUROFER believes that a genuine reform of the EU ETS with an improved carbon leakage support must take place and not the proposed piecemeal approach of the EU Commission.
- EUROFER is actively involved in finding solutions for achieving both the EU's climate objective for 2030 while safeguarding the global competitiveness of industries at risk of carbon leakage.
- Therefore EUROFER has made concrete proposals for the Review of EU ETS Post-2020

Draft EUROFER discussion paper on the review of the EU ETS (I)

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What we need to safeguard our global competitiveness:

- Provide sectors at risk of carbon leakage with 100% free allocation at the level of the most efficient installations, based on achievable benchmarks and no correction factor **and continuation of 100% free allowances beyond 2020.**
- Provide sectors at risk of carbon leakage **with full off-setting of CO_2 cost-pass through in electricity prices** in all member states by either financial compensation, free allocation, or re-designing the electricity market in a way that it prevents any carbon price pass through in electricity prices, or a combination of these.

Draft EUROFER discussion paper on the review of the EU ETS (II)

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More concrete proposals for a review of the EU ETS Post-2020:

- The repartition of the ETS cap between a manufacturing cap and a power cap shall become flexible to allow full free allocation up to the level of the benchmark to every leakage industry. The remaining part is left for auctioning**. In this way there is no longer any need for a correction factor.**
- Leakage industries should receive free allocation for their direct emissions up to the level of their benchmarks **times the effective production** (based on the year n-1); they need however to purchase and surrender additional allowances to cover the emissions emitted **beyond the benchmark** times the real production level.

Steel Action Plan
Impact assessment

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Regulatory costs for steel compared to EBITDA per tonne of steel, 2002-2011:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EBITDA t/steel	**€48**	**€71**	€99	€77	€142	€110	€92	**- €25**	**€38**	**€43**
EU regulatory costs	**28.1%**	**18.9%**	13.4%	17.3%	9.4%	12.2%	14.5%	**-53.9%**	**35.0%**	**30.9%**

Source: Centre for European Policy Studies, *Assessment of Cumulative Cost Impact for the Steel Industry*, 2013, p. 55-58
EBITDA: *earnings before interest, taxes, depreciation, and amortization*

- Already today huge impact on profit margins
- At an **Ø EBITDA of €69,5** (2002-2011) a CO2 price of €30 or €40 without safeguard measures for direct and indirect costs could wipe out all profit margins.
- **A CO2 price of €40 = up to €80 additional costs** per tonne of steel (BF/BOF route)