

Keynote speech by
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Conference "Towards a global low carbon economy"
Brussels, 27 November 2007

Vice-President Verheugen,
Your Excellencies,
Ladies and gentlemen:

Thank you for giving me the opportunity to speak to you today about how the world can move towards a low carbon economy and how the steel industry can play its part in this.

There is no doubt that the production of steel and other basic building blocks of development carries with it a significant carbon cost. But steel will also be part of the solution to climate change.

Steel is an essential component in the development of renewable energy technologies, most obviously wind turbines, but also solar power structures and wave or tidal energy installations. It is also of course an essential tool for improving the economic and transport infrastructure in emerging economies.

The demand for steel around the world will continue to grow and this is good news. The challenge we all face is to support this growth while minimising the impact on climate change.

ArcelorMittal has set ambitious targets in our Corporate Social Responsibility program; we want to be world leaders in the steel industry's efforts to come to terms with climate change. This responsibility is all the more pressing since the production of steel is inherently an energy intensive process.

I would like to share with you that steel makers in Western countries have reduced their relative CO₂ emissions by 50% over the past 30 years. That is a considerable achievement by any standard in any part of the world and should not be overlooked.

Today, depending on the age of the plant and other factors, CO₂ emissions in Europe and the Americas vary between 1.5 to 2 tonnes for

one tonne of steel produced from iron ore. In some emerging markets however, average CO₂ emissions per tonne of steel could be almost double, so there is a lot of scope for improvement.

If we talk about steel and CO₂, we also need to acknowledge that steel can be recycled almost indefinitely. For example, steel in cars on average has a useful life of 10 to 15 years with a very high recycling rate of 85% to 90%. Other materials such as cement are not easily recycled. If we then compare the CO₂ emissions output of steel with other carbon intensive materials over their lifecycle – such as aluminium, cement and plastics - steel clearly comes out as a winning material. This is something which should be recognised through credits in any CO₂ standard or government policy.

Also, we have and continue to develop lighter steel for applications in cars, construction, etc... For example, if the Eifel Tower would be constructed today, we would be able to do this with only 40% of its current weight. We produce gas bottles today with only 50% of the weight compared to steel used in the 1970's. We recently launched tailor made cladding integrating solar cells that will provide power to the grid, but are at the same time fully fledged roofing material. If over the next 30 years, all new industrial buildings in Europe were to be equipped with this product, we would realize a saving of 130 million tonnes of CO₂ annually.

Of course, we also need to continue to work on new technologies aimed at improving the steel production process. At ArcelorMittal for example, we currently use two production routes that have a significantly lower CO₂ footprint than conventional processes.

The first is known as Direct Reduction of Iron ore, or DRI, which is based on natural gas; the second, is based on biomass fuel and uses charcoal made in Brazil from eucalyptus.

Unfortunately, these technologies cannot be exported worldwide as they depend in the first example on the availability of cheap natural gas and in the second example on climatic conditions rare outside Brazil. So there are geographic limitations.

But we are also working on long term “breakthrough” technologies. Since 2001 the European steel industry has been working together in ULCOS – an acronym for Ultra Low CO₂ Steelmaking program.

ArcelorMittal is leading this research consortium, which aims to develop manufacturing processes to produce steel with half the carbon output of traditional processes. We think that implementation at industrial level of these new steelmaking routes is not expected before 2020, so they don't represent a quick fix.

The most promising routes rely on the availability of cost-effective carbon capture and storage technologies. These technologies are as yet unproven and they are controversial in some quarters; but we are continuing to work on them as part of a multi-dimensional response to climate change. In fact, I am convinced that India and China can also play an important role in joining forces here to accelerate the use of these technologies. Perhaps we need to consider a global government-industry consortium including the emerging countries with increased funding from all governments involved?

Of course, we cannot only wait for science to come up with a technological fix. Even if the ULCOS program delivers significant CO₂ reductions in the future, steel will continue to be an energy-intensive product and one for which there is increasing global demand.

This brings me to the key question today. What can we do as steel companies around the world until some of these breakthrough technologies become more affordable?

First, I believe we must take stock of the CO₂ emissions performance of all our plants and exchange best practices to ensure that proven ways to improve performance are implemented across all our plants.

We think that this process needs to take place at industry level worldwide. This is why we advocate the adoption of a sectoral approach for the steel industry. I can say here that I was encouraged to hear Commissioner Verheugen give support this morning for a CO₂ sector approach for energy intensive industries that face global competition.

Second, let me briefly explain how we at ArcelorMittal see that such a global sector approach for the steel industry, based on CO₂ performance and carbon intensity improvement, could work. I should say that we are gathering more support on this as we move forward.

The baseline is the weighted average in terms of emissions per ton of production of the sector as a whole, including direct and indirect emissions. Once measurement is agreed among all players, the

performance of each operator is compared against the total carbon dioxide footprint.

Good performers are rewarded by the allocation of carbon credits, bad performers have to buy credits - which means that this system can only function in the framework of a mandatory emission trading scheme.

This performance-based approach offers a clear incentive to invest in efficiency measures, as well as a big incentive for innovation. And it needs the participation of all the major steelmaking countries – including the emerging markets. Let's bear in mind that almost half of the global steel's carbon footprint comes from China.

It is clear that the steel industry's proposal will involve some changes to the current European Emissions Trading System, but this can and must be done.

We need the support of European policy makers to create a policy framework on climate change which will take a leadership position but supports the competitiveness of European industry.

We need to have a level playing field so we can compete fairly with the other regions. Let's not forget that steel imports from China into the EU are increasing and with it higher CO₂ emissions – the average steel mill in China emits about double the CO₂ of the EU. Clearly, this cannot be the intention as it risks dislocation of steel production to non carbon constraint regions and possibly job displacements as well.

That is why the future emissions trading scheme **MUST** be linked to the EU's trade policy and mitigate any negative impact from imports from non-carbon constraint countries.

This implies that importers in the EU must somehow be included in the emissions trading scheme. In the end, the emissions trading scheme and a global sector approach for the steel industry must be compatible.

Climate change is a global problem. We need global agreement on how to deal with it. Regulation applied unequally can do nothing to improve the overall situation, and may even make it worse.

We need to ensure that any changes in the rules that govern international trade take carbon emissions into account and provide incentives for the worst performers in an industry to quickly reach the standards of the best.

At ArcelorMittal, we are committed not just to playing our part, but to leading the steel industry towards a solution of this difficult but vital problem.

Thank you for your time this morning.