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 CO$_2$ 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 CO$_2$ Steelmaking (ULCOS) R&D project part funded by the EU aimed at achieving a 50% CO$_2$ 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

Performance  To sell  To buy  Base Line

Initial Base Line

C buys

Base Line after investment by C

A buys

B buys

C sells

A sells

A  B  C

A  B  C

C sells

90  100  110

90  100  50
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)