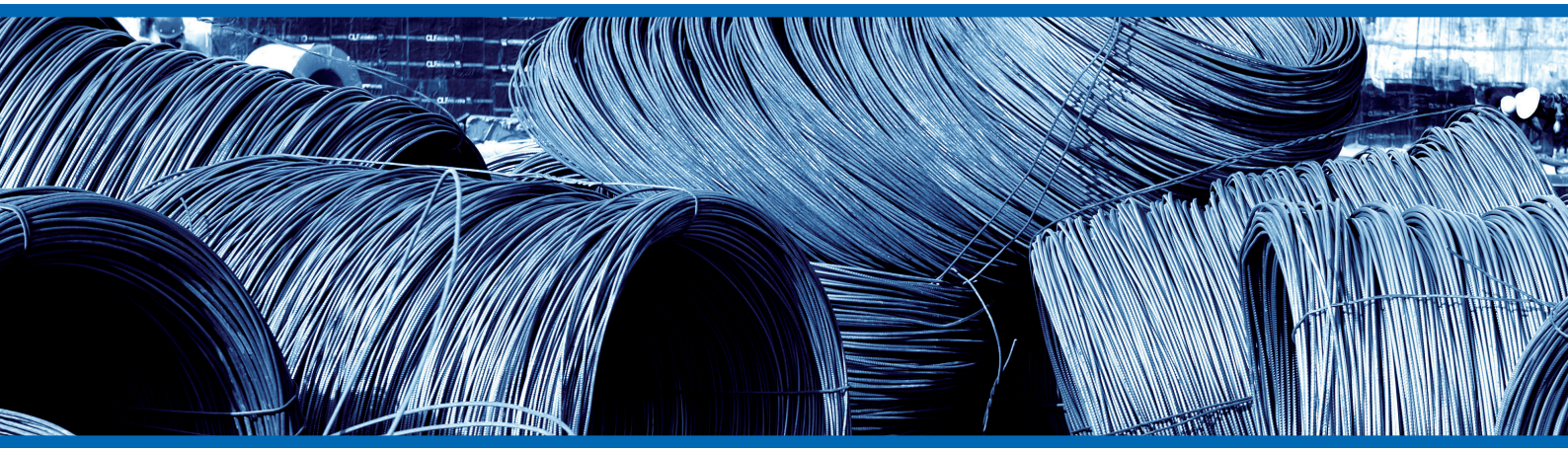
ETS | CIRCULAR ECONOMY | TRADE

ENSURING EUROPE'S COMPETITIVENESS



EUROFER
The European Steel Association

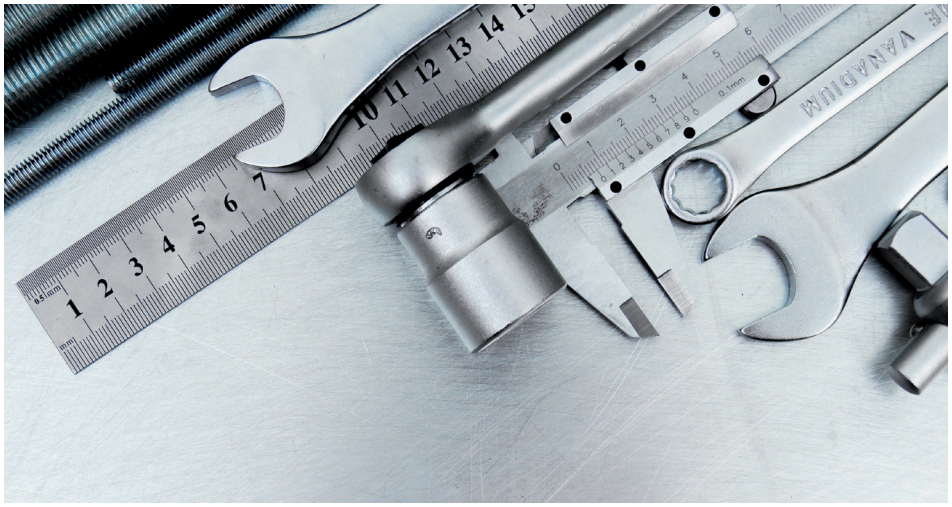
Europe's innovative steel industry reflects the EU's drive towards a modern industrial economy

Europe has long been a world leader in the manufacture and use of high quality steels. Production ranges from basic carbon steels through to rust-proof stainless and advanced high-strength steels of the kind used in automobile bodies. The EU produces around 170 million tonnes of steel every year, employing 330,000 highly skilled workers across 24 member states. The steel industry is a fundamental component of the modern industrial economy. With production sites spread over 500 locations in Europe, a healthy steel sector is vital to delivering the EU's stated goal of increasing industry's share of GDP to 20 per cent by 2020.

"With production sites spread over 500 locations in Europe, a healthy steel sector is vital to delivering the EU's stated goal of increasing industry's share of GDP to 20 per cent by 2020"

The industry currently faces three key issues. To an extent, these overlap and affect each other. This is the particularly the case in the relationship between international trade, the EU's Emissions Trading Scheme (ETS) and the circular economy.

The accompanying articles in this supplement will take a detailed look into how to achieve a balance between these three crucial policy areas that the European steel industry faces.



In the face of fierce global competition, it's crucial that the EU's emissions trading scheme helps, rather than hampers Europe's innovative steel producers

The vitality of the European steel industry is essential. As an innovation leader, it needs a stable marketplace for newer, environmentally friendly processes and higher grades of steel. Steel production emits CO_2 – albeit half the amount per tonne that it did in the 1960s – but steel products also help mitigate CO_2 emissions during their lifetime. It is important that this contribution is recognised, if Europe is to make the most of an industry that is arguably the cleanest and most advanced in the world.

"in its proposed form, the EU ETS sets benchmarks that will prevent the best performers from investing in further innovation"

The EU's current climate policy regulates CO_2 at the stack. This 'tailpipe' emissions approach – exemplified in the European Union Emissions Trading Scheme (EU ETS) – focuses on production emissions while overlooking the contribution that these materials can bring to the fight against climate change. Often it can take a great deal more energy and work to produce the most advanced and 'useful' materials, but once in service they are much more efficient. For instance, the strong but flexible advanced steels required to build a renewable power windmill — may, using the 'tailpipe emissions' EU policy approach, appear to contribute to emissions. In fact, once built they mitigate CO_2.

Steel production processes cogenerate a range of useful by-products. More than 95 per cent of these by-products can either directly be reintroduced into the production cycle or further processed. So-called 'process gases' can be used to generate electricity, while slags from the furnace can be processed further and used to replace clinker in cement and road building. Unfortunately, these by-products are not counted as mitigating CO_2, despite saving millions of tonnes of CO_2 in sectors further downstream.

This restricted nature of CO_2 accounting means that the existing EU climate policy can be counterproductive.

Where EU regulation is burdensome – such as where EU ETS CO_2 benchmarks are set at unfeasibly low levels, even for sectoral 'best performers' – it can result 'clean' production in Europe being curtailed to the benefit of less sophisticated production methods in third countries. As it stands, EU climate policy allows the perfect to be the enemy of the good, by effectively exporting domestic CO_2 production via imported foreign steel.

In July 2015, the European Commission published its proposal for the post-2020 EU ETS framework. This is the single most important climate policy tool the EU has at its disposal; therefore it is vital that it works properly. The steel industry supports the objective of combatting man-made climate change, which is why the industry has worked extremely hard to reduce the carbon intensity of its production.

However, in its proposed form, the EU ETS sets unachievable benchmarks with insufficient - and declining - emissions allowances. The steel sector is at very high risk of 'carbon leakage', so it is vital to balance environmental and economic objectives. The present proposal creates significant direct and indirect costs for the industry, up to half of which will not be covered by compensation by 2030, meaning that the sectors survival in Europe cannot be assured. To make the package effective, the steel industry is calling for the removal of the 'Cross-Sectoral Correction Factor' while providing all the 'free allowances' needed for sectoral best performers. Determining these 'best performers' means ensuring that future benchmarks are technology-based, and technically and economically feasible. Finally, the industry needs to have its indirect carbon costs offset. Together, these measures will ensure that the industry is shielded from the enhanced risk of carbon leakage.

The large-scale technologies of the kind needed to commercially produce steel at the CO_2 reduction levels sought by the EU for ETS sectors are not yet available. Currently, levels of 43 per cent from 2005-2030 – and 80-95 per cent by 2050 are not yet feasible.

EU climate policy needs to be adapted to take into account both the business realities of global steel production and steel's wider contribution of in climate change mitigation.

Given its economic, social and environmental importance, EU climate policy ought to fundamentally shift, reinforcing the triple bottom lines of social, environmental and economic sustainability. Only if this is done will Europe reap the benefits of a competitive industry and a cleaner, more sustainable environment.

The EU must continue to deploy a robust trade policy approach, especially in the face of expansionist trade partners such as China

The European steel industry is the world's second largest producer of steel. It is a significant exporter, shipping on average 30 million tonnes of high quality steel across the globe annually. Making sure that trade is free and fair underpins the industry's environmental, social and economic commitments.

However, this commitment is predicated on the idea that European producers – of everything from construction 'rebars', to high-grade automotive and speciality stainless steels - enjoy a level playing field for their products. This is increasingly not the case, even on the domestic European market.

Of particular concern is China. Chinese crude steel production accounts for more than half of the world's total. It has a 1.1 billion tonne capacity, of which 340 million tonnes is excess production. Its overcapacity alone is more than double the EU's demand for steel of 170 million tonnes. China's steel exports to Europe have exploded in recent years as regional producers attempt to offload – or 'dump' – their surplus. China currently sells its excess steel to the EU market at prices that do not fully cover its costs for raw materials or for material transformation.

The anti-dumping duties that the Commission has so far raised are the only things that stand between cheap Chinese steel and the loss of large numbers of European steel industry jobs. It is for this reason that the EU's trade policy instruments must be modernised and strengthened. Trade Defence Instruments can be brought up-to-date →

and reinforced, for example by removing the 'Lesser Duty Rule' and by shortening the time it takes to put trade defence measures in place. This underlines European manufacturing industries' call to deny China Market Economy Status (MES) at the WTO until such time as it meets the EU's five criteria to be considered a 'market economy'. If MES was granted under current conditions, EU anti-dumping measures would no longer be effective; the EU would no longer be able to apply real dumping margins on the exports of artificially low-priced, subsidised Chinese steel.

The EU must continue to deploy a robust, sophisticated and modern trade policy. This is particularly important if it is serious about meeting its aims of ensuring jobs, growth and investment, as well as bringing industry up to a share of 20 per cent of the economy. Only by deploying an active trade policy can the EU hope to achieve its domestic policy aims.

With its 100 per cent recyclability, steel has a fundamental place in the circular economy

Reducing waste, and increasing the reuse and recycling of materials, is key to establishing a circular economy in Europe. Increasing competition for resources, a trend towards rising prices for energy and commodities, and the reality that reserves are finite mean that Europe has no choice but to think seriously about saving, reusing and recycling materials and energy as economically and technically effectively as possible. The creation of a circular economy is the sine qua non of the 21st century European economy.

Steel has a fundamental place in this circular economy. It is 100 per cent recyclable, losing none of its unique properties when properly processed.

Presently, around half of all the steel produced in Europe comes from recovered 'secondary' scrap metal. Steel is a permanent material, so its in-use longevity means that there is a shortage of scrap. This means that supplies of 'primary' raw iron are still an important contributor into global steelmaking. At a European legislative level, there needs to be greater recognition of the properties of steel within the circular economy. With EU institutions' new focus on the circular economy, there is a unique opportunity to increase this recognition. The existing foundations of what may eventually become the circular economy focus particularly on later stages of the cycle: recovery, recycling and waste management.

Only by accounting for every stage of a steel product's lifecycle will policy makers and industry be able to plausibly refer to a 'circular economy'. From conception to production, recovery and recycling, steel can offer a model for how value can be retained during the lifecycle. The European steel industry will continue to work to ensure that it can reduce, reuse and recycle in a true circular economy.

"At a European legislative level, there needs to be greater recognition of the properties of steel within the circular economy"

EUROFER's objectives for the circular economy are:

- That steel is recognised as being a permanent material in EU legislation
- For EU product policy to be adjusted to make use of appropriate recycling performance metrics
- For the recycling definition to be improved to support the implementation of the waste hierarchy
- Implementation of the EU's 'by-product' criteria in all member states - slags and process gases, are valuable resources