

EU climate and energy policy 2030

Summit of the Council of Europe in October 2014 – voestalpine's position

▪ What will be happening at the meeting of the Council of Europe?

The Council of Europe, which is composed of the heads of state and government of the EU member states, will issue a so-called “conclusion” to recommendations that the European Commission set forth publicly in January 2014 regarding formulation of a European energy and climate policy for the period from 2020 to 2030.

A central question is the nature and degree of any binding objectives that would have to be attained by the European Union by the year 2030. It is possible that there will be objectives for the CO₂ output, energy consumption, energy efficiency, or the percentage of renewable energies. The question of to what extent and in what form temporary protective measures will be granted for industries that are unavoidably energy- and carbon-intensive, such as the steel industry, is closely associated with this policy.

▪ What is the relevance of the Council's summit for the overall process?

In accordance with the treaties on the foundation of the European Union, the Council of Europe has the responsibility of determining the purely political framework conditions and objectives in a manner that is binding for all institutions of the European Union. This is carried out in the form of the aforementioned “conclusions.” The institutions of the European Union, and in particular the Commission, must subsequently work within the framework of the conclusions in developing recommendations for how they are configured in detail and implemented. Therefore, the Council has a very decisive role.

If it were, for example, to establish a quantitative greenhouse gas emissions target (e.g., –35% in 2030), but only make very general statements about protection of energy-intensive industries from the risks of carbon leakage, there would be a great danger that this new and now binding greenhouse gas emissions target would be passed off to the industry using the already existing protective mechanism (because there would be no clear instructions that the existing protective measures must be modified to become effective protective measures when the new target becomes applicable) with potentially disastrous consequences, creating a situation that would additionally be fraught with complete uncertainty with no possibility for planning for the affected companies.

▪ What are the most important items with regard to the energy-intensive industries that are central to this issue?

1. The establishment of binding quantitative targets regarding greenhouse gas emissions, energy efficiency, and renewable energies, together with appropriate protective mechanisms for the energy-intensive industries.

In this regard, voestalpine is hoping for a decision to grant the energy-intensive industries cost-free allocation of permits within the framework of emissions trading in accordance with

- benchmarks, the real production level, and without additional reductions or artificial market intervention.
2. Creation of framework conditions for the development of a uniform energy policy by the European Union. Here, voestalpine is hoping for a commitment that all possibilities will be utilized to pursue an **energy paradigm shift at the lowest possible cost and maximum efficiency**. It should be set forth as a **general resolution** that innovation, investment programs, coordination, efficiency, and effectiveness will be the guidelines of European politics as opposed to subsidies that affect market access, national go-it-alone solutions with regard to energy policy, and attempts to price external costs.

EU climate and energy policy – voestalpine’s perspective

1. Why is this subject so topical right now?

- **Course to be set in October:** EU climate and energy policy up to 2030 has already been fiercely debated for a long time because it has fundamental importance in the long term for industries that are energy- and emissions-intensive. In October, the Council of Europe will be making another key decision regarding the direction to be taken.
- **Extensive activities:** As a result, voestalpine is taking action on several levels. We are participating within the scope of EUROFER, the European industry association (e.g., vis-à-vis political decision makers in Brussels and with an open letter published in international media) and furthermore, we are taking action in Austria as well (e.g., through contacts with the federal government, opinion makers, advocacy and special interest groups, and the media).
- **Employers and employees close ranks:** At the European level, corporations and employees are working together on this issue and have taken a joint position; “industriAll,” the umbrella organization of European trade unions, has directed an open letter to all heads of state and heads of government and to the members of the Council supporting the position articulated by industry.
- **Time is short for voestalpine:** We need to be able to make reliable plans regarding forthcoming decisions concerning investments/capital expenditures – before 2020.

2. How is voestalpine affected?

- **Energy:** Steel production and processing are particularly energy-intensive. This affects not only the “liquid phase,” but also the downstream facilities and basically all the divisions. While it is true that the major Group locations largely provide their own electricity that is generated/recovered from production processes, some of these energy cycles are themselves endangered by the EU’s climate and energy plans. Therefore, voestalpine is pushing for appropriate amendments to planned regulations in order to maintain competitiveness at its European sites.
- **EU has the highest energy prices:** Together with Japan, the EU has the highest electricity and natural gas prices by far. In 2012, European companies paid on the average 20% higher electricity prices than companies in China and 65% higher prices than in India; electricity prices

were twice as high as those in the USA and Russia and more than three times as high compared to Saudi Arabia. Prices for natural gas were three to four times higher than those paid by companies in the USA, Canada, India, and Russia. It is obvious that such a competitive disadvantage also affects important investment decisions by voestalpine (for example, alternatives to the classic blast furnace route). There are technologies that produce fewer emissions but are quite simply not cost-effective due to the high energy prices.

- **Emissions trading:** The EU—the sole economic region that has been continually and significantly reducing its CO₂ emissions since 1980 and that only produces 10% of global CO₂ output today—is also the only region that has implemented a binding emissions trading system for all industries containing requirements for output reduction that are in part unrealistic. The allocation of so-called free certificates (for sectors that are by nature CO₂-intensive) is based on historic production data from 2007/08 and has been putting voestalpine at a dramatic disadvantage. While competitors whose production is stagnating can nevertheless claim their allotments and even sell them, sometimes at great profit, the good economic development—i.e., high or increasing production—of voestalpine is being punished so to speak. The allocation will be continued in the current trading period of 2013 to 2020. Furthermore, the allocation system is based on unrealistic benchmark figures, i.e., emissions limits that cannot be achieved with the current state of the art.
- **voestalpine is the only net payer:** Although our plants are producing the lowest CO₂ emissions in Europe—among the most environmentally friendly blast furnaces, our blast furnaces are in first, second, and fourth place—the voestalpine Group is the only steel corporation in Europe that is a net payer in the emissions trading system (in other words, the only one worldwide, as this system does not exist in this form anywhere else). This means that according to current regulations, the best company is the only company being asked to pay. As a result, the allotment of certificates that voestalpine is required to purchase is rising from 3% (trading period 2008–2012) to 29% in the period up to 2020 and as high as 45% in the period up to 2030. Depending on how the CO₂ price develops, this means additional costs of up to EUR 800 million for the period 2013–2020 and even as high as EUR 2.3 billion for the period 2021–2030.
- **Counterexample USA:** The example provided by the USA shows another path. There, the same high standards as in Europe apply, and there is strict emissions testing (permits). voestalpine and its new site in Texas is considered a role model. It came through all of the permit and approval procedures without one single objection, and it has a new, more environmentally friendly technology in place that it would currently not be able to afford in Europe. Building a direct reduction plant in Austria instead of in the USA would create additional costs of around EUR 80 million annually due to the higher cost of natural gas alone! As a comparison: profit from operations (EBIT) of the Steel Division in the first quarter of 2014/15 was just over EUR 60 million.

3. What are voestalpine's demands?

- Allocation based on a realistic benchmark system: 100% free allowances for the best performing 10% of each sector, allocation for all others based on their emission intensity
- Protective mechanisms for energy-intensive industries: European companies need to be able to plan reliably and have certainty regarding their investments/capital expenditures for the period beyond 2020
- Alternative mechanisms for energy-intensive manufacturing industries outside of the existing emissions trading system
- Comparability and harmonization of reduction targets and the emissions trading systems, which have been implemented to achieve them, with other regions worldwide.

October 2014