



BRIEFING
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Carbon Fat Cat companies in Belgium

Bending the carbon rules in the heart of Europe

The EU emissions trading scheme (ETS) is a flagship climate policy of the European Union. First established in 2005 it covers some 11,000 installations - ranging from energy generation to steel production - which account for around half of the CO₂ emitted by the EU each year, or 2 billion tonnes of CO₂ equivalent. All EU member states are a part of the ETS and are affected in different ways by the policy.

The EU ETS works on the cap and trade principle: it sets a cap, or limit, on the total amount of greenhouse gases that can be emitted by the installations in the system. Within this cap, companies receive EU emission allowances (EUAs, one allowance equals 1 tonne of CO₂) which they can sell to or buy from one another as needed. The limit on the total number of allowances available ensures that they have a value.¹

Unfortunately the ETS has not functioned as initially envisaged. Firstly the ETS was established using overly optimistic assumptions about what levels of economic growth Europe could expect under the second ETS trading period (2008-2012).² Secondly industry lobbied hard to protect themselves from the carbon price signal established by the scheme. As a result many countries chose to insulate certain industries from the effects of the scheme by allocating them a generous number of free EUAs in their National Allocation Plans (NAPs). The power sector - which generally has more abatement options than other sectors - ended up with a greater emission reduction effort under the scheme, while more free allowances were given to the industrial sectors.

The ETS legislation also grants companies the possibility to surrender international emission reduction credits (CDM and JI) in order to comply with their obligations. From 2008 to 2011 over 500 million of such credits were acquired by European industry.³

The above reasons have contributed to the establishment of a vast EUA surplus, which had increased to 950 million in 2011. Öko-Insitut projects this surplus to reach 1,420 million EUAs by 2020, which would undermine the effectiveness of the EU ETS price signal until 2024.⁴

¹ http://ec.europa.eu/clima/policies/ets/index_en.htm

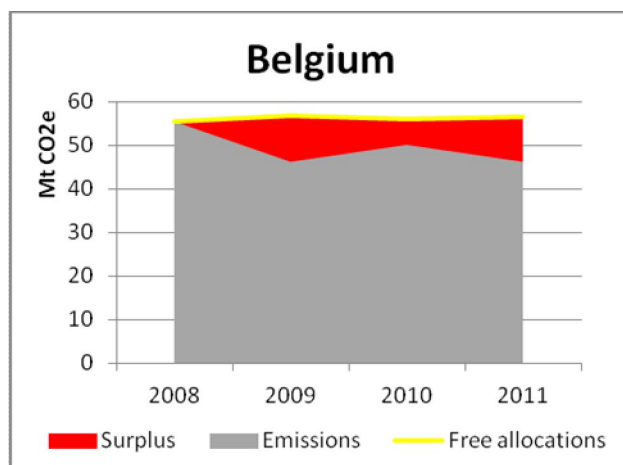
² The first trading period ran from 2005 to 2007, the third trading period will run from 2013 to 2020.

³ http://www.wwf.de/fileadmin/user_upload/Bilder/GP_WWF_2012_-_Strengthening_the_EU_ETS_and_Raising_Climate_Ambition.pdf

⁴ http://www.wwf.de/fileadmin/user_upload/Bilder/GP_WWF_2012_-_Strengthening_the_EU_ETS_and_Raising_Climate_Ambition.pdf

WWF-Belgium collaborated with Sandbag to investigate the Belgian share in the EUA surplus for the period from 2008 to 2011. Duferco and Arcelor Mittal were taken as case studies to better understand the role of the EU ETS in driving low carbon development in the Belgian industries, sustainable employment and competitiveness benefits. Based on these findings, a number of policy recommendations are formulated.

COUNTRY PROFILE



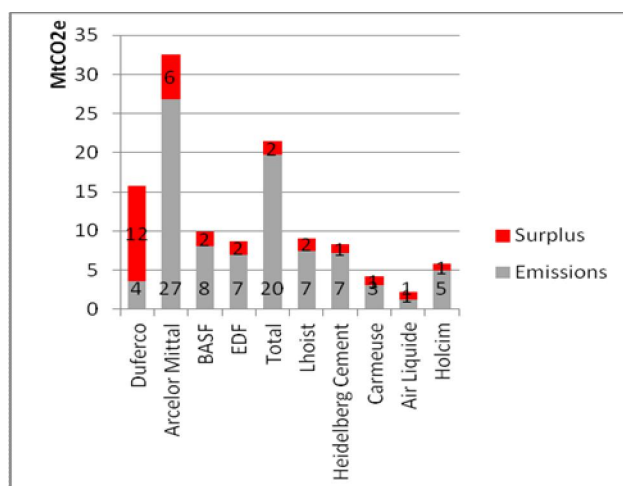
Graph I compares the allocated EUAs in Belgium (yellow line) to the actual emissions (grey area) for the period from 2008 to 2011: Belgian companies have accumulated a surplus of 26.6 million allowances (red area). This represents 53.7% of the average total annual verified emissions of the Belgian installations under the EU ETS between 2008 and 2011.5

While combustion installations (mainly in the power sector) are confronted with a shortfall of 12.5 million EUAs, the manufacturing sector has accrued a

surplus of 39.1 million. These excess allowances can be used in subsequent trading phases (i.e. 2013-2020 and beyond) without any restriction.

While the unforeseen recession accounts for a significant proportion, over-allocation is also likely to be responsible for this surplus.

“CARBON FAT CAT” COMPANIES



Graph II shows the ten companies with the greatest surplus of EUAs in Belgium over 2008-2011, and compares these to the actual emissions (grey bars) over the same period. The total surplus adds up to 29.1 million allowances, which is higher than the total Belgian surplus: this is possible because most of the ETS installations owned by these companies are in the manufacturing sectors (which have a surplus of 39.1 million tonnes).

Steel companies (Duferco and Arcelor Mittal) make up the largest share of this surplus by far (18Mt), Companies from the chemical industry (BASF, Total, and Air

Liquide) and cement companies (Heidelberg Cement, Carmeuse, Holcim and Lhoist) both represent a surplus of 5 million tonnes. EDF is the only electricity company in the list, adding approximately 2

⁵ <http://www.eea.europa.eu/data-and-maps/data/data-viewers/emissions-trading-viewer>

million tonnes to the fat cats surplus. The surplus EUAs owned by all these companies can be used either to hedge against anticipated future shortfalls or sold to gain revenues.⁶

CASE STUDY: DUFERCO

Duferco has eight installations listed under the ETS, all of which are located close to Charleroi in Wallonia. The difference between the company's emissions (3.8 million tonnes CO₂) and allocations (15.8 million EUAs) is striking. The resulting surplus of 12 million EUAs is almost entirely situated at Duferco's subsidiary Carsid, whose installations have only emitted 6,124 tonnes of CO₂ between 2009 and 2011 while receiving 10.3 million EUAs. Carsid decided to officially close its installations in March of 2012.

The Walloon government, which is responsible for the allocation of allowances to ETS companies in its territories, could have acted to limit Duferco's surplus. Article 7 of the ETS regulation states that an operator has to inform authorities of 'changes to the nature or functioning of the installation'.⁷ Article 5 of the decree by which the Walloon government implemented the ETS directive adds that allowances can be retired if an installation stops its activities for at least two years.⁸ Following these provisions, the Walloon government should have retired up to 3.5 million of Duferco's EUAs for 2011.

Notwithstanding the role of the Walloon government, the case of Duferco illustrates that industrial climate legislation is currently no driver for delocalization of companies outside Belgium. On the contrary. Antonio Gozzi, CEO of Duferco Belgium, has publicly stated that the revenues from selling their surplus EUAs have served to pay employees' salaries during a period of prolonged inactivity lasting from November 2008 to March 2012, and that this arrangement was stopped because it had become too financially burdensome.⁹ Far from driving unemployment and delocalization, then, we find the EU ETS being inappropriately used as a corporate welfare programme to support companies.

It is important to recall that Duferco's carbon allowances were originally property of the Belgian government, and that these were solely awarded to the company to protect it from environmental costs under the ETS. These allowances were never intended to become an income stream for the company. When Duferco used EUA revenues to pay its employees, it was essentially spending public money that had been dedicated to combatting climate change.

With the installations now closed and the employment lost, nobody benefits from the current situation. Had the Belgian government auctioned these allowances rather than giving them for free to Duferco, the resulting revenues could have been dedicated towards building low-carbon infrastructure that could have created new jobs and saved emissions for many years into the future.

CASE STUDY: ARCELOR MITTAL

The total surplus of all Arcelor Mittal's installations in Europe adds up to 123 million EUAs, which makes it by far the largest fatcat within the ETS.¹⁰ In Belgium, Arcelor Mittal has a surplus of almost 6 million EUAs, spread over 20 installations in both Flanders and Wallonia. The vast majority of this surplus (4.8 million EUAs) is situated in Arcelor Mittal's installation in Ghent: the official numbers from the database of the European Commission indicate an even larger surplus (approx. 20 million EUAs) for this installation, but do not take into account the transfer of waste gasses to a neighbouring power plant (approx. 15 million EUAs).

Sandbag research has shown remarkable differences in the way different member states treated sectors in their national allocation plans, and raised the suspicion that larger companies with more lobbying capacity were able to leverage better treatment during the allocation process than smaller ones.¹¹ On a European scale, Arcelor Mittal was allocated 56% more allowances than its verified emissions between 2008 and 2011, compared to surpluses of 1% for the steel industry as a whole. Despite its already ample surplus allowances, Arcelor Mittal has also fiercely lobbied Belgian governments to further increase the

⁶ The Belgian fat cats list is based on publicly available data from the European Commission. All companies have been contacted, and given ample time to correct these numbers. WWF welcomes the openness of those companies that shared information, but regrets the unwillingness of others (i.e. BASF and Air Liquide) to confirm and/or correct the assembled data. For companies that did not respond to our enquiry (in particular Duferco) it was assumed that the data are correct.

⁷ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2003L0087:20090625:EN:PDF>

⁸ <http://environnement.wallonie.be/legis/air/air042.htm>

⁹ <http://www.lalibre.be/economie/actualite/article/729078/carsid-une-agonie-de-40-mois.html>

¹⁰ http://www.sandbag.org.uk/site_media/pdfs/reports/losing_the_lead.pdf, page 23

¹¹ http://www.sandbag.org.uk/site_media/pdfs/reports/losing_the_lead.pdf, page 25

allocation of free EUAs. Shortly after the merger of Mittal Steel with Arcelor, the company decided to reopen its blast furnace installation in Seraing (closed since 2006) and to withdraw its decision to close the Ougrée installation in 2009. At the beginning of 2008, however, this decision was made conditional on receiving 14 million additional EUAs from the Walloon government.

Pressured by these demands, and due to complexities in the national allocation plan (NAP), the Belgian regional and federal governments agreed at highest level in February 2008 to set up a construction that allowed the allocation of 13 million EUAs to Arcelor Mittal through the Flemish new entrants' reserve. This maneuver was in stark contrast with the European Commission's recommendation of January 2007, formulated in response to Belgium's draft NAP, to decrease the country's allocation of EUAs to industry by over 4 million allowances.

The above-mentioned arrangements were ultimately never implemented.¹² Due to the economic downturn, Arcelor Mittal temporarily stopped production in its Seraing installation in October 2008. In October 2011 the company announced the closure of all its blast furnace installations in the Liège region, making over 600 workers redundant.¹³

The case of Arcelor Mittal shows that Belgian policy makers, when pressured, show willingness to bend the rules to grant additional free allowances to industry. No matter how regrettable the loss of jobs in the steel sector, this example proves once again that such actions do not result in sustainable employment or environmental benefits.

RECOMMENDATIONS TO POLICY MAKERS

The EU ETS, one of Europe's flagship climate policies, has been underperforming, and will continue to fail unless more is done. Some improvements have been agreed already for the next trading phase (2013-2020) of the EU ETS, with harmonised allocation rules to apply across all EU Member States and more auctioning of allowances for the power sector. This, however, does not solve the surplus legacy from the past and the European Commission has taken the initiative to make temporary adjustment to the scheme. Belgian policy makers must build on these proposals in order to advocate for structural reforms to the ETS at EU level.

WWF-Belgium and Sandbag recommendations:

- Temporarily withhold (backload) at least 1,400 million EUAs from being auctioned as an emergency measure, with a view to cancel them at a later stage, in order to tackle the current oversupply in the ETS.
- Align the EU ETS with climate-proof 2020 (i.e. at least 30% CO₂-reductions) and 2050 (i.e. 80-95% CO₂-reductions) objectives by removing additional EUAs and increasing the linear reduction factor to at least 2.6%.
- Prepare flanking policies to close loopholes that are undermining the carbon price signal. No further possibilities for the use of international emission reduction credits (CDM and JI), currently being trading at a price of approximately 1 euro per ton, should be introduced when the EU decides to increase its overall emission reduction target by 2020.
- Belgian policy makers must moreover ensure that companies' EUA surpluses are not unduly increased: both by ensuring that companies are correctly applying the European Commission's rules for benchmarked free allocations, and also by ensuring no new allowances are issued to installations that are to all effects closed.
- Finally, EU policymakers should also move to restrict the list of sectors deemed at risk of "carbon leakage", so that only those installations that genuinely need this protection are awarded the additional free allowances this status entails.

The above combination of short and long term adjustment to the EU ETS will lead to an increase of the carbon price as of 2013, reaching up to 30 euro per ton by 2020: this would spur investments in low


¹² The Walloon government could withdraw 12.3 million EUAs from its NAP on 1 February 2012, after winning a lawsuit against the European Commission: this ensures that Arcelor Mittal will never receive the bulk of the additional allowances (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009TJ0237:NL:HTML>).

¹³ http://archives.lesoir.be/siderurgie-arcelormittal-sacrifie-le-c%26%23339-ur-de_t-20111012-01M7PE.html?quervand=arcelor+mittal&quervor=arcelor+mittal&firstHit=20&by=10&when=-2&begYear=2011&begMonth=10&begDay=01&endYear=2012&endMonth=01&endDay=01&sort=datedesc&rub=TOUT&pos=21&all=27&nav=1

carbon technologies, avoid lock-in of carbon intensive infrastructure, and ensure a competitive advantage for European industry in the race to a decarbonised economy by 2050.¹⁴

A higher carbon price would also significantly increase the income that Belgian authorities gain from the auctioning of ETS allowances under the third trading phase (2013-2020): increasing EU climate ambition to 30% domestic CO₂-reductions would generate a state income of 4.4 billion euro, an increase of 2.1 billion euro compared to business as usual.¹⁵ Belgian policy makers should reinvest 100% of these revenues in international climate finance and national climate policy, in particular for the implementation of measures in non-ETS sectors (i.e. buildings, transport and agriculture). A part of the revenues could be used for targeted support to industry, under strict conditions that it assists them in the transition to renewable energy and energy saving technologies: the examples of Duferco and Arcelor Mittal underscore that support on an ad-hoc basis is no guarantee for lasting environmental and employment benefits.



	<p>Why we are here To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature. www.wwf.eu</p>
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¹⁴ [http://www.wwf.de/fileadmin/user_upload/Bilder/GP_WWF_2012 - Strengthening the EU ETS and Raising Climate Ambition.pdf](http://www.wwf.de/fileadmin/user_upload/Bilder/GP_WWF_2012_-_Strengthening_the_EU_ETS_and_Raising_Climate_Ambition.pdf)

¹⁵ http://awsassets.panda.org/downloads/oko_institut_2012_the_cost_of_inaction_auctioning_revenues.pdf