

# Sandbag Briefing – The Case of ArcelorMittal

## Summary

This briefing examines how the world's biggest steel company, ArcelorMittal, is set to become the largest<sup>1</sup> beneficiary of the EU Emissions Trading Scheme. By 2012 the company is set to have 80 million permits to pollute which it does not need and which it was given for free. If sold, these will make over £1 billion in windfall profits by 2012, paid for in part, by UK power consumers.

The briefing goes on to make the case Lakshmi Mittal, the CEO of the ArcelorMittal and also Britain's richest man, should choose to forgo windfall profits and opt instead for climate philanthropy. Cancelling the 80 million surplus permits would be equivalent to Denmark, host nation of the forthcoming climate talks, producing no carbon for a whole year. Such a commitment would make Mittal the world's foremost climate change philanthropist.

We have produced this briefing using European Union verified data on the emissions and allocations received by polluting installations across Europe under the EU ETS. To enable us to isolate polluting installations belonging to ArcelorMittal we have used data provided by **Carbon Market Data**<sup>2</sup> who have carefully matched all EU installations to the parent companies which own them.

## Background: The EU Emissions Trading Scheme

In 2005 the EU implemented the world's first large scale emissions trading scheme, known as the EU ETS. The scheme put in place an emissions cap on heavy industrial sectors and power generators within the EU. For each tonne of carbon that polluters were allowed to emit, an emissions permit (EUA) was issued. These permits were given out for free to companies who, to comply with the scheme, had to make sure they had enough permits to cover their pollution. The theory was that the cap would result in a shortage of permits and would mean companies either had to cut their carbon emissions, or buy extra permits, thereby paying for emissions reductions elsewhere.

For the first three years of the scheme, known as Phase 1, things did not go to plan. Following intense lobbying and high profile claims that the scheme would harm business and mean job losses, the cap on emissions was set too high and therefore too many permits were issued. Arcelor<sup>3</sup> also launched an unsuccessful attempt to block the trading scheme. As it turned out, most companies found themselves in a position to sell surplus permits on the market generating windfall profits, until the price of carbon reached zero. Thus the great potential the scheme had for cutting emissions was not achieved; instead the scheme became a cash cow for many of the businesses it covered.

The EU ETS is now into Phase 2 of trading which will last until the end of 2012 and the problem of windfall profits continues. This time around industrial companies are

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<sup>1</sup> ArcelorMittal has by far the largest number of surplus permits in the year 2008 and is thus eligible for the largest windfall, although in % terms its allocation is not the greatest in the steel sector.

<sup>2</sup> EU ETS companies database <http://www.carbonmarketdata.com/>

<sup>3</sup> Arcelor launched the court case before its merger with Mittal Steel. <http://www.carbonoffsetsdaily.com/top-stories/dj-3rd-update-eu-crt-arcelormittal-co2-emissions-case-invalid-3136.htm>

the main beneficiaries. Even before the recession they had many more permits than they needed. With 2009 one of the worst years on record for industrial production, these companies will now be sitting on vast numbers of unused emissions permits. If these are sold we will see a repeat of the huge windfall profits from Phase 1, and if not, the permits will be banked to allow future pollution undermining the integrity and ambition of the EU's post 2012 climate targets.

## The Case of Arcelor Mittal

One company stands out as the biggest beneficiary of the EU Emissions Trading Scheme – the world's largest steel company, ArcelorMittal. It's CEO and major shareholder Lakshmi Mittal is the UK's richest resident, and one of the world's richest men. The company is the EU's 5<sup>th</sup> biggest polluter<sup>4</sup> but rather than being asked to cut its emissions under the scheme, it has been allowed to increase them.

In 2008, ArcelorMittal had over 14 million surplus permits equivalent to the annual emissions of Luxembourg<sup>5</sup>, or a windfall of over €200 million. With global steel production dropping by over 37% in 2009<sup>6</sup>, we estimate that this could grow to 40 million for that year meaning surplus permits equivalent to a windfall of €560 million. **By the end of 2012 ArcelorMittal is likely to control surplus permits equivalent to 80 million tonnes of carbon, or put another way, more than the annual emissions of nation hosting this month's climate change talks, Denmark<sup>7</sup>. Selling these permits which ArcelorMittal was assigned for free, could make the company around £1 billion.**

## Could Mittal have the makings of a great philanthropist?

As the major stakeholder of Arcelor and its CEO, Lakshmi Mittal has enormous influence over what happens to the company's surplus permits. One option which he has is to retire the permits and thereby securing global emissions cuts equivalent to Denmark emitting no carbon for a whole year. If the current prime minister of Denmark were to make such a commitment, the world would most certainly stand up and take notice.

Famously a donor to the Labour party, Mittal even has considerable power when compared to Secretary of State Ed Milliband MP who is currently in charge of the UK's response to climate change. **Between now and 2012, if Lakshmi Mittal cancels all his surplus emissions permits he will deliver 80% of the emissions reductions that the whole UK has promised.<sup>8</sup>**

A century ago a man named Andrew Carnegie was the most powerful man in the steel industry but he is now more renowned for his work to tackle poor education and illiteracy, key challenges of the 20<sup>th</sup> Century. Today Bill Gates is famous for his work to tackle malaria, HIV and international poverty but he has no equivalent in the

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<sup>4</sup> ArcelorMittal comes behind RWE, EON, Vattenfall and Enel. It is just ahead of EDF in its 2008 emissions.

<sup>5</sup> European Environment Agency: Luxembourg emissions 14.9 MTCO<sub>2</sub>

<sup>6</sup> Source: World Steel Association monthly production figures.

<sup>7</sup> European Environment Agency: Denmark's 2007 emissions were 74.9 MTCO<sub>2</sub>

<sup>8</sup> The UK CCC reports the total UK carbon budget as 3018 MT CO<sub>2</sub> for the period 2008-2012, with annual 2008 emissions by DECC estimated as 624MT CO<sub>2</sub>, this would mean the UK cutting a total of 100MTCO<sub>2</sub> from 2008 levels to comply with its carbon budget.

field of climate change. But Lakshi Mittal certainly has the power to become the world's greatest climate philanthropist if he chooses.

### Or will EU citizens be paying the price?

Of course if Mittal does not act to cancel his surplus emissions permits and instead sells them to make windfall profits, then it will be the ordinary power consumer paying the price. Our major power providers are short of the permits that allow them to pollute. But at the moment it is cheaper for them to buy surplus permits from elsewhere in the EU, or pay for emissions reduction projects abroad, than to invest in making our power cleaner and greener. **With its huge surpluses, ArcelorMittal will be one of the places power companies go to buy permits. So when we pay our power bills there is a chance that we are reaching into our pockets to pay windfall dividends to Britain's richest man.** There is rightly strong concern than tax payer supported banks might pay large and unwarranted bonuses to their top staff; we should be equally concerned about the case of ArcelorMittal.

Despite the windfall profits that companies such as ArcelorMittal are set to make, they are still seeking special treatment for the period from 2013 to 2020. Whilst power companies will have to buy all of their emissions permits at auction, industrial sectors have argued that they will continue to need to receive theirs for free. The steel industry claims that if it were forced to buy permits it would be cheaper to relocate production outside the EU and on this basis, has organised steelworkers to carry out street protests. This spectre of job losses has led to European politicians to deliver a raft of concessions to industry even though the risk of such relocation is actually minimal if the costs of transporting goods and of building new plants are taken into account. However, with the huge power of the industrial lobby there is a real risk that windfall profits will continue even after 2012 and that little will be done to reduce industrial carbon emissions.

### Conclusion

The weakness of the EU's targets in relation to industrial companies such as Arcelor Mittal may seem like an isolated problem. But if we are unable to make cuts to industrial emissions in the EU, then what chance is there of emerging economies such as China and India cutting theirs? Until polluters are asked to pay to pollute rather than being handed windfall profits, we will struggle to effectively tackle climate change. Tougher overall caps on emissions in Phase 3 of the scheme will be vital, and the European Commission, with Member States must ensure that industrial companies are set challenging targets for emissions reductions, rather than being given a free ride.

**We call on Lakshmi Mittal and his company ArcelorMittal to take positive action and commit to cancellation of all its surplus emissions permits between now and 2012. This would be an unprecedented act of climate philanthropy and an example to business and industry worldwide.**

**We also call on the European Commission and EU Member States to ensure that in Phase 3 of Emissions Trading tougher caps on carbon emissions are put in place, and that industrial companies like ArcelorMittal are given challenging targets, rather than windfall profits.**

## KEY FACTS: ARCELORMITTAL AND EMISSIONS TRADING

### General

ArcelorMittal operates across 85 sites in the EU with its head office based in Luxembourg. Its international revenues in 2008 were \$124.9 billion and its global crude steel production was 103.3 million tonnes, representing approximately 10% of world steel output. ArcelorMittal owns both steel plants, and mines which supply raw materials for steel production. The company has been repeatedly criticised by civil society groups<sup>9</sup> for poor environmental practice in a variety of its plants and mines, most recently in South Africa where the company has been challenged for local pollution<sup>10</sup>.

### ArcelorMittal and the ETS

#### Permits, Emissions and Overallocation Trends 2005-2009

| Year                       | 2005       | 2006       | 2007       | 2008        | 2009 estimated | 2008 -2012 estimated |
|----------------------------|------------|------------|------------|-------------|----------------|----------------------|
| <b>Permits</b>             | 83,540,818 | 82,662,938 | 93,979,943 | 89,038,947  | 88,860,030     | 437,139,637          |
| <b>Emissions</b>           | 60,496,897 | 64,565,776 | 74,437,686 | 68,258,166  | 43,002,644     | 325,727,968          |
| <b>Flue Gas Adjustment</b> | -2,186,140 | -2,186,140 | -2,186,140 | -6,340,884  | -6,340,884     | 31,704,420           |
| <b>Overallocation</b>      | 25,230,061 | 20,283,302 | 21,728,397 | 14,439,896  | 39,695,418     | 79,886,164           |
| <b>Windfall Profit €</b>   | n/a        | n/a        | n/a        | 202,158,544 | 555,735,852    | 1,118,406,302        |

#### Sources

1. CarbonMarketData online ETS companies database.
2. EU CITL data verified data on emissions and allocations
3. Sandbag calculations of flue gas adjustment based on CITL data and location of adjacent power and steel plants see [www.sandbag.org.uk](http://www.sandbag.org.uk).
4. 2009 estimate of emissions is based on World Steel Association figures that steel output dropped 37% in 2009; we have assumed a corresponding 37% drop in emissions.
5. Windfall profits are estimated on the basis of permits selling for €14 each.

#### Estimate for total Surplus / Overallocation: 2008-2012

We are assuming an optimistic scenario for growth out of the recession, that for 2010 the emissions will return to 2008 levels, and from then emissions will grow 5% per year. We are assuming flue gas adjustment to remain constant.

<sup>9</sup> Global Action on ArcelorMittal is a group whose sole aim is to challenge ArcelorMittal's practices in coalition with other organisations. <http://www.globalaction-arcelormittal.org/>

<sup>10</sup> <http://www.sundayindependent.co.za/?fArticleId=5180264>