

Steel, refiners got huge carbon windfall - consultant

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* Report: steel, refining, chemicals gained windfall profits

* Refineries, steel may have reaped 14 bln euros in 2005-08

By Pete Harrison

BRUSSELS, May 17 (Reuters) - Europe's most polluting industries have reaped billions of euros from carbon markets by passing on to consumers the cost of carbon permits they were given for free, consultancy CE Delft said on Monday.

The company's report on steel, refining and petrochemicals industries contributes to a current debate within the European Union on whether the industry can bear the cost of tightening emissions curbs beyond the current goal of 20 percent.

It was commissioned by environment group the European Climate Foundation.

In the past, energy intensive industries have successfully argued for governments to give them free carbon emissions permits under the EU's Emissions Trading Scheme (ETS), its main tool for curbing carbon dioxide (CO2) emissions.

But industry will gradually be forced to pay for the permits from 2013.

Companies argue that will hand a competitive advantage to less-regulated rivals overseas and they may have to relocate factories to regions where they too can pollute for free.

"The steel industry itself claims there is no scope for the steel sector to cover the cost of auctioned emission rights -- however, the analysis here shows evidence that this might not be true," said CE Delft.

SUBSTANTIAL PROFITS

"It can be calculated that the total amount of windfall profits would equal 14 billion euros (\$17.25 billion) between 2005 and 2008," the report said of the iron, steel and refining sectors.

"Substantial windfall profits have been made by energy intensive companies that obtained allowances for free, but calculated their market value in the prices of the products," it added.

There is renewed EU debate about whether to tighten carbon curbs, which have started to look unambitious as industrial growth has slowed after the economic crisis.

Europe's climate commissioner, Connie Hedegaard, is expected to launch an analysis this month showing that extending CO2 cuts to 30 percent below 1990 quantities by 2020 would be about a third cheaper than before the crisis.

The crisis might well have made it cheaper to cut emissions, but it has also left companies too weak to face the challenge, heavy industry groups said on Friday.

But others, including French engineering group Alstom and cement maker Cemex, sent a letter to Hedegaard saying strong carbon prices were needed to spur green innovation.

The CE Delft report stressed how industries had gained.

"The iron and steel sector has made substantial windfall profits," said the report, although it did note some evidence of the most polluting processes relocating to Russia and Ukraine.

"As to refining, the industry has claimed that a price of 30 euros per ton of CO2 would largely wipe out margins. However... the refineries sector, most likely, has been able to pass through the full costs of their freely obtained allowances in product prices," it added.

Polyethylene and PVC production has probably also reaped windfall profits, but the case is less clear for polystyrene," said CE Delft. (Reporting by Pete Harrison, editing by Anthony Barker)



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