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Mittal steel plant Significant CO_2 emissions

Sunday Times

ARCELORMITTAL SA

The green machine

Plenty has been said about how government sees SA's iron and steel industry as a great source of downstream job creation and is keen to ensure producers charge their customers a fair price.

But it's hard to see how these aims are going to be furthered by imposing a hefty carbon tax. ArcelorMittal SA (Amsa) group manager: environment Siegfried Spänig told a media roundtable last week this would have a R600m-R650m financial impact on the company, based on last year's production figures. Unlike corporate tax, carbon taxes are payable even if a company is making a loss.

In this year's national budget, finance minister Pravin Gordhan said a carbon tax of R120/t of carbon equivalent would be phased in from January 2015 and rise by 10%/year to 2020. The first 60% of emissions are tax-free for all industries, and above that various exemptions can apply. Amsa's shares dropped 6% on budget day, reflecting investor fears of the effect of the carbon tax on its profitability.

Eskom, which is largely dependent on carbon-intensive coal-fired power stations, will receive less exemption than any other industry, but it can pass the carbon tax on to its customers through higher tariffs.

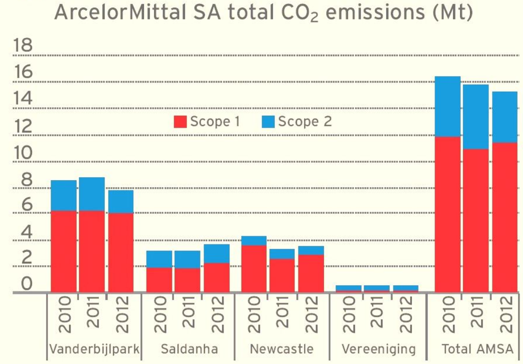
Amsa, though, cannot raise prices to domestic customers much above international steel prices because that would encourage local customers to import more. Several other countries are imposing carbon taxes but the rates and offsets vary.

Amsa is limited in the extent to which it can reduce its emissions, Spänig says. The carbon tax proposals refer to the need to impose the tax to change behaviour but alternative, lower-emission technologies for steelmaking, like electrolysis, are a long way into the future. Amsa's Vereeniging plant is the lowest CO_2 emitter of its SA plants because it uses electric arc furnaces to melt scrap, but there's a worldwide shortage of steel scrap. The electric arc furnaces in SA still attract more carbon tax than the same furnaces in Brazil, where most of the electricity is generated by hydropower, not coal.

Amsa could improve its efficiencies by, for example, reducing the amount of coal it uses, but there is limited scope to do this without affecting the end product.

SMOKE AND MIRRORS

ArcelorMittal SA total CO_2 emissions (Mt)



SOURCE: ARCELOR MITTAL

Spänig says there are still considerable uncertainties around the tax. For example, the basic 60% exemption will depend on how the local industry's emissions compare with certain international benchmarks, which have not yet been revealed. The 10% allowance for process emissions may not apply to Amsa's co-generation projects, which use gases emitted during production to generate electricity. Amsa feels it should apply.

Amsa also argues that it is incorrect of national treasury to apply the carbon tax to the steel industry based on the amount of coal that a company purchases, modified by a carbon factor, because a percentage of the carbon remains in the steel and even more ends up in slag, rather than being emitted into the atmosphere.

Nedbank Group sustainability carbon specialist Marco Lotz says there are a lot of uncertainties in the second discussion paper on the carbon tax. For example, there's no clarity on whether SA will impose a border tax on imported goods which have not paid the carbon tax in their home countries. Also, though the paper says the carbon tax will be phased in from January 2015, it does not say the tax will be applied from that date.

Commentators from various industries are raising their most serious issues of concern, which is important to do in this phase, Lotz says.

Painful though the tax may be for Amsa when the global steel industry is in a slump, it would seem absurd to exempt one of the country's biggest carbon emitters.

World Wide Fund for Nature (WWF) energy economist Manisha Gulati says even if Amsa were exempted from carbon tax, there's a global trend to impose carbon taxes on imported products that have not paid carbon taxes in their countries of origin.

That would still affect Amsa's international competitiveness.

Though carbon tax is considered necessary, the WWF doesn't believe government has done enough to help industry manage the effect of the tax. Various industries need to look at many factors, like alternative, lower carbon-emitting technologies, their cost and how easily they can be implemented.

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