The Chlorine Industry

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European Sector Social Dialogue Committee
29th September 2009

Who Is Euro Chlor?

- We represent the European Chlor-Alkali Industry
- 40 members
- 70+ Manufacturing sites
- 35 thousand employees
- 10.7 million tonnes chlorine
- 11 million tonnes caustic soda
- ~€3 billion sales
- More than 50% of the chemical industry uses our products

What is an Electro Intensive Industry?

- Uses huge amounts of electricity as a RAW MATERIAL
- Electricity costs are a large proportion of production costs
- In our case this is typically 50%
- We use 35 tera watt hours of electricity per year

Issue Boundaries

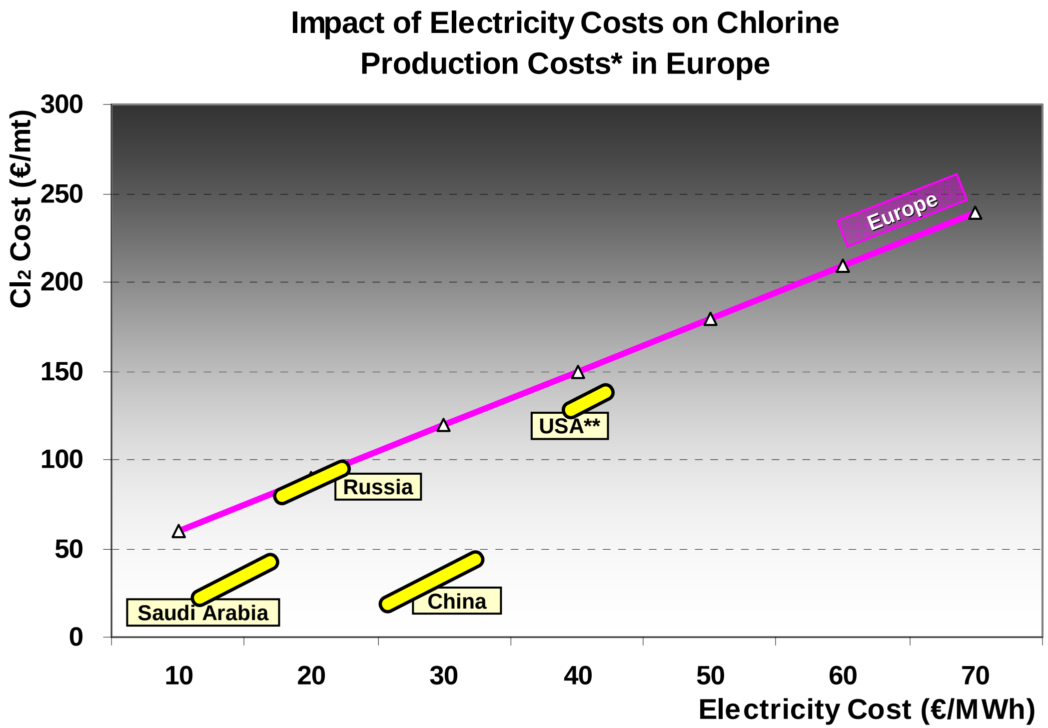
- Dealing with cost of electricity.

  HIGH ELECTRICITY COSTS IN EUROPE DAMAGES OUR COMPETITIVITY AND WILL EVENTUALLY KILL US

- Most or all of documents from the Commission are centred on Climate Change.
- 2 parts to our issue:
  - Effect of ETS/CO_2 costs.
  - Malfunctioning market.

Comparative Production Costs of Chlor-Alkali

The cost of producing chlorine in Europe compared with other regions is shown below. Since other cost factors such as labor, construction costs etc. are lower in other regions, the manufacturing costs ranges for chlorine are generally lower than in Europe for comparable electricity price ranges:



Our Position - ETS

- ETS is here to stay but must be made to work to drive down greenhouse gas emissions.
- The global competitivity of EII must be preserved and no incentive given to invest outside of EU.
- Regarding:
  - **Auctioning:** No impact on us as we pay anyway but favour no auctioning.
  - **Benchmarking:** We agree.
  - **Sectoral Agreements:** No position yet as we need to consider how these would work.

Our Position - ETS

- Regarding:
  - **FUEL MIX:** We support nuclear, coal based and hydro generation as these are low cost.
  - **Renewables:** OK but these are high cost and EII should not have to pay.
  - **Volatility:** We believe a mechanism should be put in place to prevent price spikes.

Our Position - Market

- Chlorine producers are EII whose global competitivity is threatened.
- Electricity prices in EU are significantly higher than ROW particularly China, Middle East, Russia and USA (N.B. not India).
- Price elasticity is very low for us.
- We should benefit from low cost generation sources.

Our Position - Market

- Regarding:
  - **Unbundling:** Probably in favour but not convinced this will bring the intended outcome.
  - **Long Term Contracts:** In favour where this gives access to low cost, base load enabling future investment by both sides and encourages new entrants.
  - **Efficiency:** Our industry is based on electro chemical process with no alternative technology. Energy efficiency has always been a commercial necessity. Scope for improvement is very limited. About 50% of our industry uses BAT and will be fully converted by 2020.

Our Message

- ETS
  - We are indirect emitters and therefore exposed to the cost of carbon included in the price of electricity. When the price of carbon is low (2007) this had no impact on us but under phase 2 & 3 the price will rise by €25-50+ and wipe out our margin.
  - We therefore need free CO_2 permits (allocated against a performance benchmark) to be used to offset against our electricity invoices i.e. give them to our electricity supplier in part payment.

Our Message

- Malfunctioning market
  - The ‘liberalised market’ isn’t working and no competition exists to drive down prices. The market price is set by the marginal cost of gas (which includes CO_2) and the benefit of low generating cost of nuclear and coal is kept by the generators (wind fall profits).
  - Until solutions to this problem are put in place **and are working** we want ‘transitional relief’ measures.

What We Want

- A mechanism to offset the cost of carbon in the electricity price charged by generators.
  - Preferred option is free carbon certificates allocated against performance benchmark.
  - Second option is some kind of cash payment according to certain criteria.

What We Want

- A well functioning competitive electricity market.
  - Access to low cost, base load capacity
  - Secured by long term contracts
  - No barriers of entry to new generator operators
  - Debottlenecking of transmission systems particularly at cross borders

The Difficulties I

- ETS
  - Indirect emitters are not included in the directive and therefore cannot receive certificates.
  - There is substantial resistance to change the directive to include us.
  - There are very limited exports and imports of chlorine derivatives (PVC, EDC) and therefore our arguments on competitivity and carbon leakage are based on what **could** happen if European producers alone were subject to carbon costs.
  - Authorities want global agreements (Copenhagen December2009) and don't want to prejudice discussions by taking decisions now – too difficult anyway!

The Difficulties II

- Competitive Market
  - No-one really believes us!
  - Investigation by DG Comp didn’t solve anything.
  - Situation varies widely from MS to MS

Milestones

- ITRE Committee
  - Held on 11 September
  - Some encouraging outcomes
- ENVI Committee
  - 7th October
- Council of Environment Ministers
  - 21st October
  - 4-5th December
- Parliament Plenary
  - December

Conclusions

- Please support us by raising these issues with MEPs and government officials
- We need to be included in the ETS Directive to be able to receive free CO2 allocation based on a performance related benchmark
- Preserve our competitiveness and prevent carbon and investment leakage.