EUROPEAN COUNCIL CONCLUSIONS ON THE RECOVERY PLAN AND MULTIANNUAL FINANCIAL FRAMEWORK FOR 2021-2027

The European Steel Association welcomes the European Council conclusion of 17-21 July 2020[1] on a comprehensive package of €1824.3 billion which combines the multiannual financial framework (MFF) 2021-2027 and an extraordinary EU recovery effort under the Next Generation EU (NGEU) instrument, helping the EU to rebuild after the pandemic and support investment in the green and digital transitions.

We also welcome the legislative proposals submitted by the Commission on 16July 2020 to reform the Research Fund for Coal and Steel (RFCS)[2][3][4][5] in order to secure sufficient support for R&D in the steel industry. The Fund that has a size of €1.5 billion was created mainly from contributions of the EU steel and coal industries. The proposed reform should free around €350 million for the Clean Steel Partnership for the period 2021 – 2027 from the RFCS assets and a yearly R&D spending of at least €40 million.

The EU steel industry is ready to lead EU manufacturing into the green transition with a historic decarbonisation and circular economy plan entailing huge emission reductions already by 2030. For this to achieve, the EU institutions and the steel industry need to agree on a framework that paves the way for the investment decision NOW!

As it is unlikely that the recovery plan materialises before the end of 2021, additional short-term emergency measures are vital for sectors strongly hit, such as steel and its value chains. These should comprise, inter alia:

- immediate measures against distorting steel imports,
- incentives to stimulate demand in the downstream value chain (automotive, construction, mechanical engineering, …), and a
- force majeure clause for the EU ETS to ensure that the level of free allocation post 2020 is not negatively impacted by the COVID-19 crisis.

The Commission's concept of **"open strategic autonomy"** in trade matters proposed by the Commission and in particular the goal of "protection against unfair and abusive trade practices" that it defines, should be used as a starting point for a structured discussion to **establish more effective trade defence measures and application.**

The EU Steel industry is working on the upscaling of decarbonisation projects that will have the highest cost-benefit ratio for Europe, the climate and the circular economy. Steel is a permanent material and therefore a strategic pillar for the circular economy. In this context, the EU steel industry had been recognised as one of the strategic sectors for the green transition and for the role it plays in the key value chains. We have made comprehensive proposals for a *Green Deal on Steel*, a *Clean Steel Partnership* and an *IPCEI on Low-CO_2 Emissions Industry.*

Horizon Europe and Clean Steel partnership

Horizon Europe (HEU) will represent a key element of the decarbonisation strategy of EU, including that of the European steel industry. The "Clean Steel Partnership" is expected to benefit from a co-financing from Horizon Europe of € 350 million, matching the € 350 million that would be made

[1] Council conclusions EUCO 10/20 https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf
[2] Proposal for a Council Decision Amending Decision 2003/76/EC https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-319-F1-EN-MAIN-PART-1.PDF
[3] Proposal for a Council Decisions amending Decision 2003/77/EC https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-321-F1-EN-MAIN-PART-1.PDF
[4] ANNEX to the Council Decision amending Decision 2003/77/EC https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-321-F1-EN-ANNEX-1-PART-1.PDF
[5] Proposal for a Council Decision amending Decision 2008/376/EC https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-320-F1-EN-MAIN-PART-1.PDF

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available from the Research Fund for Coal and Steel (RFCS) assets. This financing set up will ensure that there is a balanced partnership in which public sources are equally shared (HEU/RFCS) and that the public and private efforts are substantial, while sufficient resources remain available for the functioning of the RFCS and that basic research is not disrupted; it also factors in the subsequent co-financing from the assets of a long-term agenda for Clean Steel after 2027.

Recommendations

- Match the higher ambition of the European Commission by keeping the Horizon Europe budget at least at the level of €94 billion as proposed by the Commission.
- Ensure that sufficient co-financing is made available under Horizon Europe for climate related research, including the Clean Steel partnership
- In parallel, Parliament and Council should adopt the three Commission Proposals reforming the RFCS.

Just Transition Fund

We welcome the inclusion of ETS sectors under the scope of the Just Transition Mechanism (JTM) and the Just Transition Fund (JTF), however we are concerned that provisions in the JTF Regulation might either prevent steel and other sectors from benefitting from resources of the JTF, or could significantly distort competition among companies.

Recommendations:

- Recognize that the transition will not happen in a given moment and reflect this through an adequate calculation methodology for greenhouse gases (GHG) abatement in ETS sectors under the JTM and JTF, replacing the use of benchmarks.
- Design the JTM and JTF in a way to exclude the risk of significant competition distortion within the steel industry and other sectors. This can be achieved by to allowing "productive investment" for all companies that are in the territorial scope of the JTF, provided they contribute to GHG reduction and protection of jobs, and by setting in the Common Provisions Regulation (CPR) a co-financing rate at a certain value for all investments into carbon-intensive sectors and energy intensive industries.

Recovery and Resilience Facility (RRF)

With the right approach – and provided we can recover from the current crisis – our industry may be empowered to **reduce its CO_2 emissions by up to 30% by 2030 compared to 2018 and up to 55% compared to 1990**. Under the right conditions, we will reduce emissions towards carbon neutrality by 2050. In order to achieve this, all technologies are required and must be supported.

The transition to a carbon neutral EU economy largely depends on our industry's ability to de-carbonise while being locally and globally competitive. The positive effects of the Recovery Plan should not only materialise in the medium term, from one to five years but also in the short term and beyond. The economic challenge is very real today, with severe and immediate downturns in the main steel value chains, such as the automotive, construction and mechanical engineering sectors. The idling of EU steelmaking facilities and the collapse of EU steel demand and prices under pressure from third-country stockpiles of steel stemming from overcapacity in other regions has put the EU steel industry in an unprecedently precarious position. We therefore reiterate the need to immediately implement emergency measures to pull back our industry from the brink and stabilise our downstream value chains. Only by ensuring European industry is secured today can it contribute to the green transformation tomorrow.

The recovery plan should serve in particular to pave the way for a climate-neutral industry. In November 2019, the European Commission, Member States and stakeholders of the Strategic Forum on Important Projects of Common European Interest (IPCEI) selected six Strategic Value Chains (SVCs) for the EU, including the SVC "Low CO_2 Emissions Industry Europe", a joint proposal of the steel, chemicals and cement sectors. We have been working since on an *IPCEI proposal on Low-CO_2 Emission Industry.* If projects considered under the IPCEI would be scaled up to their full potential at the industrial level, the contribution of the sole European steel industry would result in an abatement of 33 million t/CO_2 per annum in 2030. As a follow up to the Commission "New Industrial Strategy for Europe", an Industrial Alliance on "Low Carbon Industries" - with other key sectors (chemicals and cement) - is being set up.

The transformation of steel production to low-carbon processes comes with huge investments and operational costs that the industry in global competition cannot shoulder alone. For a successful transition, concrete support is needed in the form of lead markets for green steel, temporary financial support for low-carbon processes, and investments in the hydrogen, CCS and CCU infrastructure, among others.

Recommendations to make Next Generation EU a success:

- The **steel** industry, hit severely by the COVID-19 crisis, should be recognised as being part of the EU's **"most affected sectors"** where support will be concentrated.
- Focus on investment in **sectors at high risk of carbon leakage** and that have the ambition to **reduce their CO_2 emissions already by 2030 significantly**.
- Facilitate co-financing from the RFF of an IPCEI on "Low CO_2 Emissions Industry Europe"
- Launch an Industrial Alliance on "Low Carbon Industries" – with initially steel, chemicals and cement sectors – to stimulate large scale co-financing of projects at industrial scale, and foster new industrial eco-systems based on hydrogen, carbon feedstock, carbon capture and storage/use and circularity.
- Facilitate financing of hydrogen, CCS and CCU infrastructures, strengthening industrial ecosystems and creating new ones.
- Align the timelines of the Recovery and Resilience Facility (RRF) 2021-2024 with the timeline of industrial Low-CO_2 projects and IPCEIs when necessary to **avoid support gaps after 2024**. Grants and loans provided by the RRF shall allow co-financing of industrial projects spanning after 2023, to be invested by 2027.
- Support the implementation of the **Masterplan**[6] for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy, and the German Action Plan on Steel[7]
- Create a taxonomy system – under the sustainable finance policy - that enables industrial activities in transition towards a low-carbon and energy efficient society to access financing at competitive conditions; replace steel ETS benchmarks with a GHG performance assessment performed on entire value chains and full life cycle analysis (LCA); make us of the European Standard EN 19694.
- To **avoid distortion of competition** between competitors, the extent of support should be given independently of the location of the respective sites in Europe. For this purpose, coordinate the higher expenditure of the Recovery Plan for companies in most hit regions with additional funding for those in less hit regions via national and other EU funding schemes. Similarly, this coordination should apply for the Just Transition Fund.
- **Allow EU funds adding** up to the Recovery Plan funding.

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[6] European Commission report "Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy by 2050 – Report", November 2019
https://ec.europa.eu/docsroom/documents/38403/attachments/1/translations/en/renditions/native

[7] BMWI, "Für eine starke Stahlindustrie in Deutschland und Europa - Handlungskonzept Stahl" July 2020
https://www.bmwi.de/Redaktion/DE/Publikationen/Wirtschaft/handlungskonzept-stahl.html

- The methodology for the calculation of the maximum financial contribution (i.e. the nonrepayable financial support) per Member State under the Facility should not only take into account population, GDP and employment but **also the share of energy intensive industries (EIIs) on the national GDP**.

System of own resources

Although **the new own resources** of the Recovery Plan and especially green own resources might contribute to the recovery effort, there are some **important concerns**:

  - Including an Emissions Trading System-based own resource by possible extension to other sectors may drive up the carbon price due to shortage of allowances, with a severe impact in particular on sectors exposed to international competition and carbon leakage risk.
  - It is also vital that the planned carbon border adjustment mechanism as one of the green own resources is compatible with the existing ETS provisions on free allocation and compensation and not as an alternative.
  - The proposal of recollecting aid payments from companies that draw huge benefits from the EU single market and will survive the crisis to finance the Next Generation EU could undermine and counteract the intention of any support granted.