EU RECOVERY PLAN

POSITION PAPER

The European Steel Association welcomes the European Commission's proposals for a Recovery Plan for Europe, published on 27 May, with the communication on *Europe's moment: Repair and Prepare for the Next Generation* and the communication on *The EU budget powering the recovery plan for Europe*.

It is however unlikely that the proposed measures will materialise before the second half 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 impacted by the COVID-19 crisis.

We support the proposal to mobilise the necessary investments by a two-fold response: *Next Generation EU* as a new recovery instrument to boost the EU budget with new financing raised on the financial markets for 2021-2024, and *a reinforced long-term budget of the EU for 2021-2027*. The *Recovery and Resilience Facility* with a proposed budget of EUR 560 billion (in grants and loans) and other support schemes such as the *Strategic Investment Facility* set out in the Plan should secure the implementation of industry projects that bring the EU already in the period 2020 to 2030 on track of its carbon neutrality and circular economy objectives.

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-CO2 Emission Industry* the latter having on its own the potential to reduce our industry's emissions by 33 million t/CO_2 per annum already by 2030. We are working on an Industrial Alliance with other key sectors to foster existing, and create new industrial eco-systems based on hydrogen, carbon feedstock, carbon capture and storage/use and circularity. 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.

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The adopted recovery plan should serve in particular to pave the way for a climate-neutral industry. The transformation of steel production to low-carbon processes comes with huge investments and costs that the industry cannot shoulder in global competition 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 and CCS infrastructure, among others.

Recommendations to make the Recovery Plan for Europe 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 CO2 emissions already by 2030 significantly**.
- Focus on **strategic value chains such as the Low-CO2 Emission Industry** as set out by the Commission's Strategic Forum on Important Projects of Common European Interest (IPCEI), including hydrogen, CCS and CCU infrastructures, strengthening industrial ecosystems and creating new ones. In accordance with the industrial strategy, a "**Low-Carbon Industries Alliance**" should be implemented coordinating a respective IPCEI.
- Align the timelines of the Recovery Plan 2021-2024 for industrial Low-CO2 projects to the timelines of IPCEIs and the MFF: 2021-2027 to **avoid support gaps after 2024**.
- Support the implementation of the **Masterplan** for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy.
- To **avoid distortion of competition** between competitors, the extent of support should be 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.
- The 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 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**.
- 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.