To: EU Ministers of Climate & Economy

Friday, 17 December 2021

A sustainable and just transition pathway for industry and workers

Dear Minister,

We write to you on behalf of IndustriAll European Trade Union and the European Steel Association (EUROFER) to express our key recommendations on the revision of the **Emission Trading System (ETS)**[1] and the establishment of a **Carbon Border Adjustment Mechanism (CBAM)**[2]**,** two of the centre pieces of the "Fit for 55" package presented by the European Commission in July.

We support the EU's 2050 climate neutrality objective as well as the 2030 55% GHG emissions reduction target. However, the revised 2030 targets and the subsequent revision of the EU climate policies, have to be built on a credible pathway, creating the enabling conditions for industry to decarbonise, while allowing social partners to anticipate possible disruptive changes across the entire value chain, without jeopardising the working and living conditions of workers.

The steel industry has set out the ambition to reduce its CO_2 emissions by 30% by 2030 compared to 2018 (= 55% compared to 1990). Currently, there are more than **50 steel projects** that could be implemented at industrial scale by 2030 in order to achieve this ambitious objective[3]. By 2030, 150 TWh of electricity (equivalent to one third of France's electricity consumption in 2020) will be required annually, of which half will be for the production of 1.7 million tonnes of hydrogen. The estimated costs for the period 2021 to 2030 are **25 billion EUR Capex and 45 billion EUR Opex**. The EU steel industry is committed to invest in order to implement these and other projects, with the support of EU and national programmes and EU legislation that allows a **Just Transition**. As such, auctioning revenues must better support industrial innovation and labour transitions in the sectors at stake.

An integrated steel site has **two to four blast furnaces**. First industrial scale projects entail replacing by 2030 **one blast furnace** with for instance Direct Reduction Iron (DRI) and Electric Arc Furnace (EAF) technology which use hydrogen, or natural gas in the transition, and electricity. This unprecedented wave of investments is the beginning of a new industrial revolution.

While supporting the climate ambition of the Fit for 55 package, we are concerned that the **current proposals do not provide for the most cost-efficient decarbonisation** of the industry, which might entail greater risks of carbon leakage and impact production, employment and related value chains. There is also a lack of transparency with regard to the role of speculation as well as market fundamentals linked to the Commission proposal in contributing to the sharp increase in carbon prices at the detriment of households, workers, and manufacturers.

The impact of the Commission proposals on the steel industry

Under the current ETS, the European steel industry is already subject **to regulatory costs of 2.6 billion EUR per year**[4] due to around 20%-25% of free allocation shortage. Based on EUROFER's impact assessment of the Commission proposals on ETS and CBAM, the European steel industry might see these **regulatory costs increasing to between 8.4 and 13.8 billion EUR per year**. In the absence of any comparable carbon cost constraint on our international competitors by 2030, we stress that **industry needs strengthened carbon leakage protection during the transition**. Such additional costs – which are even on top of the above-mentioned Capex and Opex requirements – jeopardise the viability of

[1] Proposal for a revision of Directive (EU) 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading to implement the ambition of the new 2030 climate target.

[2] Proposal for a Regulation establishing a carbon border adjustment mechanism.

[3] Please see as an attachment to the letter the EUROFER "Map of key steel low CO_2 projects for the IPCEI Low CO_2 Emissions Industry".

[4] Under the assumption of 60 €/t carbon price and 160Mt steel production.

the steel industry as clearly examined in the report on *Assessment of Cumulative Cost Impact for the Steel Industry*, commissioned by the European Commission in 2013.[5] In contrast, the current ETS and CBAM proposals do not include any specific comprehensive impact assessment on steel[6].

Our comments on carbon border adjustment mechanism and Emissions Trading System

The ETS reform must stimulate the transformation of industry in their efforts to become climate neutral by 2050, without threatening production and employment. At the same time, introducing gradually an effective carbon border adjustment mechanism, if properly implemented, can ensure that the transition of industry does not expose the workforce and production in Europe to carbon leakage. Yet, we share serious reservations on the effectiveness of the measure as currently proposed.

We urge the European Parliament and the Member States to consider, inter alia, that:

- Companies that implement **low carbon technologies should be rewarded** with continued free allocation at full benchmark level without cross sectoral correction factor, but 2026-2030 benchmarks should not be reduced by such technologies[7].
- **The effectiveness of the CBAM** should be tested in the period 2026 to 2030 with actual payments by importers, against potential circumvention and absorption of carbon cost by third country producers. The subsequent faster phase out of free allowances for sectors covered by CBAM should be conditional to the results of the test period.
- **Level playing field for exports** (e.g. full free allocation) will be necessary to secure the 20 million tonnes of EU steel exports in the face of skyrocketing CO_2 prices. This is WTO compatible according to the legal opinion of trade law firms.[8]
- **Stronger anti-circumvention and enforcement measures** are needed to secure effectiveness of the CBAM against practices like resource shuffling and absorption of the CBAM levy by third country producers.
- The **higher 2030 target can be achieved cost effectively with the linear reduction factor alone**. Additional and unnecessary costs or sudden increases in prices for industry and households deriving from proposals such as rebasing (one-off cancellation of around 120M allowances) and tightening of the Market Stability Reserve should be avoided.

We trust that you will consider our concerns and we are available for any clarification or further information.

Yours sincerely,

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EUROFER

Jude Kirton-Darling
Deputy General Secretary
IndustriAll European Trade Union

[5] https://op.europa.eu/en/publication-detail/-/publication/f4564c7b-462f-4c21-b6f8-bfb2c111ce53

[6] For instance, the Impact Assessment on EU ETS did not assess indirect costs, investment costs, or costs linked to new benchmark rules, and considered direct costs only with a carbon price of 42€ in 2021 increasing to 60€ in 2030.

[7] Alternative low carbon technologies in which the sector is investing recently (such as direct reduction) should receive free allocation on the basis of existing benchmarks (such as hot metal) in 2026-2030 but should not be included in the update of such benchmark values in case they are operational in 2021-2022, otherwise they will reduce significantly free allocation and the incentive to make such investments.

[8] Kings & Spalding and Nctm: WTO consistency of "export adjustment" in the context of the EU Emissions Trading System. Incorporating a Carbon Border Adjustment Mechanism.