
EUROFER
THE EUROPEAN STEEL ASSOCIATION

A European GREEN DEAL ON STEEL

We are already on the road to CO2-neutral production

OUR TARGET	OUR AMBITION	OUR CHALLENGE
2030	2050	NOW
-55% CO_2 emissions	Climate neutrality	Enabling policies

EUROFER
THE EUROPEAN STEEL ASSOCIATION

TODAY'S DIRECT CARBON COSTS FOR EU STEEL INDUSTRY

± 2.6bn €/YEAR

*Under the assumption of previous 60 €/t carbon price and 160Mt production

TODAY'S DIRECT CARBON COSTS FOR EU STEEL INDUSTRY

± 3.5bn €/YEAR

*Under the assumption of current 80 €/t carbon price and 160Mt production

Impact assessment of ETS proposal in 2030

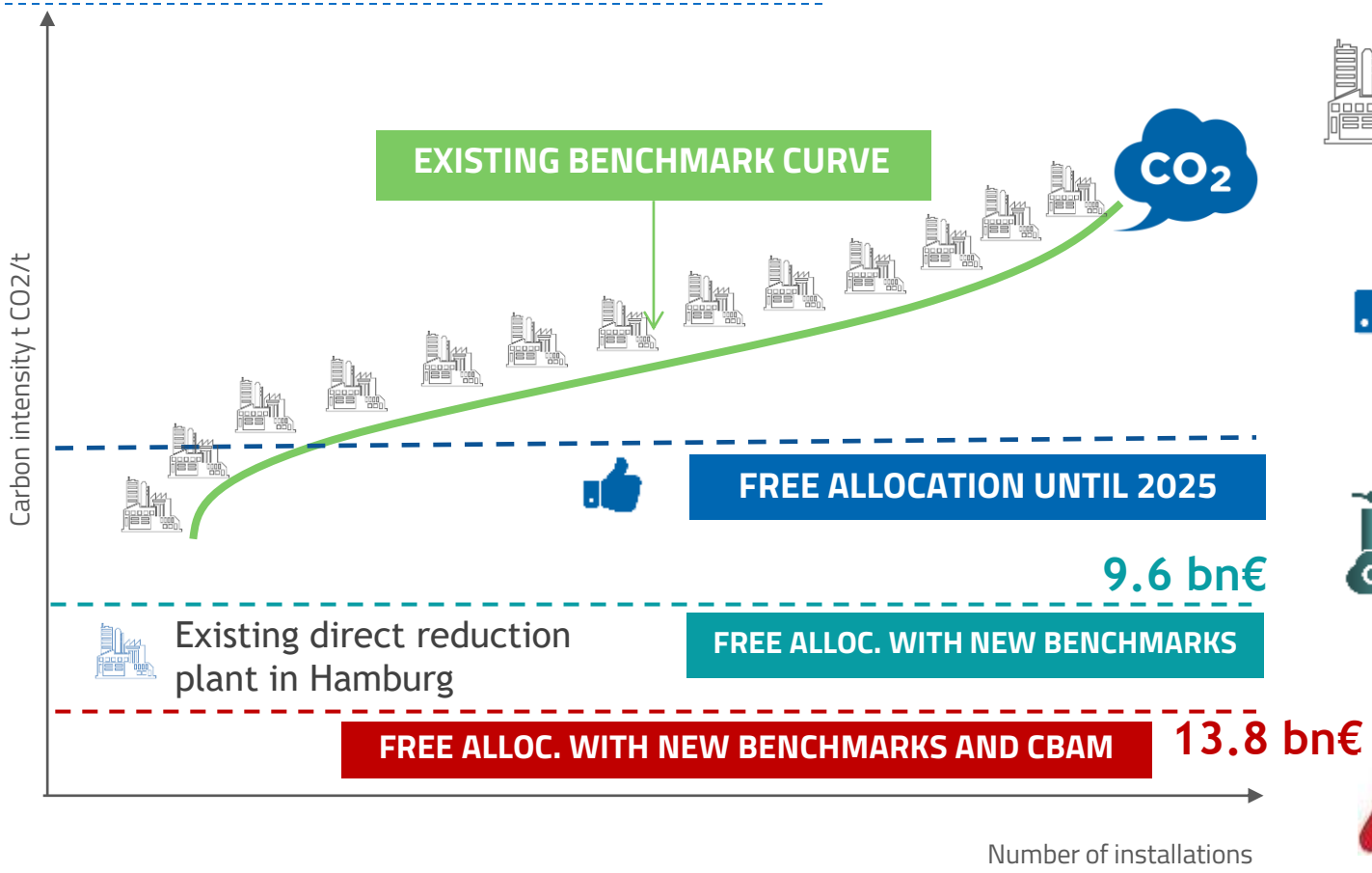
Benchmark	Annual & total reduction rate (new benchmarks)	50% CBAM reduction & new benchmarks	30% emissions reductions (± 25 bn € investments)
Coke	2.5% (50%)		
Sinter	2.5% (50%)		
Hot metal	±2% (±40%)		
EAF carbon steel	2.5% (50%)		
EAF high alloy steel	2.5% (50%)		
Fuel benchmark	2.5% (50%)		
Heat benchmark	2.5% (50%)		
Annual direct emissions	± 185 Mt/year	± 185 Mt/year	± 130Mt/year
Annual preliminary free alloc.	86M	43M	43 M
Annual free alloc. shortage	99M (54%)	142 (77%)	87 (67%)
Annual direct carbon costs in 2030**	9.6 bn€	13.8 bn€	8.4 bn€

*Assuming EU steel production of 160Mt/year and a carbon price of 97€/t in 2030**

** Source: Carbon Pulse Poll, 16 October 2021*

Impact assessment

Direct carbon costs in 2030 for the EU steel industry



There are 25 installations of primary steel production in the EU

The 10% best performers set the benchmark and the level of free allocation for the entire sector = 2.5 steel installations

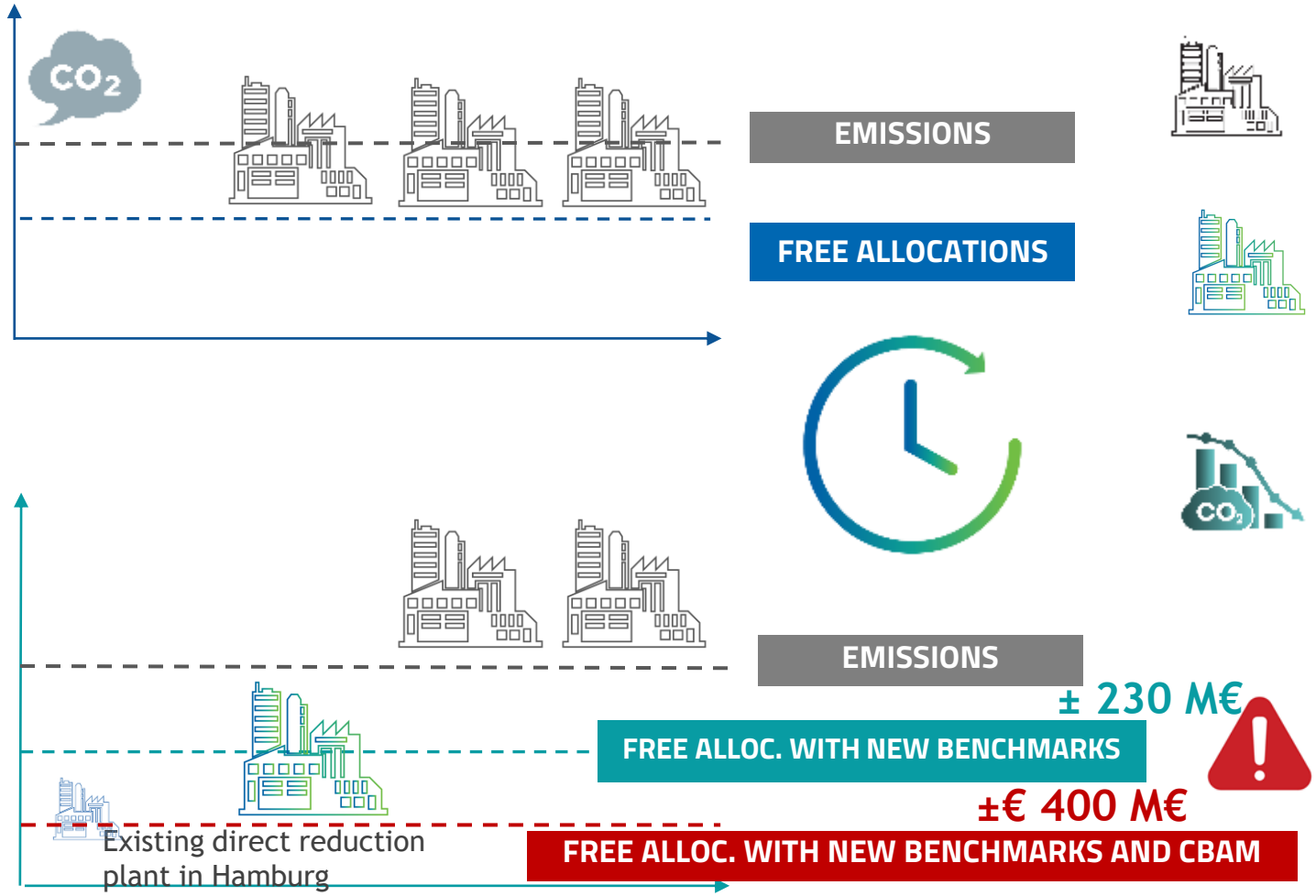
One single installation (e.g. direct reduction plant in Hamburg) would deeply change the level of free allocation for the entire sector

The CBAM reduces further free allocation by 50% in 2030. The sector would have a huge allocation shortage (8.4bn€) even if it reduces emissions by 30% with around 25 bn€ investments

EUROFER
THE EUROPEAN STEEL ASSOCIATION

Impact assessment

Direct carbon costs in 2030 for an average steel site (4 Mt production)



Steel installations have on average three blast furnaces

The transition will be gradual (i.e. one blast furnace will be converted by 2030 per average site)

One single installation (e.g. direct reduction plant in Hamburg) would deeply reduce the free allocation

The CBAM reduces further free allocation by 50% in 2030. The site would have a huge allocation shortage even if it converts one blast furnace to new technologies

Impact assessment

Comparison between an average EU steel company investing in low carbon technologies and a traditional third country producer

CO_2 emissions/t	± 1.5tCO_2/t of steel
Direct carbon costs/t	± 100€/t of steel
Total direct carbon costs	**±€ 400 M€**

Assumptions: 4Mt production, of which 3Mt in blast furnaces and 1Mt in direct reduced iron plant; carbon price: 97 €/t in 2030

CO_2 emissions/t	± 2 t CO_2/t of steel
Direct carbon costs/t	± 145€/t of steel
Total direct carbon costs	**±€ 30 M€**

Assumptions: 4Mt production in blast furnaces, of which 5% is sold on the EU market; carbon price: 97 €/t in 2030

Our recommendations on EU ETS

ACHIEVE THE HIGHER CLIMATE TARGET COST-EFFECTIVELY

Achieve the higher 2030 target only with the linear reduction factor

Avoid rebasing (one-off cancellation of aroud 120M allowances)

Avoid tightening further the Market Stability Reserve (doubling the intake rate at 24% until 2030 and cancelling more allowances in the reserve)

STRENGHTEN CARBON LEAKAGE PROTECTION

Reward low carbon technologies with free allocation without reducing prematurely benchmarks

Avoid the cross sectoral correction factor by increasing the 3% free allocation flexibility and/or by using the Market Stability Reserve

Maintain 100% free allocation for CBAM sectors at least until a real test period (2026-2030) demonstrates its effectiveness for complex sectors like steel

ACCELERATE ROLL-OUT OF INDUSTRIAL BREAKTHROUGH TECHNOLOGIES

Prioritise industrial technologies in the Innovation Fund

Reward low carbon technologies with free allocation

Use all ETS revenues to support industrial decarbonisation

Recognise the environmental benefits of carbon capture and usage technologies

POLICY MAKING WITH REALISTIC IMPACT ASSESSMENTS

Use a realistic carbon price (COM used 40€ for 2021, increasing to 60€ only in 2030)

Include indirect costs in the assessment

Include investment costs in the assessment

Assess the interaction of all elements of the ETS (cap,Market Stability Reserve, Innovation Fund, benchmark rules, etc.)

Achieve the higher climate target cost-effectively

The carbon price **tripled** in the last year

- With the proposed reform, it could reach around **100€/t** by 2030
- **Rebasing** (one-off cancellation of around 120 M allowances) and **Market Stability Reserve** (24% intake rate) increase the carbon price for the same level of 2030 ambition
- A **carbon price at 100€/t increases the electricity price by around 60€/MWh** (more than doubling the average whole sale electricity price in normal market conditions)

	Q4 2021	H1 2022	2022	2023	2024	2025	2030	Phase 4
Berenberg	110.00	110.00	110.00	75.00	86.00	93.00	100.00	92.20
BNEF	67.50	63.00	61.00	65.00	88.00	89.00	107.00	83.00
Commerzbank	57.00	60.00	60.00	N/A	N/A	N/A	N/A	N/A
Energy Aspects	63.00	65.00	65.00	74.50	74.50	78.50	90.00	78.92
Macquarie	60.00	65.00	65.00	70.00	80.00	70.00	101.00	80.00
Morgan Stanley*	48.00	N/A	63.00	80.00	88.00	95.00	110.00	90.00
Refinitiv	67.00	60.00	58.00	59.00	60.00	62.00	96.00	71.00
THEMA	N/A	N/A	60.00	60.00	65.00	76.00	80.00	71.00
Vertis	61.00	64.35	69.70	73.50	85.00	87.50	93.00	77.40
Volue Insight	57.00	52.00	50.00	48.00	N/A	N/A	N/A	N/A
AVERAGE	**65.60**	**61.35**	**62.70**	**67.20**	**78.30**	**81.40**	**97.15**	**80.45**
Median	**61.00**	**63.70**	**62.00**	**70.00**	**82.50**	**83.00**	**98.00**	**79.45**
High-Low Range	**62.00**	**58.00**	**60.00**	**32.00**	**28.00**	**33.00**	**30.00**	**21.20**
*Previous poll^*	*56.25*	*59.65*	*59.65*	*57.60*	*67.15*	*71.25*	*94.70*	*72.90*
*% change^*	*16.6%*	*2.8%*	*5.1%*	*16.7%*	*16.6%*	*14.2%*	*2.6%*	*10.4%*

***Source**: Carbon Pulse Poll, 16 October 2021*

Steel is the real “stress test” of CBAM

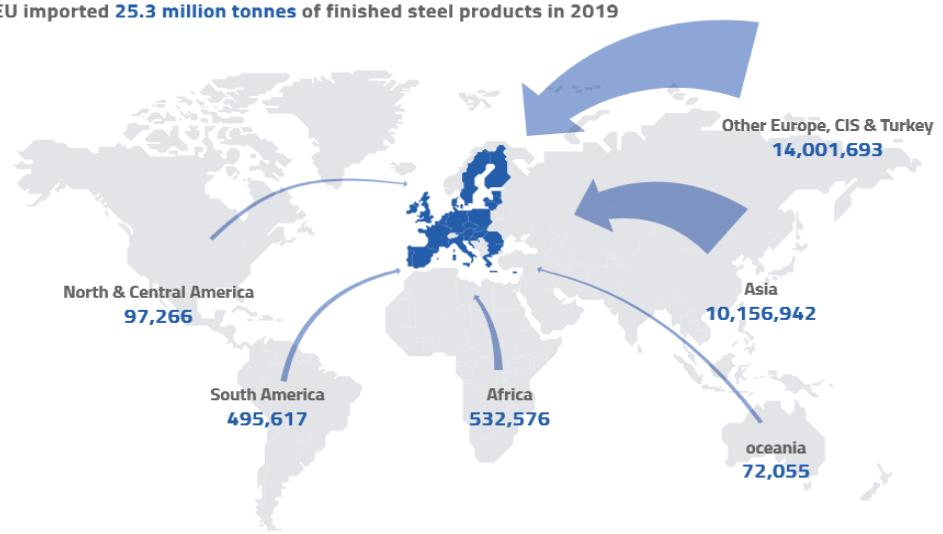
- Very **high carbon leakage** risk due to **high trade and energy intensity**
- **Many product categories** (more than **300** customs codes)
- Large trade flows with **many countries**
- Used in **several value chains** by many **downstream sectors**
- **High absorption risk of the levy** (ability to reduce prices and dump the EU market)
- **High risk of resource shuffling** (different emissions across the world)

The inclusion of the steel sector in the first or subsequent CBAM wave should be linked to the realistic timeline required for developing and proving an effective regulatory framework for a complex and sensitive sector such as steel

TOTAL IMPORTS INTO THE EU — MAP ▪ 2019

SOURCE: EUROFER

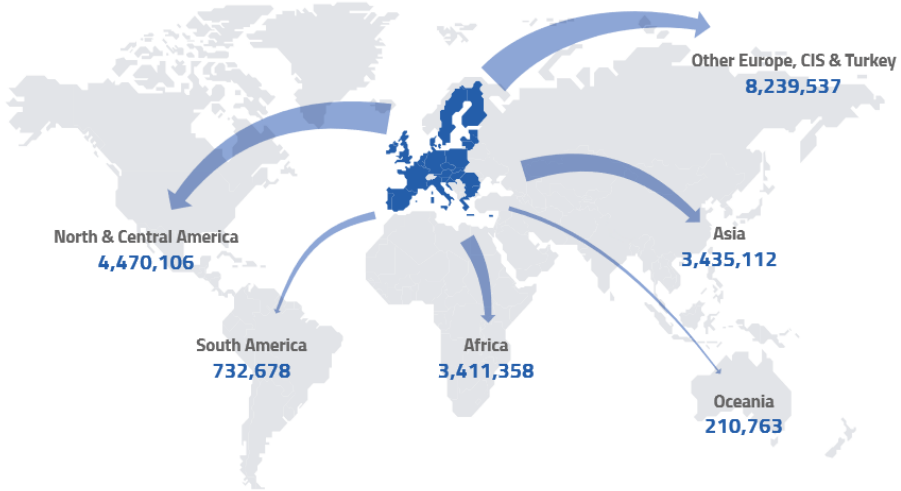
The EU imported **25.3 million tonnes** of finished steel products in 2019



TOTAL EXPORTS INTO THE EU — MAP ▪ 2019

SOURCE: EUROFER

The EU exported **20.5 million tonnes** of finished steel products in 2019



CBAM & ETS: a prudent phasing in/out

THE **UNCONDITIONAL** FREE ALLOCATION **PHASE OUT AS OF 2026** IS **PREMATURE**:

2026

- **CBAM**'s effectiveness is **unproven**, as importers will start paying only in 2026
- **Reduced free allocation** will **undermine** companies' **low carbon investment**
- **Export** competitiveness will be **undermined**
- **Phasing out** free allocation **increases** the **impact** on **downstream sectors** and on **trade flows**

ANY FREE ALLOCATION **PHASE OUT AFTER 2030** SHOULD BE:

2030

- **Conditional** to a **monitoring system** assessing the effectiveness of the CBAM
- **Coupled** with an **emergency carbon leakage protection** if needed

CBAM complementing free allocation is WTO compatible because…

- **It doesn't provide double protection**
  - the CBAM covers only emissions that are not covered by free allocation

- EU products/imports are treated equally
  - The CBAM levy takes into account free allocation granted to EU industry)
- **It doesn't discriminate** between EU products/imports (national treatment) & among imports from different third countries (most favoured nation)
- **It pursues environmental objectives** in a non-discriminatory & restrictive way
- **Free allocation complementing CBAM reduces the CBAM level**, hence the impact on trade flows and product prices

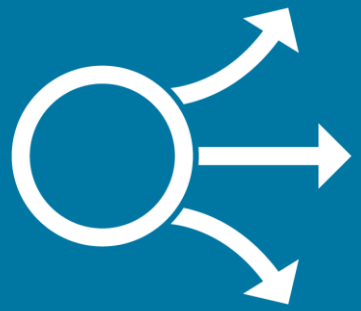
Legal sources: Kings & Spalding; Nctm

Export adjustments are WTO compatible because…

- They are an inherent component of the EU ETS to **avoid carbon leakage on global markets** while pursuing **stricter climate targets with the declining ETS cap**
- **Free allowances for exports** (*de facto* export adjustments) are not illegal subsidies because
  - they **do not represent a financial contribution nor a foregone revenue and do not grant benefits to EU producers** (based on **arguments used by the Commission** in a recent trade case)
- **Refunds/Credits for allowance obligations on exports** (*de jure* export adjustments) translate the **destination principle** of indirect taxation to EU ETS
  - The allowance obligation above benchmarks would continue applying to EU domestic sales

Legal sources: Kings & Spalding; Nctm

Carbon leakage protection: how to make the CBAM more effective



A solution for EU exports is possible and essential

Other circumvention risks (including resource shuffling and cost absorption) need to be addressed effectively

Default values should be sufficiently high to avoid free riding when real data are not provided

Timeline and substance of the secondary legislation need to provide a predictable and effective framework


EUROFER
THE EUROPEAN STEEL ASSOCIATION
The European Steel Association
EUROFER –AISBL
www.eurofer.eu
Thank you