EUROFER
THE EUROPEAN STEEL ASSOCIATION

Public consultation on carbon border adjustment (CBA)

EUROFER's contribution on carbon border adjustment

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Key messages

- Deep emission reductions are technically achievable in the EU steel industry only with the right framework in place, including support for investment in innovation and roll-out, the creation of markets for green materials, the availability of the competitive low carbon energy sources, an international level playing field, and the application of EU trade defence instruments against trade distortions.
- Higher climate ambition, which will translate into higher carbon costs and emission reduction efforts, requires strengthened carbon leakage measures, in particular for sectors at highest risk due to high trade exposure and energy intensity such as steel.
- Steel products sold on the EU market, whether produced in the EU or imported from third countries, need to have similar CO2 cost constraints. EU steel exports need also to have CO2 cost level playing field on global steel markets.
- A well designed and effective CBA ensures that all emissions come with a cost, regardless of their country of origin, and provides strengthened carbon leakage protection only if it complements and addresses the shortcomings of the existing measures, which shall be based on 100% of the benchmarks, without any reduction.
- A CBA with full auctioning would have a disruptive impact on the EU steel industry and the related value chains, as it would expose EU steel producers and downstream sectors to the full carbon costs, undermining the financial ability to invest in low carbon technologies and jeopardising the competitiveness of EU exports.
- In order to prevent carbon leakage, the CBA should be introduced in a way that the importer has on one side a comparable carbon cost level to the EU industry and on the other side a sufficiently high incentive to decarbonise, while addressing the risks of cost absorption and source shifting. The design of the CBA should also take into account the fact that EU producers are subject to the carbon costs for their entire production, while importers would be subject only for the quantities exported to the EU. Due to that, a CBA set at a too low level would not provide the sufficient carbon cost constraint to avoid carbon leakage.
- The details of the CBA, in particular the type and emissions' scope of the policy instrument and the measurement of embedded carbon in traded products, are essential to deliver a robust and meaningful measure, which needs to be implemented as soon as possible.
- The CBA should at least cover direct and indirect emissions. In certain cases where other emissions represent a significant share of the total emissions, the scope should be extended to other steps of the value chain, e. g. directly reduced iron, hot briquetted iron and, pig iron in carbon steel, ferro-nickel production in stainless steel, etc.
- The choice of the type of policy instrument should translate both the carbon costs and the abatement costs linked to the emission reduction efforts that are requested to EU

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producers. The decision should favour the policy option that allows the complementarity with existing carbon leakage measures and a more effective carbon leakage protection.

- The definition of the carbon content of traded products is critical to create a robust and effective CBA. Under no circumstances, the methodology should allow free riding behaviours that would undermine the environmental objective of the measure. Default values reduce the administrative burden and resource shuffling risks but need to be set at a sufficiently high level and avoid undue advantage to importers when EU industry's carbon footprint is already better or will become even better in the coming years by decarbonising faster than the rest of the world. Real data increase the accuracy of the measure but require effective monitoring and enforcement rules and are more exposed to the risk of resource shuffling. The combination of default and real values could be explored to combine the positive effects of both methodologies.
- With regards the products' scope, in the case of steel the CBA could initially apply only to steel finished and semi-finished products such as coils, slabs, plates, bars, billets, etc. A workable solution should avoid the carbon leakage risk also for those downstream products that are primarily based on steel, such as tubes, fasteners and wire drawings.
- A rebate for exports is necessary and consistent with the environmental rationale of the CBA, since it ensures that EU production remains within the EU ETS' cap and the related emissions are abated according to the EU's reduction path.

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General context

- **Question 2**

The Commission has recently released the proposal to increase the EU 2030 target to 55% compared to 1990 levels and to enshrine the climate neutrality target by 2050. The steel industry has shown that deep emission reductions consistent with such ambition are technically achievable only under the right market conditions facilitated by a supportive framework. This framework consists of support for investment in innovation and roll-out, the creation of markets for green materials, the availability of the appropriate low carbon energy sources, an international level playing field, and the application of the EU trade defence instruments against third country trade distortions. This framework needs to be established as a matter of urgency.

The CBA as a possible measure to avoid carbon leakage represents an important element of such framework. The currently available information on the Intended Nationally Determined Contributions (INDCs) and (where available) the Nationally Determined Contributions (NDCs) clearly indicates that differences in levels of climate ambition are likely to remain very significant and possibly even diverge further for several time. Hence, avoiding the risk of carbon leakage is a pre-condition for preserving the environmental integrity of EU climate policy, since it contributes to reduce emissions at global level. As long as other countries do not have an equivalent and binding reduction path, retaining productions within the EU cap and trade's scope and reducing the related emissions in the EU instead of leaking them to such countries is the best solution for addressing climate change.

In this context, the CBA can serve as tool of climate diplomacy, acting as a catalyst to accelerate transition to carbon neutrality in jurisdictions with significant steel trade with the EU. A well-designed and effective CBA would be an important element of the regulatory framework to support the EU's climate neutrality target, since it ensures that all emissions come with a cost, regardless of the country of origin. This can only be achieved if the CBA is implemented as a complementary tool to existing carbon leakage measures and is effective in tackling the further carbon leakage risk due to increased EU's climate ambition. Any new additional carbon leakage measure should address the shortcomings of the existing tools (free allocation and indirect costs compensation) which shall be based on 100% of the benchmarks, without any reduction.

A complementary border adjustment to existing carbon leakage measures would not lead to double protection, since such measures are already partial and digressive. In fact, even with free allocation and compensation, EU producers bear carbon costs that are not applied to extra EU competitors. This divergence will further increase in the future.

A carbon border measure implemented as a complementary instrument instead of an alternative to existing carbon leakage measures would also reduce the direct impact on trade flows and would mitigate trade tensions as it would provide a longer transition for negotiations with

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international partners to align climate ambition. Similarly, a border measure complementary to free allocation and indirect costs compensation would decrease the product price impact on downstream sectors within the EU, hence better preserving the entire value chain.

Applying full auctioning as soon as the border measures is implemented would expose the whole EU production to the full carbon costs in the decisive period where breakthrough technologies are being developed and upscaled. The impact on the competitiveness of EU companies would be completely different from that on imports, since EU producers would be paying such costs for their entire production, while importers would pay only for quantities exported to the EU (usually less than 5% of their production). Furthermore, a border measure with full auctioning for EU producers undermines completely their ability to access export markets since it creates a huge cost differential.

As long as EU imports would be affecting the market's functioning, this situation would jeopardise the EU industry's financial ability to invest in low carbon technologies and cause the concrete risk of leaking emissions, jobs and investments to third countries. This would be counterproductive for the successful implementation of the Green Deal.

In order to be effective in tackling the risk of carbon leakage, a well-designed CBA needs to address the issues of cost absorption and source shifting, which can have a major impact on the market dynamics of covered sectors and undermine the real impact of the measure. The concept of cost absorption has been recognised and accepted also by DG TRADE in the context of EU steel safeguard measures; it refers to the situation where in case of falling prices third countries' producers continue to export to the Union as long as variable costs are covered in order to continue to utilise fully their capacities[1]. By selling to the EU at the level of variable costs, third countries producers would also absorb the CBA; hence, the carbon costs of climate policy would not be visible to EU consumers and carbon intensive products would still dump the market against lower carbon intensive alternatives. The CBA needs to take into account this situation and remain effective also in the context of cost absorption by exporters to the EU.

[1] Commission Implementing Regulation (EU) 2018/1013. Recital 109: "*The results of the macroeconomic trade model are complemented with a series of microeconomic simulations of typical contribution margins for 12 different product categories under assessment. The assumption behind the analysis is that in case of falling prices, producers would continue to fully utilize their capacities and export to the Union as long as variable costs are covered. The margin between the sales price and variable costs is termed the contribution margin. In other words, a producer would continue producing as long as the contribution margin is non-negative. The analysis establishes for each of the twelve product categories under assessment the Union landed price at which the contribution margin for exporters to the EU would be entirely exhausted. The spread between this price and the non-injurious domestic price on the Union market should then be the out-of-quota tariff necessary to guarantee a non-injurious price level on the Union market".*

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Furthermore, the CBA needs to remain effective also when EU industry faces abatement costs and reduces further its emissions compared to third countries' competitors.

The overall impacts of CBA on final prices deserve further analysis and will depend also on the design of the measure. In particular, a CBA implemented as a complementary tool to the existing carbon leakage measures would reduce significantly the product price impact on downstream sectors within the EU, hence better preserving the entire value chain. In general, the impact of carbon costs on product prices is more prominent at the beginning of the value chains where the most carbon intensive activities affect business to business markets. With regards the possible impact of a CBA on EU industry, it will be essential to design it in a way that maximises its main objective (avoiding carbon leakage in sectors at highest risk), while optimising the overall administrative requirements.

Justification and objectives

- **Question 3.1**

The existing EU climate ambition (40% emissions reductions by 2030 compared to 1990 level) is already not matched by equivalent efforts by any major trading partner and emitter. Hence, enhancing further such ambition will inevitably increase the risk of carbon leakage, since it will require additional compliance and abatement carbon costs to the EU society that will not be faced by third countries at the same time. Preliminary assessments by independent analysts[2] indicate that with the existing burden sharing between ETS/non ETS sectors, an increased ambition to 50% or 55% would have a significant impact on the EU ETS market, with a respective reduction in available allowances by 1.2 and 1.8 billion. In the absence of further adjustments, that would translate in reduction of free allowances respectively by around 500M and 750M, which would more than nullify the 3 % auctioning/free allocation shares' flexibility agreed in the recent ETS revision after almost 3 years of negotiations. According to other analysists[3], carbon prices would rise to levels around 50€-75€ by 2030 for an ambition at 50% or 55%.

- **Question 3.2**

At least in the steel industry, which has been recognised at very high risk of carbon leakage also in Commission's Impact Assessments to the recent Communications on 2030 climate ambition and on 2050 climate neutrality due to its high trade and carbon intensities, some leakage of emissions, jobs and investments in third countries has been occurring in the last decade for a combination of factors (unfair trade practices, subsidies, overall regulatory costs, etc.). This can be observed in each step of the overall steel value chain (finished and semi-finished products,

[2] https://www.linkedin.com/pulse/what-55-2030-emission-reduction-target-means-eu-ets-marcus-ferdinand/

[3] http://climatecake.pl/wp-content/uploads/2020/03/Impact-on-the-reduction-target-for-2030-and-on-the-EUA-prices.-Summary.pdf

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intermediates, and scrap). The market penetration of imports almost doubled in the last decade, and today around 20% of EU steel consumption is supplied by imports that in most cases (e.g. China, Russia, Ukraine, Turkey, India, Indonesia, etc.) are not subject to any meaningful carbon costs, while EU producers are increasingly exposed to direct and indirect carbon costs.

While the existing carbon leakage measures (free allocation and indirect costs compensation) have provided partial relief to unilateral EU carbon costs in the recent past, their continuation in the future without complementary tools such as the CBA will not be sufficient to mitigate the impact of enhanced climate ambition due to the increased carbon prices and reduced allowances' availability (please see reply to question 3.1).

Therefore, a truly effective CBA complementing the existing measures would on one side address the carbon leakage risk and on the other side be an instrument of international diplomacy to spur global climate efforts.

Other regulatory instruments such as product standards could be introduced once low-CO2 steel represents a critical mass in the market as complementary measures, but they do not address the need to mitigate the risk of carbon leakage in short-medium term that is the main objective of the CBA.

- **Question 4**

Once the EU level of climate ambition is set, a well-designed and effective CBA could contribute to preserving its environmental integrity and facilitating the social acceptance. In this way, it supports EU climate policies as a side effect. At the same time, its main objective is to address the risk of carbon leakage, which fosters emissions reductions at global level because on one side it avoids that emissions reduced in the EU are compensated by higher emissions in third countries outside the EU ETS cap and on the other side spurs higher ambition by third countries as a tool of climate diplomacy. By tacking these environmental objectives, a well-designed and effective CBA de facto could contribute also to a better level playing field for EU producers against third countries' competitors.

- **Question 5**

While the primary objective and policy field of the CBA remains environmental, its design and functioning need to take into account also trade, customs and industrial elements, since its application interacts with trade and customs policies and needs to be effective taking into account the market dynamics of affected sectors. Also, the use of revenues should prioritise R&I needs in the relevant sectors. Finally, a well-designed and effective CBA could contribute indirectly to development aid, since least developed countries are the most affected by climate change, hence they would benefit by the global climate efforts facilitated by a CBA.

- **Questions 6.1 - 6.4 (general remarks on the type of policy instrument)**

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The choice of the nature of CBA needs to prioritise the primary objective of the measure, i.e. to address the risk of carbon leakage. In this perspective, it is essential that the CBA is implemented as a complementary tool to the existing carbon leakage measures and it is set at a level that allows the decarbonisation of the EU industry while preserving its competitiveness. The following elements need to be taken into account:

- The decision on the nature will need to balance on one side the need to have a robust and meaningful measure and on the other side the feasibility of implementing it within the timeframe agreed by the European Council. The key added value of a timely CBA is to be effective against carbon leakage and lay the basis for EU industry to decarbonise by introducing carbon measurement for traded goods, which could be improved and strengthened over time. Hence, the nature of the measure might need to evolve over time; in order to ensure a swift implementation in short time, it could be more helpful to introduce initially a simpler measure that is closer to the existing regulatory framework, while more structural solutions would be more appropriate in medium term.
- The effectiveness of the CBA will depend not only (and mainly) on its nature but mainly on the details of the design and its ability to ensure an effective enforcement and address risks such as cost absorption and source shifting.
- Through the cap and trade mechanism, the EU ETS not only entails for EU producers financial costs (the trade element) but also absolute emissions reductions (the cap element) that become more stringent with the progressive reduction of total allowances. An effective CBA should translate both elements also to traded products, as it needs to apply effective carbon costs but also require progressively comparable emission reductions to those imposed to EU producers.
- The CBA should be introduced in a way that the importer has on one side a comparable carbon level to the EU industry and on the other side a sufficiently high incentive to decarbonise.
- The level and the functioning of the CBA should address the risks of absorption and source shifting, which refer to practices that would circumvent, respectively, the trade and cap elements of the EU ETS. The concept of cost absorption has been recognised and accepted also by DG TRADE in the context of EU steel safeguard measures; it refers to the situation where in case of falling prices third countries' producers continue to export to the Union as long as variable costs are covered in order to continue to utilise fully their capacities. By selling to the EU at the level of variable costs, third countries producers would also absorb the CBA; hence, the carbon costs of climate policy would not be visible to EU consumers and carbon intensive products would still dump the market against lower carbon intensive alternatives. Through source shifting, the primary objective of the CBA (global emissions reductions) would be circumvented as carbon intensive products would continue to be delivered to other countries than the EU. Depending on the nature and design of the chosen measure, multiple solutions could be envisaged.

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- The risk of absorption needs to be tackled with an environmentally justified mechanism that preserves the effectiveness of the CBA in order to secure that the border measure is not absorbed by reducing the price of the imported good.
- The risk of source shifting could be addressed possibly by applying a fixed charge to imported products, which shall have a levy high enough to serve its purpose, while being WTO compatible. Ideally, some monitoring mechanism could be introduced that scrutinises not only the carbon intensity of the traded goods, but also the overall intensity of the third countries' producer-at least at country-wide level, in order to avoid that low carbon products are exported to the EU while more carbon intensive products are diverted to other markets.

- The design of the CBA should also take into account the fact that EU producers are subject to the carbon costs for their entire production, while importers would be subject only for the quantities exported to the EU. Due to that, and considering also the cost absorption ability of importers, a CBA set at a too low level would not provide the sufficient carbon cost constraint to avoid carbon leakage. As an example, an EU producer with a total production of 5 million tonnes of steel and an average carbon cost of 10€/tonne will pay €50 million, while a third country producer with the same total production but exporting to the EU 5% of its production (250,000 tonnes) would face only costs of €2.5 million, which are much easier to absorb. By doing so, the EU imports would still be able to set the price at a low level that does not reflect the actual carbon cost.
- While the administrative procedures need to be optimised in view of minimising the administrative burden, the introduction of the CBA will inevitably entail new requirements for EU importers and third countries' exporters. These new procedures are essential for the effectiveness and robustness of the CBA and will contribute to the environmental objectives of the measure similarly to the requirements already in place for EU producers subject to EU climate policies.

- **Question 6.1 (border tax or customs duty)**

A border tax or import duty would apply to selected products a carbon price equivalent to that applied in the EU. If applied to the most relevant carbon intensive products exposed to carbon leakage, this measure could be a simple tool to translate at the border swiftly the cost element of the EU legislation. As such, it could be viable solution for the initial steps of the CBA, provided that the level of the tax is effective to prevent the risk of carbon leakage linked to imports and avoids circumventing practices. At the same time, its interaction with the current regulatory framework for EU producers should be analysed in order to clarify whether they would remain subject to the EU ETS or a comparable tax would be applied to them.

By definition, this measure would not address the issue of competitiveness of EU exports to third countries, since it would tackle only EU imports. At the same time, if applied without complementary measures, it would not require any emission reduction to the traded products. Therefore, it could fail to address the carbon leakage risk when EU producers would be obliged

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to deliver emission reductions while third countries producers could still continue to pay the tax or duty without comparable emission reductions.

- **Question 6.2 (extension of the EU ETS to imports)**

The inclusion of imports in the EU ETS would apply both the cap and trade element to imported goods. Since imports would be included in the same ETS as EU producers, they would affect the functioning of the EU market, which would also impact the relationship between the EU carbon price and the emission reduction target. This would require an in-depth analysis of such impact, including the necessary adjustment of the cap. Even with an adjusted cap, the possible risk is that the inclusion of importers could lead to more volatility and a significant increase of the carbon price, since they could absorb it and afford paying a very high price as it applies only to a minor part of their production (the one exported to the EU), while EU producers would remain subject for their entire production. Furthermore, the risk of source shifting would remain relevant as long as the measure would cover only the traded products and third country producers could shift their carbon intensive products to other destinations.

- **Question 6.3 (separate ETS for imports)**

The surrender of notional ETS allowances for importers would mirror the EU ETS without a direct impact on the functioning of the EU market, provided that free allocation for EU producers is maintained. In order to reflect the cap and trade elements of the EU ETS, a detailed assessment would be necessary to identify the appropriate amount of available allowances for imports as well as the reduction rate of such allowances, so that they lead to equivalent emissions reductions. Also, it should be taken into account the fact that the EU producers are subject to the EU ETS for their entire production while third countries' producers would be subject only for their exports to the EU. As for the previous option, the risk of source shifting would remain relevant as long as the measure would cover only the traded products and third country producers could shift their carbon intensive products to other destinations.

- **Question 6.4 (carbon consumption charge)**

A CBA in the form of a carbon consumption charge would address structurally the emissions along the entire value chain by measuring the carbon content at each step. Since this measure would be equally applied at consumption stage to EU and imported products, it would be more likely recognised as WTO compatible and possibly less exposed to risks of retaliation. This option would also provide a solution to finally provide the carbon signal in society in long term.

Depending on its design and characteristics of the covered value chains, this could possibly require also in the EU a more detailed and complex monitoring and reporting mechanism than the current EU ETS, which focuses only on emissions linked to the production. Therefore, a detailed assessment on the possible interaction with the existing regulatory framework would be necessary, including the treatment of EU producers that could be subject to such a tax, as well as

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the feasibility of a timely implementation already in 2023. Since the tax would be applied at consumption stage, it would not concern EU exports to third countries, since exports should be covered via a reverse charge mechanism in analogy to the well-established value added tax VAT.

Depending on the detailed design of the consumption charge, it could be implemented as a complementary tool to existing carbon leakage measures. However, if applied at the level of EU ETS benchmarks (which are defined in principle by the best 10% EU installations), it would not lead to additional carbon leakage protection compared to the existing situation, since importers would be treated as if their carbon footprint would be equal to the benchmarks, even if in reality it is much higher. As mentioned also in the reply to Q 10, the effectiveness of the CBA would be completely undermined if the CBA continues being fixed at the level of EU carbon intensity but EU industry decarbonises faster than the rest of the world or when the EU industry's carbon intensity is already lower than that of the rest of the world.

- **Question 7 (emissions' scope)**

The scope of emissions covered by the CBA depends on the nature of the measure and may evolve over time with the evolution of the regulatory framework. Taking into account the current framework, the CBA should at least cover direct and indirect emissions. In certain cases where other emissions represent a significant share of the total emissions, the scope should be extended to other steps of the value chain, e.g. directly reduced iron, hot briquetted iron and pig iron in carbon steel, ferro-nickel production including nickel pig iron in stainless steel, etc. If not subject to any climate legislation, emissions linked to transport should also be accounted for in the CBA. With regards to the scope of products to be included, a clearer definition of finished, intermediate and primary products (as mentioned in the questionnaire) should be developed. In the case of steel, it could initially apply only to steel finished and semi-finished products such as coils, slabs, plates, bars, billets, etc. A workable solution should avoid the carbon leakage risk also for those downstream products that are primarily based on steel, such as tubes, fasteners and wire drawings.

- **Question 8 (sectors' scope)**

The rationale of the CBA is to mitigate the risk of carbon leakage due to persistent and possibly increasing differences in climate ambition, which will render existing carbon leakage measures insufficient to face such a challenge (i.e. due to increased carbon price and reduced allowances' availability). Therefore, provided that it complements the existing carbon leakage measures, and addresses the shortcomings of such measures, the CBA should prioritise sectors of the EU ETS that have been already recognised at very high risk of carbon leakage, since they would be the most exposed as a result of the higher EU ambition. This would also reinforce the environmental rationale of the measure, since it would cover imports representing a critical amount of emissions. Steel has been identified in this category due to its combined high trade and carbon

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exposure. Once the CBA is introduced on the most carbon and trade intensive activities, it could be extended progressively to cover the entire value chains.

- **Question 10 (Options for measuring the carbon content of imports)**

The definition of the carbon content of traded products is critical to create a robust and effective CBA. Under no circumstances, the methodology should allow free riding behaviours that would undermine the environmental objective of the measure. Furthermore, a practical solution needs to ensure the feasibility of the CBA as well as its enforcement. Therefore, the choice of the methodology should balance all these elements and apply the most appropriate solution.

If robust and certain verification and enforcement procedures are put in place to check the real carbon content, a structural solution would be to grant access to EU market only to those third countries' producers that provide their data. This would entail a comparable treatment to EU producers, who are legally obliged to provide their data in order to operate.

If the option of using default values (instead of real ones) is foreseen in order to facilitate the administrative process, the methodology should clarify whether and how real data by third countries' producers are accepted or not.

If fixed values are applied by default but data by third countries' producers are also accepted, any method used to determine the default values should not provide an advantage for not providing the relevant data, since only third countries' producers with lower carbon intensity would have an incentive to provide data, while all others will have a free riding opportunity.

If only fixed values are accepted (without real data), the default content and the related charge should be set at an effective level to avoid carbon leakage and create an incentive to decarbonise.

In particular, the option of applying EU benchmark values (point a) would undermine completely the environmental rationale of the measure, since third countries producers not providing data (hence likely to have higher carbon intensity) would be treated as if their carbon footprint would be equivalent to the benchmarks, even if in reality it is much higher. This is clearly not acceptable. The same reasoning applies to the option of using EU emission factors for indirect emissions (point d), which would grant to such third countries' producer the benefit of EU investments in renewables. In both cases, the effectiveness of the CBA would be completely undermined if the CBA continues being fixed at the level of EU carbon intensity but EU industry decarbonises faster than the rest of the world or when the EU industry's carbon intensity is already lower than that of the rest of the world.

Options like country of origin or world-wide benchmarks for direct emissions (points b and c) could be explored, provided that they do not facilitate any free riding. In particular, they should be sufficiently high to avoid that the most carbon intensive imports could benefit from them. In the case of country of origin benchmarks, the risk of resource shuffling would still occur for those

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producers that have plants in different countries and could allocate to the EU only exports from a country with the lower CBA, while not reducing the overall emissions.

The option of using country of origin-specific emission factors (point e) could be a plausible proxy for defining indirect emissions, while the possibility of using global values (point f) would provide an undue advantage to those countries with a higher carbon intensive electricity grid.

The option described in point g needs further clarification; in any case, the above comments remain valid. The possibility of tracking emissions across the value chain (point h) would extend the scope of the CBA beyond the production emissions that are captured by the EU ETS; while this would strengthen the environmental rationale of the measure and should be ultimately addressed, it would increase the complexity of the mechanism and might be overburdensome for the first step of the implementation of the CBA in 2023.

With regards the option of giving importers the possibility to demonstrate in a verifiable manner how the product was manufactured (point i), if applied, it should be accompanied by a very robust verification and enforcement mechanism to avoid free riding – which is more challenging.

- **Question 11 (verification of carbon content)**

The verification method should ensure the highest standards of robustness and accuracy. Therefore, if data by third countries' producers are accepted, an independent third party is absolutely necessary, similarly to the requirements for EU producers.

- **Question 12 (exports rebate)**

A rebate for exports is necessary and consistent with the environmental rationale of the CBA. As long as other countries do not have an equivalent and binding reduction path, retaining the emissions within the EU cap and trade's scope and reducing them in the EU instead of leaking them to such countries is the best solution for addressing climate change. Therefore, preserving EU exports to third countries ensures that the related emissions remain within the EU ETS and are abated according to the reduction path.

- **Question 13 (circumvention risks)**

The experience of trade defence cases in the steel industry demonstrates the high and multiple risks of circumvention. Since the steel sector covers a value chain with different steps, the risk of substitution between primary inputs and semi-finished goods is very high. Furthermore, the availability of different production routes with a very different carbon footprint offers the opportunity of resource shuffling. Other circumvention strategies, such as transhipment through exempted countries and slight modification of the products, have also been observed in trade defence cases.

- **Question 14 (possible exemptions)**

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The CBA can be also an important tool of climate diplomacy in order to spur global climate efforts, if used appropriately, acting as a catalyst to accelerate transition to carbon neutrality in jurisdictions with significant steel trade with the EU. Exemptions or derogations on one side would increase the complexity of the measure and on the other side could be a means for recognising efforts undertaken by third countries. If such derogations are put in place, they should be carefully assessed in order to preserve the environmental integrity of the measure. Reductions of the CBA could be recognised only in case a country has an equivalent policy with proven equivalent costs and reduction obligations to the ones in place in the EU. Any cost that is not strictly linked to climate legislation and emissions reduction should not be recognised as a derogation. There can be no exemption for developing countries as this status is self-declaratory and includes countries with a developed steel industry, while Least Developed Countries are unlikely to be affected by the measure in any event.

- **Question 15.1 (economic impacts)**

The economic impacts of the CBA will depend on the ultimate choice of the measure and its details and enforcement (sectoral and emissions' scope, methodology for defining carbon content, etc.). These will require an in-depth assessment, taking into account not only the CBA but the whole regulatory framework that is necessary for the transition of energy intensive industries exposed to global competition. However, if a CBA is not well-designed and, most importantly, if it were implemented in substitution to the current carbon leakage protection measures (free allocation and indirect costs compensation), indeed the CBA would be very detrimental not only for EU producers and EU exports to third countries but also to EU consumers (higher prices) and EU society as a whole (loss of employment).

a) With regards possible impact on downstream sectors, as mentioned in the reply to Q 2, the overall impacts of CBA on final prices deserve further analysis and will depend also on the design of the measure. In particular, a CBA implemented as a complementary tool to the existing carbon leakage measures would reduce significantly the product price impact on downstream sectors within the EU, hence better preserving the entire value chain. In general, the impact of carbon costs on product prices is more prominent at the beginning of the value chains where the most carbon intensive activities affect business to business markets. Nonetheless, downstream sectors could also be covered by the CBA at a later stage, when carbon costs are expected to increase further and once a more extensive carbon accounting and monitoring mechanism for traded products is developed.
b) Provided that it is set an effective level and used as a complementary tool to existing carbon leakage measures, the CBA could have an important positive impact on the competitiveness of the concerned sectors. Yet, if it is used immediately in isolation and its functioning results in an ineffective measure, it could be very detrimental, as it would leave those exposed sectors without protection.

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c) The impact of the CBA on EU exporters will depend on the nature of the measure and its design. As mentioned in the reply to Q 12, a rebate for exports is necessary and consistent with the environmental rationale of the CBA. If not granted, indeed the CBA could be detrimental for EU exports to third countries; this would be significantly worse if the CBA would not be complemented by free allocation.
d) While the primary rationale of the CBA is of "damage-control" nature (i.e. mitigate the risk of carbon leakage), it could contribute to a better business environment and attract new investments in the EU, if set an effective level that gives sufficient investment signals. This would be strongly favoured by a more comprehensive regulatory framework that addresses all the needs of the transition (access to competitive low carbon energy, funding for R&I&D and market uptake, creating lead markets, etc.)
e) The possible impact of a CBA on product prices could contribute to raise awareness and influence consumers' choices.
f) If implemented effectively, the CBA would contribute to provide a clear investment signal into low carbon technologies, both in the EU and in third countries.
g) The primary objective of the CBA is to secure that energy intensive activities, which are at the foundation of EU value chain, remain in the EU. By achieving this objective, the CBA could contribute also to attract further investments and develop further business models within the EU.
h) Please see the reply to point 'a' above.

- **Question 15.2 (environmental impacts)**

Once the EU level of climate ambition is set, the effective CBA contributes to preserving its environmental integrity and facilitating the social acceptance. In this way, it supports EU climate policies as a side effect. At the same time, its main objective is to address the risk of carbon leakage, which fosters emissions reductions at global level because on one side it avoids that emissions reduced in the EU are compensated by higher emissions in third countries and on the other side spurs higher ambition by third countries as a tool of climate diplomacy. Yet, an ineffective CBA design that does not ensure an international level playing field effectively would be counterproductive to carbon leakage and to climate protection.

- **Question 15.3 (social impacts)**

As for economic impacts, social impacts will depend on the ultimate choice of the measure and its details and enforcement and will require an in-depth assessment.

a) Provided that it is set an effective level and used as a complementary tool to existing carbon leakage measures, the CBA could indeed avoid job losses in the EU due to the substitution of EU production by production from partner countries with lower climate ambition. On the contrary, an ineffective CBA with full auctioning would be a destructive for steel production in the EU with very high negative social direct and indirect impacts.
b) Please see reply to 15.1.a

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c) Please see reply to 15.1.a
d) Possible impacts of climate policy and related costs on poorer parts of the population deserve more comprehensive assessment beyond the scope of the CBA, which represents only one element of the regulatory framework.

- **Question 15.4 (administrative impacts)**

The administrative burdens on trades, administrations and other actors such as SMEs need to be assessed against the high political and environmental relevance of the CBA and its added value in tackling climate change. While the administrative procedures need to be optimised in view of minimising the administrative burden, the introduction of the CBA will inevitably entail new requirements for EU importers and third countries' exporters. These new procedures are essential for the effectiveness and robustness of the CBA and will contribute to the environmental objectives of the measure similarly to the requirements already in place for EU producers subject to EU climate policies.

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About the European Steel Association (EUROFER)

EUROFER AISBL is located in Brussels and was founded in 1976. It represents the entirety of steel production in the European Union. EUROFER members are steel companies and national steel federations throughout the EU. The major steel companies and national steel federations in Switzerland and Turkey are associate members.

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About the European steel industry

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €170 billion and directly employs 330,000 highly-skilled people, producing on average 160 million tonnes of steel per year. More than 500 steel production sites across 22 EU Member States provide direct and indirect employment to millions more European citizens. Closely integrated with Europe's manufacturing and construction industries, steel is the backbone for development, growth and employment in Europe.

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO2-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.