EUROFER
THE EUROPEAN STEEL ASSOCIATION

EUROFERs' contribution to public consultation on carbon border adjustment

Key messages

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- 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 CO_2 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.

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- 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 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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