

# Position paper

## Analysis and comments on Commission Draft Delegated Act for technical screening criteria for climate change mitigation and climate change adaptation concerning manufacture of iron and steel

The draft Delegated Act still needs very significant improvements to be fit for purpose

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### Introduction

On 20 November 2020 the European Commission launched a public consultation (duration: 4 weeks) on the first two sets of criteria for determining which economic activities can qualify as environmentally sustainable, under the EU's Taxonomy. These first two set of criteria included in the published Delegated Act focus on climate change mitigation and climate change adaptation. The Delegated Act builds on the recommendations of the Technical Expert Group on Sustainable Finance (TEG) formulated in their final report of March 2020.

However, the Commission made a number of substantial changes to the calibration of technical screening criteria in order to better align with the requirements for technical screening criteria set out in the Taxonomy Regulation, notably Article 19. The Commission retained criteria that were considered to be consistent with EU legislation, reflect a high level of environmental ambition, promote a level playing field, and be easy for economic operators and investors to use. Certain additional activities for climate change mitigation and climate change adaptation have been included while some others that need further analysis have been momentarily removed.

### Technical screening criteria for climate change mitigation

In the Delegated Act, the technical screening criteria for climate change mitigation (hereinafter "mitigation criteria") have been presented differently compared to the TEG report, so that the content of the associated "*principle*" and "*rationale*" have been removed or partly reformulated.

The "*principle*" of the mitigation criteria has been removed. As consequence the following 2 essential provisions were cancelled/deleted:

- "*Secondary production of steel (i.e. using scrap steel) is considered eligible (meaning considered to make a substantial contribution to climate change mitigation) due to significantly lower emissions than primary steel production*"

- *“Mitigation measures are eligible provided they are incorporated into a single investment plan within a determined time frame (5 or 10 years) that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold defined below actions”*

While the first provision is key for the secondary steel production route, the second is essential for both the primary and secondary steel production routes, because it was meant to address and support the efforts of steel companies in investing into actions helping to reduce CO<sub>2</sub> emissions in view of complying with the thresholds of screening criteria.

The thresholds of the mitigation criteria have been modified:

- The thresholds have been reformulated, but they still refer to the methodology of the ETS benchmarks, now based on the data collected for the ETS period of 2021-2025.
- It has been clarified that steel in electric arc furnaces (EAF) qualifies if their GHG emissions are below the assigned values or (alternatively) if at least 90% of the iron content in the final products is sourced from scrap steel.
- The provision on *“green new steel production”* has been removed (this provision stated *“All green new steel production, or combination of new and recycled steel production, is eligible if the emissions fall below the thresholds above”*).
- A provision on Carbon Capture and Storage (CCS) has been added, stipulating that *“where the CO<sub>2</sub> emitted from the manufacturing process is captured, the CO<sub>2</sub> is transported and stored underground, in accordance with the technical screening criteria set out in Sections 5.11 and 5.12 of the Annex”*- (Here, the permanent CO<sub>2</sub> storage is required).

The “rationale” which recommended considering an integrated approach via the standard EN 19694, highlighting the future implementation of breakthrough technologies and pointing at the enabling role of steel for mitigation of GHG emissions has been deleted.

Technical screening criteria for “Do no significant harm (“DNSH”)” still refer to existing pieces of legislation or emission levels associated with best available techniques. However, now no particular requirement is deemed necessary for the environmental objective addressing transition to a circular economy.

## Technical screening criteria for climate change adaptation

The technical screening criteria for determining whether an economic activity contributes substantially to climate change adaptation have now been clarified. They require that the economic operators concerned perform a climate change **risk assessment and implement adaptation solutions** that reduce the most important risks identified in that assessment. **Investments into adaptation solutions activities may have expected lifespan of less than 10 years.**

Here also, the technical screening criteria for “Do no significant harm (“DNSH”)” still refer to existing legislation or emission levels associated with best available techniques. No particular requirement is deemed necessary for the environmental objective addressing transition to a circular economy. However, for the **technical screening criteria for Climate Change Mitigation**

in the DNSH, the thresholds are still based on the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2025, but the median value of those data should be used instead of the average value of the top 10% of installations in order not to exclude any installations arbitrarily.

## Inclusion of additional activities

Among other activities, the activity “**research, development and innovation**” was added. This should be welcome because the related technical screening criteria foresee **provisions for eligibility of innovative technologies, products or other solutions** enabling to reduce, remove or avoid GHG emissions, including through RD&I at demonstration level or aiming at bringing to the market a solution that is not yet in the market. It is recommended using **Life-Cycle approaches** for assessing the overall GHG emissions.

## Steel as enabler

The Delegated Act considers the activity “*manufacture of iron and steel*” as **transitional activity** as referred in Article 10(2) of the Regulation. Even if the **enabling role** of this activity has not been explicitly specified in the Delegated Act due to the deletion of the content of the “*rationale*” initially included in the TEG report, the enabling nature of the activity “*manufacture of iron and steel*” in accordance with Article 10(1), point (i), of Regulation should be considered in the technical screening criteria set out for other activities. Moreover, Recital 13 of the Delegated Act states:

*“For manufacturing activities that are to be considered to be the enabling activities referred to in Article 10(1), point (i), of Regulation (EU) 2020/852, the technical screening criteria should be based predominantly on the nature of the manufactured products, combined, where appropriate, with additional quantitative thresholds to ensure that those products can make a substantial contribution to avoidance or reduction of greenhouse gas emissions in other sectors. In order to reflect the fact that priority is given to activities that have the greatest potential to avoid producing greenhouse gas emissions, to reduce such emissions or to increase greenhouse gas removals and long-term carbon storage, the enabling manufacturing activities should focus on the manufacturing of products that are necessary for those economic activities and sectors to be carried out.”*

## Conclusions

EUROFER supports the EU Commission’s comprehensive strategy on sustainable finance with the aim of redirecting capital flows to help generate sustainable and inclusive growth. However, this objective can only be achieved if the EU sustainable finance taxonomy takes into consideration the needs of hard to decarbonise industries such as steel, where massive transformative investments are needed for the development, demonstration, scaling up and adoption of new CO<sub>2</sub>-low technologies over a relatively short time period. The sustainable finance taxonomy should facilitate the transition and therefore maintain a flexible approach that prevents prescriptive and rigid categories which do not take the dynamic evolution of technology and value chains into account. The transition of the steel sector and value chains associated with it

will not be linear, but will rather require step changes, investments and adaptations spanning over several decades.

The draft Delegated Act stipulates that “*the Taxonomy Regulation does not mandate any investments into economic activities meeting the set of criteria* (for determining which economic activities can qualify as environmentally sustainable, under the EU's Taxonomy)”. However, **the design of EU taxonomy needs to be appropriate otherwise investments and according emissions will be made outside of the EU (risks of investment leakage and associated risk of carbon leakage) as companies will compete globally for finance.**

After analysis we can conclude that **the draft Delegated Act still needs very important improvements to be fit for purpose.** Most of the main requests of the steel sector have not been or have not been sufficiently considered, in particular:

- **In order to understand and assess/evaluate the environmental and societal impact of activities of the steel industry, the entire life cycle needs to be assessed, this in line with Article 19 (g) of the regulation<sup>1</sup>.** As part of a life cycle approach, it is key to assess the performance along the entire **steel value chain**, including all **inter-connected steelmaking processes**, in order to have consistent data and **avoid misleading results which would compromise the existence of sustainable steel value chains in Europe.** This is of utmost importance because of the **systemic operation of steelmaking** – where single processes are connected into a process chain and optimised in order to achieve the highest resource efficiency of **the overall system** (highest resource efficiency of the **process chain or value chain**).
- Hence, the methodology of ETS benchmarks is not able to evaluate the environmental impact of the activities of the steel industry as it does not consider the interconnected processes that make up **the steel production value chain. Those benchmarks were only set for allocation of free allowances.** Another agreed methodology is necessary to clarify how to consider this value chain. For example, for the integrated production route one single benchmark cannot capture all process emissions that are part of primary steel production. In fact, different product benchmarks would need to be integrated - benchmarks on hot metal, coke and sinter - and transfer rules need to be applied (among others for transfer of waste gases) to obtain a reliable methodology for the calculation. There would be otherwise a **serious risk of misestimation of the emissions.** The EU taxonomy will therefore benefit from **clarifying that internationally or regionally recognised standards or protocols which define clear accounting rules reflecting those interconnections (connections of the above production processes) should be used for**

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<sup>1</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>)

calculating the emissions of the economic activity “*manufacturing of iron and steel*”, for example the European standard EN 19694-2<sup>2</sup>.

- We call on the Commission to not cancel the recommendation of the TEG report which deemed **secondary production of steel eligible due to its significantly low emissions**.
- **The EU taxonomy should secure the eligibility of EAF steel production without excluding different steel qualities, like stainless steel, and high alloy steel<sup>3</sup> due to the proposed threshold of at least 90% scrap sourced iron content in final products.** Unfortunately, the proposed threshold does not consider all the EAF produced steel qualities, in particular high alloy or stainless steels, nor all low carbon input material, e.g. HBI/DRI, and would not correspond to a series of efficient practices in this production route. Thresholds for the use of steel scrap need to reflect technical feasibility, sufficient availability of needed input material quality and the range of products being produced. In addition, expressing the threshold for the use of steel scrap in terms of iron content in the final product will be challenging and sometimes impossible to monitor. Therefore, we suggest using the share of **scrap input** as the indicator (as done in the June 2019 TEG report) and using the following thresholds for EAF produced steel qualities:
  - Steel scrap input relative to product output for EAF carbon steel:  $\geq 90\%$
  - Steel scrap input relative to product output for EAF stainless and high alloy steel (speciality steels):  $\geq 70\%$
- We welcome the addition of the activity “**research, development and innovation**”, of which technical screening criteria foresee provisions for eligibility of innovative technologies, products or other solutions enabling to reduce, remove or avoid GHG emissions, including through RD&I at demonstration level or aiming at bringing to the market a solution that is not yet in the market. It is recommended using **Life-Cycle approaches** for assessing the overall GHG emissions.
- The Delegated Act still needs to include a provision that addresses the transformation efforts of companies which have an **investment plan including mitigation measures**. **Therefore, the provision from TEG report which foresees eligibility for companies which have “mitigation measures that are incorporated into a single investment plan within a determined time frame that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold” should not be deleted.** In supporting companies which have such **investment plan**, the Commission would give a “*strong signal to manufacturing sector to ambitiously improve energy efficiency and reduce emissions*”.

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<sup>2</sup> EN 19694-2: Stationary source emissions - Greenhouse gas (GHG) emissions in energy-intensive industries – Part 2: Iron and steel industry (published in 2016)

<sup>3</sup> Definition in accordance with Commission decision (2011/278/EU) of 27 April 2011 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council

- We also welcome the clarification on Carbon Capture and Storage (CCS) in technical screening criteria for climate change mitigation. However, **clarification of the inclusion for Carbon Capture and Usage (CCU) is still missing. All low-CO<sub>2</sub> technologies should be included.**
- It should be clarified under Recital 13 of the delegated act, that steel production, by *“nature of the manufactured products...can make a substantial contribution to avoidance or reduction of greenhouse gas emissions in other sectors”*. Since, *“The enabling manufacturing activities should focus on the manufacturing of products that are necessary for those economic activities and sectors to be carried out,”* it is clear that a sustainable reduction of greenhouse gas emissions in the transport, energy, infrastructure, construction and consumer goods sectors cannot be achieved without steel. **The enabling role of steel as key mitigation enabler in multiple value chains should be considered**, using an appropriate **Life Cycle Approach (LCA)**. Examples of steel applications qualifying as enabling activities such as the steel used in the batteries for electric vehicles, the use of high strength steels to improve material efficiency, steel for railway lines or wind turbines.