



The European steel industry is committed to contributing responsibly to the achievement of the EU's long-term climate objectives in line with the ambition of the Paris Agreement. With the enabling conditions in place, notably a supportive regulatory framework and wide access to competitive climate neutral energy sources, the European steel industry will be empowered to developing, upscaling and rolling-out new technologies some of which have been already identified by our companies. This could reduce our sector's emissions by 2050 by at least 80 to 95% compared to 1990 levels, thus making a major contribution to EU's climate neutrality.

The Climate Law offers the opportunity for a thorough reflection on EU climate policy and more broadly on EU's role in the global arena. The pursued "leading by example" strategy in combination with the unilateral climate neutrality objective gives the EU even greater responsibility, since other countries will follow EU's leadership only if this shows to be successful in combining climate change mitigation with economic and industrial development as well as social acceptance. Hence, the scalability and reproducibility of the EU transition in third countries is an essential element for the continues success of EU climate leadership.

In that context, the submission of final nationally determined contributions (NDCs) and mid-century strategies by all signatories of the Paris Agreement foreseen in the coming months will give better insight on expected levels and possible divergence of climate ambition across the world as well as concrete policy measures and resulting regulatory costs for third countries' competitors. This assessment is a key requirement for EU's climate diplomacy and leadership.

The Climate Law as well as the underlying legislation needs to take into account such international developments in order to preserve at the same time environmental integrity, economic competitiveness and social acceptance. This needs to be secured in the desired scenario that other countries align to EU climate ambition quickly but also in case different levels of ambition persist.

The detailed analysis accompanying the Commission's Strategic Vision "A Clean Planet for all" indicates that deep CO<sub>2</sub> emissions reductions in the steel sector are possible through a combination of technological pathways, including steel recycling, carbon capture utilisation and storage, process integration, and electricity/hydrogen-based metallurgy. Furthermore, life-cycle thinking, biomass, digitisation and automatization also contribute to the transition. At the same time, the Commission document confirms that the steel sector is the most exposed to carbon leakage among all energy intensive industries, both in terms of possible impact on output and on investment.

Indeed, the transformation of the steel industry will require significant investment in the breakthrough technologies while the sector needs to remain competitive throughout the entire transition and beyond. A key objective of the strategy towards climate neutrality should be to make Europe more attractive for investments in the face of increasing global competition and the unprecedented levels of industrial investments. This can be better achieved if the Climate Law, and the underlying climate targets, proceed simultaneously, rather than preceding the overall enabling framework's initiatives in the field of industrial, R&I, finance, trade and competition policies that are necessary to preserve its industrial competitiveness. This is essential because industry needs stability and predictability in the regulatory framework in order to plan and implement the necessary long term investments.

Furthermore, external factors not directly controlled by the industry will play a crucial role, most importantly access to climate neutral energy/electricity and feedstock, as well as CO<sub>2</sub> storage capacity, where available, at affordable prices. The EU steel industry will require directly and indirectly about 400 TWh of CO<sub>2</sub>-free electricity per year; this corresponds to more than seven times its actual electricity purchase from the grid. Moreover, making valuable steel scrap available in the EU will also be key to foster the transition. Hence, a successful transformation of the sector needs a timely mapping of the current and the desired future energy infrastructure and supply as well as the enabling regulatory framework to ensure its affordability and international competitiveness.

Against this background, we would like to raise the following comments to the Commission proposal:

- **Setting a technically and economically feasible trajectory:** considering the aim of climate neutrality, it is clear that incremental change (e.g. through energy efficiency improvements) is not sufficient and there is the need to accelerate the uptake of breakthrough solutions in all sectors of the economy. These solutions will not follow a linear trajectory in emission reductions, but will have a disruptive impact, provided that there is sufficient time to develop them with a supportive regulatory framework as well as the underlying infrastructures and resources (in particular energy and relevant input materials) at internationally competitive conditions. Article 3(3)c does mention best available technology as a criterion for setting the trajectory, but should refer explicitly also to technical feasibility and the economic affordability, international competition, as well as the actual level of availability and commercialisation of new technologies. Data and studies by European and international stakeholders, including business representations, should be used as a basis. Furthermore, more focus should be put on sectors that are outside the current scope of the EU ETS and are not exposed to international competition.
- **Avoiding carbon and investment leakage:** a central element of the Green Deal, as approved by the European Council, is that the competitiveness of carbon-intensive sectors and energy-intensive industries must be preserved during and after their transformation. As long as other regions do not show the same climate ambition as the EU and do not request comparable efforts to their producers, this is essential. Therefore, the state of the global competitiveness of these sectors as well as carbon and investment leakage risk should be included in article 3(3) as an element to be taken into account when setting the trajectory towards climate neutrality. Avoiding the risk of carbon and investment leakage is a pre-condition for preserving the environmental integrity of EU climate policy, since it contributes to reduce emissions at global level while maintaining jobs and investments in Europe. This is also instrumental in facilitating the social acceptance of EU leadership in climate ambition. As stated in the “In depth analysis in support of the Commission Communication A clean planet for all” (table 17 page 227), for energy intensive industries “*the risk of carbon leakage depends on measures that allow EU industries to remain competitive and if there is a unified global decarbonisation ambition*”. The Green Deal Communication clarifies that carbon leakage can occur “*either because production is transferred from the EU to other countries with lower ambition for emission reduction, or because EU products are replaced by more carbon-intensive imports*”. Therefore, carbon and investment leakage should be an inherent element of the impact assessments accompanying the decisions on climate targets rather than a separate initiative. It is essential that all elements of carbon leakage are assessed and taken into account in the policy, including the growing carbon leakage due to imported materials.

Carbon leakage measures need to remain reliable, commensurate to and effective for the pursued high level of climate ambition. In the context of the ETS phase 4, there should be no further shortening of free allocation and indirect costs compensation compared to the recent revision achieved after three years of negotiations. Furthermore, the steel sector supports the timely development and implementation of an effective carbon border adjustment as a complementary carbon leakage measure.

- **Tracking consumption and imported emissions:** the climate neutrality target set in article 2(1) seems to refer to EU production emissions, as it refers to “emissions regulated in Union law”. As the EU represents around 10% of global emissions, and this share will inevitably decrease in the future, it is essential to shift from monitoring emissions from EU producers to regulating emissions embedded in consumption in order to preserve environmental integrity and avoid carbon leakage. A linear trajectory covering emissions from production in the EU has a limited impact on worldwide emissions if it is compensated by increased emissions from imported products. Already today, the EU imports around 30 million tonnes of steel annually with a very significant carbon footprint that is not addressed by EU legislation.
- **Analysing adaptation costs:** the international dimension of impact assessments should be complemented by a regular analysis of adaptation costs, based on international commitments to combat climate change. Third countries’ climate ambition has a major impact on EU adaptation costs, since they represent the remaining 90% of global emissions; hence, this element should be addressed transparently in the implementation of the Climate Law.
- **Setting the enabling conditions for climate neutrality and monitoring progress:** the Climate Law and the associated legislation should not only provide predictability of the pursued climate ambition but also the enabling framework conditions as well as a mechanism for adapting these to the needs and monitoring progress. In this regard, EUROFER has developed concrete and comprehensive policy recommendations in the paper “A green Deal on Steel: Priorities for transitioning the EU to carbon neutrality and circularity”. Such proposals are also consistent with the “Masterplan for a competitive transformation of energy intensive industries”, which identifies three key enabling conditions: creation of markets for climate-neutral, circular economy products; developing climate-neutral solutions and financing their uptake; access to resources and deployment. For each of them, the masterplan identifies few strategic priorities as well as key performance indicators. The Climate Law as well as the associated legislation should take into account these proposals and embed them into a comprehensive regulatory framework that enables the successful transition towards climate neutrality.