EUROFER
THE EUROPEAN STEEL ASSOCIATION

Paper

RePowerEU Communication

EUROFER Policy Contributions to RePowerEU for energy and industry resilience

Publication date: May 2022

Introduction

The ongoing crises stemming from the Russian attack on Ukraine and the persistent surge in energy prices which began during the last quarter of 2021 are posing considerable challenges to the European economy and its society. Such dynamics are also severely affecting the competitiveness of the European steel industry as raw materials and energy supply chains are disrupted, energy prices skyrocketing, and steel production costs reaching unfeasible limits.

Actual and potential future trade embargos and disruptions to the supply chain of raw materials and energy are also exposing the urgency and relevance of the decarbonisation efforts of the European steel industry. As rightfully recognised, the steel sector plays a crucial role in the fight against climate change, enabling the Union's transition towards carbon-neutrality, enhancing the resilience and autonomy of the European Union, and ultimately contributing to its global competitiveness. **It is therefore vital that the revised energy system strategy of the European Union presented in May 2022 turns the challenges of decarbonisation and reducing the dependency on Russian fossil fuels into opportunities for the Union and the steel industry** to improve strategic autonomy and to build a fully resilient, internationally competitive and decarbonised economy.

Accordingly, both short-term and long-term measures by the EU are therefore needed for the steel sector including support solutions, beyond state aid, capable of delivering structural changes to the European energy system. In this context, it is essential to increase the participation of industrial end-users in energy policy-making discussions on an equal footing in all relevant fora and within the energy value chain (e.g., in view of the temporary platform of the European Network of Hydrogen Network Operators [ENNOH] as proposed in the Gas and Hydrogen Decarbonisation Package).

Against this background, we wish to stress the necessity for the upcoming revised Communication on RePowerEU to carefully consider and incorporate the following issues of high importance for the European steel industry as part of the Commission strategy:

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1. **Ensure the availability of and prioritise industry access to low carbon energy and related infrastructure:**

As short-term relief measures:

- Guarantees against the risks of gas supply disruptions as transition energy key for the success of the steel industry's decarbonisation in the transition when hydrogen supply is scarce;
- Swift implementation by the Member States of the European Commission Guidelines on possible measures to retain energy costs taking the integrity of the EU internal market and industrial competitiveness fully into account *(Annexes to RePower EU; EC Communication on "Security of supply and affordable energy prices: Options for immediate measures and preparing for next winter");*[1]
- Continued operation of the widest range of power source technologies for a transitional period in line with the evolution of the energy price crisis and the Ukraine-Russian conflict complemented by faster permit-granting procedures needed for their operability;
- Provide supportive action for industries and civil society in further improving efficient energy consumption.

As medium-long term measures:

- Develop an EU methodology for the identification of economic sectors where hydrogen supply and infrastructure development should be prioritised based on CO_2 emissions abatement potential;
- Provide EU wide solutions to accelerate and steer the development of hydrogen infrastructure for hydrogen-ready steel sites based on the prioritisation mentioned above (i.e., Gas and Hydrogen Decarbonisation Package);
- Adopt dedicated solutions for removing permit-related and administrative barriers to renewable energy projects and new production facilities of energy-intensive industries;
- Develop a clear approach to the allocation of hydrogen infrastructure financing costs aiming at effectiveness and cost-affordability of hydrogen supply for end-users;
- Unlock renewables production capacity by applying more flexible additionality and correlation criteria for RFNBOs and electricity production in energy-intensive sectors for a limited market-ramp-up period in line with the national trajectories described by National Climate and Energy Plans (NECPs);

[1] Communication from the Commission to the EU Parliament, the European Council, the Council, the European Economic and Social Commmittee and the Committee of the Regions: Security of supply and affordable energy prices: Options for immediate measures and preparing for next winter, COM(2022) 138 final, Bruxelles 23.3.2022

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- Ensure energy-intensive industries access to long term power purchase contracts, namely renewable PPAs, and Hydrogen Purchase Agreements (HPA) as effective energy procurement solutions by removing existing barriers and providing financial support against off-taker payment defaults (see Annex I for our specific policy recommendations).

2. **Safeguard the affordability of energy and oxygen consumption:**
   - Set up support measures rewarding the consumption of clean energies at cost-affordable levels for energy-intensive industries against risks of extremely high hydrogen market prices and investments in low-carbon technology such as Hydrogen Contracts for Differences as necessary preconditions for any mandatory target or consumption quota for specific types of energy proposed by relevant EU legislation (i.e., Renewable Energy Directive 2018/2001 recast);
   - Include oxygen (PRODCOM code 20111170) in the list of sectors eligible for indirect cost compensation or compensate such cost to eligible industrial sectors consuming oxygen within the EU Emission Trading Schemes Directive (2003/87);
   - Enable the role of steel Carbon Capture and Usage (CCUS) applications for the production of recycled carbon fuels (RCFs) as measure to mitigate CO_2 emissions within the steel sector and promote their role as an alternative to natural gas; the regulatory framework (i.e., RED II recast and Gas Package) shall allow RCFs to be counted within the objectives of energy diversification where they fulfill the appropriate minimum GHG emission savings threshold;
   - Safeguard the European steel industry's role as a provider of low carbon energy for district heating and cooling systems through the recovery of steel waste energy and remove the threshold on direct CO_2 emissions (at 270gCO_2/kWh) for cogeneration assets used in the industry proposed in Annex IIII of the recast of the Energy Efficiency Directive (2018/2001). The threshold would make it impossible for steel companies combined heat and power generation assets (CHP), fuelled with industrial waste gases, to qualify as high-efficiency cogeneration. Such an exclusion would impair the energy autonomy and overall efficiency of steelmakers along with the need to purchase additional energy from the market resulting in higher consumption and costs;
   - Maintain current EU rules on the taxation of dual uses of energy products, business, and non-business differentiation, reductions for certain energy products and electricity, and reductions for energy-intensive industries within the revised Energy Taxation Directive (96/2003);
   - Phase-out renewable support schemes for mature technologies and/or provide or maintained exemptions from the financing costs for energy-intensive industries.

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3. **Increase and accelerate funding for industrial decarbonisation:**
   - Ensure swift approval of low carbon projects from the steel sector and national aid schemes to be notified under the revised CEEAG;
   - Ensure the non-exclusion of projects already submitted under the IPCEI Hydrogen from the evaluation process due to recent changes in IPCEI Communication rules;
   - Enhance funding from the Innovation Fund including through front-loading and put forward the IPCEI for the "Low-CO_2 Emissions Industry".
4. **Ensure the agreed climate and energy targets are achieved cost-effectively and with strong carbon leakage provisions:**
   - No reduction of free allowances for sectors covered by the Carbon Border Adjustment mechanism (CBAM) before 2030;
   - Rules on benchmarks need to reflect the gradual transformation of the sector. They need to reward low carbon technologies without reducing premature benchmark values, at least in the first years when such technologies are introduced at an industrial scale. In particular, new low carbon technologies should be allocated with the existing product benchmark in 2026-2030, but installations already existing and using such technologies should not influence the 2021-2022 update of the relevant product benchmark (e.g., hot metal);
   - Avoid market interventions that exacerbate carbon and energy costs, such as the one-off cancellation of allowances from the EU ETS (i.e., rebasing) and the prolongation of the Market Stability Reserve's intake rate.
5. **Avoid penalties for extraordinary crisis-related production downturns:**
   - Temporarily adjust the threshold above which production downturns, direct or indirect consequences of the critical energy prices surge, would lead to an adjustment in the number of free allocations available to steel companies (currently 15%, c.f. ETS Directive Art. 10a (20)) to not put an additional and unjust burden to operators already affected by the crisis and at risk of having their capacity to make the necessary investments in decarbonized processes severely undermined.
6. **Guarantee access to sufficient quantities of scrap as well as raw materials and other input materials currently being exported or at least traded internationally as solutions for increasing material and energy efficiency in the steel industry:**
   - Stricter and more effective control of scrap exports to third countries with lesser environmental, health, and social legal standards;
   - Prevent circumvention and illegal shipment of metal waste as well as other input materials and strengthen the sanctions and inspections.

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