

## Steering brief

### Scene setter

You will have a conference call with [redacted] ArcelorMittal.

[redacted] ArcelorMittal, the world's leading steel and mining company (headquartered in Luxembourg) and the largest producer of steel in Europe with 74,000 employees working in 400 locations and an industrial presence in 18 countries.

At present, a key challenge for the EU steel sector is how to implement the **green transition to clean steel production** in the context of strong global competition, excess production capacity and unfavourable economic conditions, further reinforced by the COVID-19 pandemic.

[redacted] already had a call with Commissioner Hogan in January, with Executive Vice-President Timmermans on 14 May and with Commissioner Breton on 8 June.

He would like to discuss the following issues with you:

- **Enabling policies required to kick start investments urgently for carbon neutrality** by 2050 and the 2030 reduction target (30%). [redacted] would like to share ArcelorMittal's view of the 'right' design of the Carbon Border Adjustment mechanism and the Emissions Trading System guidelines for compensation of CO2 costs in power prices
- **Sustainable Finance Taxonomy**: the need to include realistic criteria for steel and all low-carbon technologies including Carbon Capture and Storage Utilisation.
- **Trade** – ArcelorMittal believes that a new policy is needed to stay effective.

### ***Current situation in the steel sector***

Arcelor Mittal has been heavily-hit by the COVID-19 crisis. Despite the current circumstances, Arcelor Mittal remains committed to maintaining its CO2 reduction goals (minus 30% by 2030) and has **recently published a roadmap towards achieving this target.**

In general, the whole steel sector has been heavily hit: according to the latest (24 June) data from the steel industry association EUROFER, over 66,000 steelworkers are on reduced working or temporary layoffs. A further 8,329 steelworkers are being considered for layoffs or partial employment. In Northern Europe, this percentage amounts to 44.8%, in Southern Europe to 28.6%.

Many steel companies have severely cut production since mid-March, compared to the same period of 2019. The reduction amounts to 7.26 million tonnes (slightly worse than the 7.17 million tonnes reported in the last survey). **This amounts to a year-on-year reduction of 28.3% of the surveyed companies' production already implemented.** In Northern Europe, production cuts amount to 27.6%, in Southern Europe to 30.8%.

The impact on orders is greater, with **orders since mid-March falling by 20%-45%**. For flat products, the drop in order has been of 45% (reaching 48% in Southern Europe, 44% in Northern Europe), for long products it was 31% (33% in Southern Europe, 30% in Northern Europe).

### ***Positions of ArcelorMittal***

The steel industry generally welcomes the Recovery plan but believes that the positive effects will only materialise in the medium term (1-5 years). **Steel safeguards** should have assured protection in the short-term but industry claims they are not fit for purpose since the tariff-free import quota should have been reduced significantly to achieve this.

On the **green transition**, the position of [redacted] is aligned with that of the EU steel industry. ArcelorMittal is committed (the company published its Climate Action Plan on 25

June, through which it aims to reduce its carbon emissions by 30% by 2030 and become climate-neutral by 2050), but **clean steel is costly** and demand for steel is purely price-driven.

ArcelorMittal and the European Steel Association (EUROFER) are very supportive of the quick introduction of a **Carbon Border Adjustment Mechanism**. The Green Deal clarifies that this would be **an alternative to the current measures** to avoid risk of carbon leakage (in particular free allocation of Emissions Trading System allowances). ArcelorMittal however would want it to be combined with the **continuation of the allocation of free allowances**.

The second area where ArcelorMittal would like to see Commission action towards a level playing field is in the upcoming review of **State aid guidelines for energy and environment**. The European steel industry has called for State aid to adjust the price of green electricity and hydrogen to an internationally competitive level. This would provide a reliable and viable cost basis for investment decisions in CO2-lean steel plants. The cost of making the transition is not currently economically viable and in the opinion of ArcelorMittal, the cost differential would need to be bridged by subsidies/State aid, irrespective of the technology used (as was the case for wind energy).

During [REDACTED] (virtual) meeting with Executive Vice-President Timmermans on 14 May, [REDACTED] said that investment in the technology required would be impossible without financial support (similar to what was done for renewables). He reiterated the need for carbon border adjustment to ensure a level playing field. He said that the EU needs to make a choice as to whether it wants to keep steel in Europe.

As Europe's largest steelmaker, Arcelor Mittal is a member of the European Steel Association (EUROFER), which has set out some concerns with the technical screening criteria proposed by the **Technical Expert Group on Sustainable Finance** for the manufacture of steel, which are the basis for the Commission's ongoing work.

### ***Objectives of the meeting***

- What we want:
  - Reassure [REDACTED] that the Commission is continuously monitoring economic developments to ensure the good functioning of the industrial ecosystems and reassure him about the **perspective for investment** in Europe.
  - Highlight that the Green Deal is Europe's **new growth strategy** and that the industrial and research agenda will support this transition.
  - Remind him that the primary purpose of a **carbon border adjustment** is to safeguard the environmental integrity of climate action and that we are currently analysing options.
- What the interlocutor wants:
  - To discuss the significant impact of **COVID-19** on the steel industry and possible means of recovery from the crisis.
  - To discuss the framework conditions necessary in his view for realising the **European Green Deal** while preserving European industrial competitiveness.
  - To seek reassurance on the Commission's **support for the steel industry in the green transition**, which will influence investment decisions by ArcelorMittal in the next few years.
  - [REDACTED] **may express disappointment** with the outcome of the second review of the definitive **safeguard measures** in force since February 2019, where the Commission decided against scaling down the percentage increase of the quotas as requested by the European Steel Association (EUROFER).

## Key messages

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### ***On a Carbon Border Adjustment mechanism***

- **We will make a proposal for a Carbon Border Adjustment Mechanism in 2021.** A carbon border tax on imports is one option. Other options exist such as the inclusion of importers in the EU Emissions Trading System.
- We will assess the economic, environmental and social impact of possible measures.
- These measures must also be compatible with our international commitments, in particular the rules of the World Trade Organization and our trade agreements.
- We intend to **engage actively with stakeholders and third countries** before introducing the measure. An online public consultation will be launched soon.
- Such measures could first be put in place for **selected sectors**. They will be an **alternative to existing measures** aiming to address the risk of carbon leakage.
- Both the revenues from auctioning under the EU Emissions Trading System and the Carbon Border Adjustment Mechanism have been mentioned in the Next Generation EU package as **possible own resources** for the EU budget.

### ***On State aid rules in relation to the green transition of industry***

As laid out in the Green Deal Communication, the relevant State aid rules (**Emission Trading System state aid guidelines** and the **Energy and Environmental aid Guidelines**) will be revised in order to support a cost-effective and socially-inclusive transition to climate neutrality by 2050.

We will revise the rules to provide, on one hand, a clear, fully updated and fit-for-purpose enabling **framework for public authorities to support deep decarbonisation** in the industry in the context of the Green Deal.

On the other hand, the revision of the rules will also aim to **limit the distortions of competition on the internal market** and to ensure a level playing field across the Member States.

While preparing for the new rules, the Commission acknowledges the renewed ambitions of Member States to achieve their 2030 targets and the further decarbonisation of the electricity sector and the economy by 2050. The **current Guidelines** for environmental protection and energy **already allow support for decarbonisation investments, including investments for carbon capture and storage**.

### ***On sustainable finance taxonomy***

- The Commission is **currently assessing the recommendations** of the Technical Expert Group on Sustainable Finance, on **which economic activities** could substantially contribute to climate change mitigation and adaptation, and the **conditions** for them to do so.
- We take **note of the concerns** you raise in relation to the recommendations by the Technical Expert Group for the manufacturing of steel and iron.
- The Taxonomy Regulation sets a number of requirements for the Commission to consider when preparing the Delegated Act on the climate objectives, based on the Technical Expert Group recommendations. The criteria for economic activities to qualify should not only be coherent with EU law, but should also promote a high level of environmental ambition, avoid market distortion and be designed to facilitate their usability.

- **No final decisions have yet been taken.** The Commission will carefully consider your arguments in weighing these requirements in drafting the Delegated Act, due to be adopted by the end of this year.

***On Crisis/Recovery measures that could be used for the steel sector***

- The outbreak of the coronavirus pandemic has changed the economic outlook for the years to come in the European Union. Investments and reforms are needed more than ever to ensure convergence and a sustainable economic recovery.
- The European Commission is responding to this situation with a **powerful recovery and investment support package** to help the Member States, and the European economy as whole, to exit from the current crisis stronger, more resilient and prepared for our green and digital transition.

***On Industrial strategy initiatives for energy-intensive industries***

- The transition needs to serve all – it needs to support both green technologies and the transformation of existing industries. That is why our focus in the energy-intensive industries is on **breakthrough technologies**, creation of **lead markets** and **avoiding carbon leakage** e.g. through the use of a carbon border adjustment mechanism. We also need to ensure access to **affordable clean energy** for the transition to a low-carbon industry and the appropriate infrastructure for clean energy.
- The **Industrial Strategy** presents a comprehensive toolbox, including new **industrial alliances**.
- The newly launched **Clean Hydrogen Alliance** will bring relevant stakeholders together to identify technology needs, investment opportunities and regulatory barriers and enablers to build a clean hydrogen ecosystem in the EU. Hydrogen is one of the key technologies to move from fossil fuels to greener energy sources, in particular in the field of mobility and in energy-intensive industries such as steel.

***On the EU's safeguard measures for steel***

- The adjustments to the steel safeguards that came into force on 1 July were very ambitious and will be effective in response to the needs of the Union industry in these difficult times.
- I know from your previous discussions with my Cabinet, and with DG TRADE, that you and several Member States had called for a more drastic approach.
- I can again reassure you that we **turned every possible stone**. However, accepting certain requests would have seriously **jeopardised the legality** of our measures. The measures must be WTO-compatible, that is a red line for us.

**Contact – briefing coordination:** [REDACTED]