

Meeting with Eurofer on CBAM

18 June 2021, 10h00 to 11h00

Participants:

Eurofer:

[REDACTED]
[REDACTED]

Commission:

Kurt Vandenberghe, President's Cabinet

[REDACTED] SG.D3
[REDACTED] SG.D1

Key points raised in the discussion:

- Eurofer was of the view that a Carbon Border Adjustment Mechanism (CBAM) can and should be implemented in conjunction with free allowances. Given that the steel sector was only covered for 80% of its emissions by free allowances, it faced already under the current system (at a current carbon price of around EUR 55 per ton of CO₂) combined costs of EUR 2.7 billion for the purchase of ETS allowances and indirect costs due to carbon price on power generation. This translated into average costs of EUR 15 to 20 per ton of primary steel. A removal of all free allowances would translate into costs of around EUR 100 per ton of primary steel. They argued that if CBAM was to be implemented with a sharp reduction and/or removal of free allowances as of 2023, then steel should not be included as a CBAM sector in the first wave.
- Eurofer argued that CBAM should first prove itself and only then should free allocations be reduced. They believed that even with the current level of free allowances (which is covering only 80% of emissions), a moderate CBAM would still help offset additional costs and be compatible with WTO rules. They also considered that maintaining free allowances allows for a more moderate CBAM, which was more acceptable internationally. A phased-in approach was also preferable in their view to see whether the CBAM functions well.
- Eurofer explained that a reduction of free allowances would jeopardize the possibility for companies to invest in decarbonisation technology projects, which are crucial investments now to ensure long-term competitiveness and decarbonisation. Eurofer presented a slide with potential investments (see attached), amounting to 54 decarbonisation projects which would lead to a 1/3 reduction of CO₂ emissions of the steel sector and a 2% reduction of total EU CO₂ emissions by 2030 (compared to 2018). They acknowledged Commission's support in form of various EU funding instruments. They also highlighted efforts to launch a new Important Projects of Common European Interest (IPCEI).
- Eurofer would be interested in exploring to what extent concrete commitments/guarantees to pursue decarbonisation investments could be a condition towards maintaining the current

level of free allowances. It was very important to take into account the territorial dimension and ensuring investments across all parts of the EU. Eurofer also stressed the need for the right framework conditions and infrastructure, with a particular focus on hydrogen.

- Eurofer explained the strong competitive pressure on the global steel market, with almost no possibility to pass on costs due to stricter environmental regulation in Europe. They strongly opposed the allegations by some civil society stakeholders that the sector was making windfall profits through the EU ETS.
- Eurofer also noted that the sector had an average profit margin of 1.75%. They stressed that free allowance were necessary for EU exports to remain competitive on global markets, especially in absence of export rebates. While only around 15% of production was exported, this amount was crucial to operate steel plants in a cost-effective way because of very high fixed costs.
- Eurofer reiterated its request for a European steel summit between the Commission's President and steel CEOs and argued that this could be an opportunity to further discussions on possible commitments/guarantees linked to decarbonisation projects.