HOC Golubiewski (CAB Wojciechowski) meeting
Polish Steel Association and EUROFER
19 October 2021

'Fit for 55'

SCENE SETTER

A number of Commission proposals, in particular under the 'Fit for 55'-Package, affect the steel industry: (1) the revision of the EU Emissions Trading System (EU ETS), (2) the revision of the Guidelines on State Aid for environmental protection and energy objectives (CCEAG) and (3) the proposed Carbon Boarder Adjustment Mechanism (CBAM).

The Polish Steel Association 'Hutnicza Chamber of Commerce and Industry' (HIPH) is part of the EUROFER and represents the steel industry in Poland. EUROFER is rather reluctant about the brunt of Commission proposals though they have conveyed some support for the CBAM proposals.

EUROFER'S POSITION ON:

(1) Revision of EU Emissions Trading System (ETS)

- **Rebasing** and **strengthening of the Market Stability Reserve** cause unnecessary additional costs for EU society that **should be avoided (causes unnecessary additional costs)**
- Higher climate ambition and rising carbon costs require **strengthened carbon leakage protection**
- The **Innovation Fund needs to priorities industrial projects**, and auctioning revenues from traditional ETS sectors should not be diverted to new ETS sectors (transport and buildings)
- The legislation needs to recognise the benefits of **all carbon capture and usage technologies**

(2) Carbon boarder Adjustment mechanism (CBAM)

- EUROFER supports CBAM as such. Originally, a combination of the new mechanism with current measures (compensation and free allocation of allowances) for certain period was demanded.
- A **formal position** has **not yet been agreed**, but it seems that a 10 year phasing out of free allowances is acceptable to them.
- A new framework should include **effective carbon leakage measures** and international level playing field against unfair competition, **support for investment** in innovation and roll-out, availability of **low carbon energy sources** (esp. electricity and hydrogen) **at competitive prices** and **creation of markets** for green materials.
- EUROFER supports a test phase of 2-3 years where they keep current level of free allowances while start applying levy at boarder.
- They would welcome further discussion on the possibility of having **export rebates**, question the **use of default values** for the border levy and would like a **more extensive list of upstream material** (this would need secondary legislation).

The steel sector represents 45% of CO_2 emissions in the EU and 50% globally. In Poland, they estimate that electricity consumption will increase from 6 TWh to 28 TWh. Such increase in energy costs will have a significant impact on the cost competitiveness of the steel sector and its share of the global market.

Poland's imports of CBAM products from outside the EU represent 3.9% of all imports, slightly above the EU average (2,9%). The country overall accounts for about 4,8% of total EU iron and steel imports. Poland is not a large exporter of iron and steel by comparison to other CBAM sectors.

(3) Revision of the Guidelines on State aid for environmental protection and energy objectives (CEEAG)

- **Levy reductions in favour of Energy Intensive Users (EIUs):** current rules for eligibility and allowed aid intensity should be maintained, while the novelties proposed should be removed (environmental conditionalities and minimum level of levy); the reductions to additional electricity price components should be extended
- **Aid to industrial decarbonisation:** granting of state aid to cover full difference in production cost between low-carbon and conventional steel should be allowed; state aid for dismantling CO_2 intensive production sites, allowing state aid for long term PPAs and for industrial self-production of energy when RES generating unit is located elsewhere than energy consumption unit.

In EU comparison, Poland charges a rather low levy (6.6 EUR/MWh). Highest levies in DE (65 EUR/MWh). Therefore, the burden on PL industry from that levy is comparatively lower.

LINE TO TAKE

(1) Revision of EU Emissions Trading System (ETS)

- The Commission proposes a **one-off cap reduction** to align the existing ETS with the new ambitious 2030 target. In addition, the **linear reduction factor should be increased (from 2.2% to 4.2%)** from the year following the revised Directive enters into force. We are already almost one year into this decade, so there is no time to waste.
- The **61% emissions reduction target** (2030) for ETS sectors is ambitious, but it is feasible and it can be achieved in a cost effective way. The proposal improves free allocation rules to better reflect technological and incentivise low-carbon innovation. The **Innovation Fund doubles the size**, and is available to fund deployment of low-carbon technologies.
- **Fairness and solidarity** remain part of the existing ETS architecture. The current **solidarity redistribution** is maintained and kept exempt from the Market Stability Reserve contributions. In addition, the **Modernisation Fund** is increased to address energy transformation challenges in some Member States.
- **A combination of carbon pricing and regulatory measures** is proposed as the most effective approach to achieve the 2030 target. National measures are also key.
- The Commission proposes to include the maritime sector in the existing ETS, and in parallel, set up a new emissions trading to buildings and road transport, **separate from the existing ETS**. This new system would regulate fuel suppliers rather than end users and it would deliver a clear signal on the emissions reduction ambition.
- Energy poverty exist in Europe and based on latest data, it affects 31 million people. The proposed **Social Climate Fund** would ensure a structural response to address energy and mobility poverty.

(2) Carbon boarder Adjustment mechanism (CBAM)

- A new CBAM will address the risk of carbon leakage and thus reduce carbon emissions globally. This measure is an **alternative to free allocation** and expected to enter into force in 2023 (pilot phase), then be phased-in from 2026 to 2035. **Free allowances will be gradually phased out** (10 years) to avoid double carbon leakage protection.
- The CBAM will ensure that the **price of imports reflects more accurately their carbon content** and will support an increased global use of carbon pricing as an instrument to fight climate change successfully. CBAM will ensure the **EU's climate objectives are not undermined**.
- The CBAM may contribute to reducing the carbon leakage risk by incentivising importers in third countries to adopt measures of comparable ambition to the EU, thus reducing the need for an adjustment at the border.
- [redacted] It is designed in such a way that it ensures that any level of free allowances under the EU Emissions Trading System in the sectors concerned is automatically mirrored – via a proportional discount – in the CBAM charge. Therefore, free allocation of allowances will be phased out to assure the equal treatment of imported and domestic products. Where default values are proposed to apply, the importer will still have the opportunity to demonstrate that they perform better than the default, so the CBAM obligation will be reduced. If imported goods have already been subject to a carbon price in the third country producer, importers will be able to deduct the difference of the price already paid from the CBAM charge.

(3) Revision of the Guidelines on State aid for environmental protection and energy objectives (CEEAG)

ON ELECTRICITY LEVY REDUCTIONS:

- We are aware that **reductions on electricity levies are important** for the European steel industry. We took note of the sector's submissions in the public consultation addressing this point.
- The implementation of the Green Deal is likely to **entail that levies financing decarbonisation policies will remain relevant in the EU.** It is against that background that the draft CEEAG foresees to **continue allowing for levy reductions** for energy intensive users.
- On the other hand, **reductions cannot be allowed on the costs of providing electricity**, as these need to be cost reflective in accordance with **EU law** and to provide **signals to consumers**. These components finance costs of generating and distributing electricity in a stable and secure way.
- From the side of the Commission we need to strike a balance between one the one hand reducing the burden on industries and, on the other hand, limiting competition distortions that could arise.
- [redacted]
- The Commission's proposal shares the same objective of and [redacted] **"Emission Trading System" (ETS) State aid Guidelines**. [redacted]

- [redacted]

ON INDUSTRIAL DECARBONISATION:

- As stated in the Green Deal and the Industrial Strategy Communications, energy-intensive industries – such as steel – are **indispensable to Europe's economy and growth**, as they supply several key value chains.
- The proposed Guidelines acknowledge this by taking on board requests made by the steel industry to **generally allow aid for the reduction or avoidance** of greenhouse gas emissions resulting from industrial processes.
- Aid for decarbonisation can take a variety of forms including up front grants and contracts for ongoing aid payments. In practice, steel producers may receive **investment aid** to improve the environmental footprint of their production facility as well **as operating aid** to compensate for the additional costs caused by the generation of renewable electricity (e.g. hydrogen).
- The draft CEEAG also includes other sections that may be of great importance for the steel industry, such as **aid for resource efficiency, aid for pollution reduction**.
- The steel industry may also benefit from other State aid frameworks such as that **covering aid for research, development and innovation**, which could actually be quite relevant for competitiveness.

DEFENSIVES

(1) Revision of EU Emissions Trading System (ETS)

[redacted]

By how much will free allowances be reduced in the next years? Free allowances will remain an important tool to protect against the risk of carbon leakage until at least 2030. However, with the reduction of the overall emissions cap in line with the -55% Climate Law objective, the overall number of free allowances available will also be reduced. To give stability to the sectors, the free allocations for the period 2021-2025 recently decided will remain stable. Free allocation will be made conditional on decarbonisation efforts: installations not implementing cost-efficient measures as recommended in energy audits will have their free allowances reduced by up to 25% reinforcing energy efficiency instrument and ETS.

How will the Innovation Fund help the industry to invest into clean-tech solutions? The Commission proposes to significantly increase the size of the Innovation Fund to target a wider spectrum of low-carbon technologies in energy-intensive industry, renewables, energy storage and carbon capture use and storage. An additional 150 million allowances from the new EU ETS in buildings and transport and 50 million allowances from current ETS will boost the Fund, reaching a total of 650 million allowances in total. In addition, allowances not granted for free due to their phase out related to the introduction of the CBAM are also proposed to be used for increasing the size of the Innovation Fund.

What are Carbon Contracts for Difference and why is the Innovation Fund supporting them? The Commission is also proposing to broaden the type of instruments available in the Innovation Fund, notably to **carbon contracts of difference (CCD).** They are an attractive tool to provide support to the early deployment of innovative climate-friendly technologies. CCD guarantee investors a fixed price that rewards CO2 emission reductions above the current price levels in the EU ETS.

(2) Carbon boarder Adjustment mechanism (CBAM)

Why is it not possible to combine CBAM and free allocation? Both instruments have the same objective: addressing the risk of carbon leakage. Free allocation is justified by the exposure to foreign competition from countries with a less ambition Climate policy. [redacted] This way, both EU industry and importers have stronger incentives to decarbonise.

How will indirect emissions be treated in CBAM? The CBAM will initially apply only to direct emissions from the production of goods up to the time of import. During the proposed pilot phase of the CBAM from 2023 to 2025 the Commission will collect data and review whether it will propose to add indirect emissions in CBAM. It is a complex and challenging exercise.

(3) Revision of the Guidelines on State aid for environmental protection and energy objectives (CEEAG)

The restrictive review of these rules is not in line with the Green Deal objectives as it undermines industrial decarbonisation: The Commission is well aware of the challenges facing the industries in meeting the objectives of the Green Deal. That is why the proposed Guidelines increase the possibilities to grant aid for industrial decarbonisation. They foresee additional flexibility for a variety of aid instruments. This additional flexibility also comes with certain safeguards to ensure competition distortions are limited.

The steel industry will suffer disproportionate losses if the proposed methodology is maintained: The majority of sectors which are part of the steel industry are expected to still be eligible for levy reductions under the proposed Guidelines. Combined, these sectors represent 90% of the EU steel industry value added. Only two sectors belonging to the steel industry would lose their eligibility, accounting for 6% of the industry value added.

What will be the impact of the Carbon Border Adjustment Mechanism (CBAM) on the CEEAG rules for energy-intensive users? The reduced levies for energy-intensive users under the CEEAG and the ETS/CBAM address different cost elements. The CBAM will only provide for carbon leakage protection as regards ETS costs (primarily direct carbon emission costs and to a lesser extent also indirect ETS costs). The CBAM will not provide any protection as regards the electricity cost elements addressed in the CEEAG (RES charges and other electricity related charges). The two measures therefore tackle different problems. As a result, we do not expect the CBAM to have a specific impact on the CEEAG rules for energy-intensive users.