

**CBAM Roundtable discussion with Commissioner Gentiloni**

**Monday 8 March 2021, 15h00**

**AGENDA**

**Opening statement by Commissioner Gentiloni**

**Introductory overview by G. Thomas, Director General, DG Taxation and Customs**

**General remarks by EUROFER**

- European steel companies have been launching many projects to develop and implement breakthrough low carbon technologies. This transition will be successful only under the right market conditions facilitated by a supportive framework that includes (1) effective carbon leakage measures and an international level playing field against unfair competition, (2) support for investment in innovation and roll-out, (3) the availability of the low carbon energy sources at internationally competitive prices and (4) the creation of markets for green materials.
- It is critical to maintain free allocation and compensation at benchmark level for a sufficient transition period until the investment in the first roll-out of CO2 low technologies in the EU has been made or until a sustainable market for green steel has been established. This should be complementary to an effective level of CBAM tackling the increasing carbon leakage risk not covered by current measures. This is not double protection. Please be reminded that in 2018 ETS costs of our sector were already at approximately €1.5 billion, at today's prices this would be roughly €3 billion.

**Roundtable discussion with all participants, based on the following questions:**

***1. While EU businesses will become cleaner and greener in a modern, resource-efficient and competitive economy, they need predictability, stability and an adequate tool to address the risk of carbon leakage. What are, in your view, the key elements to ensure an efficient design of the CBAM that ensures that the price of imported products reflects their carbon intensity?***

- The definition of the carbon content of traded products is critical to create a robust and effective CBA. Under no circumstances, the methodology should allow free riding behaviours that would undermine the environmental objective of the measure.
- Default values reduce the administrative burden and resource shuffling risks but need to be set at a sufficiently high level and avoid undue advantage to importers when EU industry's carbon footprint is already better or will become even better in the coming years by decarbonising faster than the rest of the world.
- Real data increase the accuracy of the measure but require effective monitoring and enforcement rules and are more exposed to the risk of resource shuffling.
- If fixed values are applied by default but data by third countries' producers are also accepted, any method used to determine the default values should not provide an advantage for not

providing the relevant data, since only third countries' producers with lower carbon intensity would have an incentive to provide data, while all others will have a free riding opportunity.

- Options like country of origin or world-wide benchmarks for direct emissions could be explored, provided that they do not facilitate any free riding. In particular, they should be sufficiently high to avoid that the most carbon intensive imports could benefit from them.
- In any case, a border measure on steel would require a detailed and effective monitoring mechanism to avoid cost absorption (i.e. that importers absorb the impact of the CBA by reducing their prices) and source shifting (i.e. that importers divert to the EU only the products with lower carbon footprint but continue to sale the more polluting material to other markets).

**2. *CBAM will be our approach to carbon pricing for imported products, mirroring the ETS which covers domestic producers. We will need to determine the greenhouse gas emissions embedded in an imported product. What would you suggest to make CBAM and ETS an integrated, effective and coherent EU carbon pricing approach?***

- The predictability and stability of the legal framework play a key role. It should be noted that the main rules of the ETS Directive on carbon leakage protection had been revised just recently. It is essential that these measures - free allocation and indirect costs compensation - are maintained at full benchmark level at least until 2030 in order to avoid abrupt modifications that would have a disruptive impact on the EU steel industry and the related value chains.
- Reducing existing carbon leakage measures already in the '20s would expose EU steel producers and downstream sectors to the exponentially increasing carbon costs (as it is already the case now with the increase of the carbon price to almost 40€ in few months), undermining the financial ability to invest in low carbon technologies and jeopardising the competitiveness of EU exports.
- A CBA implemented too quickly with full auctioning will not deliver an effective carbon leakage protection nor a genuine level playing field in the challenging reality of the steel market.
- The complexity of the steel sector cannot be addressed by a simple measure at the border.
  - Firstly, steel is a globally traded commodity and the EU may import from almost any country in the world. (As an example, Indonesia had no steel production in 2015 and 5 years later produced more stainless steel than the entire EU, also thanks to subsidies and export restrictions on raw materials).
  - Secondly, steel has different production routes (primary from iron ore and secondary from steel scrap) with very different carbon intensities. Therefore, there is the high risk of source shifting, i.e. that importers divert to the EU only the products with lower carbon footprint but continue to sell the more polluting material to other markets.
  - Thirdly, due to global overcapacities and subsidies, the EU steel industry suffers from unfair trade practices such as dumping. In this context, it is very likely that importers may absorb the impact of the CBA by reducing their prices at the EU border, hence nullifying the measure.
- It is important to consider also that EU producers bear carbon costs on their entire production, while importers would pay such cost with a CBA only on a minor part - usually less than 5% - of their production. This difference is also underlined in a recent report by market analysts

(UBS), which shows that a CBA would impact Turkish and Russian producers only by 1%-2% of their EBITDA.

- As an example, at a carbon price of €40/tCO<sub>2</sub> (the actual price on 1<sup>st</sup> of March was €38)
  - An integrated steel company that produces 10 million tonnes of steel and emits 20 million tonnes of CO<sub>2</sub> would have costs of €800 million a year, or €8 billion over ten years.
  - An extra-EU competitor of the same size which exports to the EU usually not more than 5% (500,000 tonnes) would have cost of max. €40 million a year or € 400 million over ten years. Maybe he will absorb these costs by spreading them over the entire production, or source shift by exporting only from his most CO<sub>2</sub> efficient plants in which case he may have no cost at the EU's border at all.
  - If above EU steelmaker invests to decarbonise, the bill may be at €7 to 10 billion for CAPEX alone with years away until the technologies are fully rolled out. But then he probably still does not have any affordable and adequate amount of hydrogen available.
  - The result would be a cost level for EU producers of at least 20 times of that of exporters to the EU, removing any profitability, making EU steelmakers unattractive for investors and uncompetitive, resulting in massive carbon leakage.
  - In a theoretical market, the European producers would recover the cost differential from increased prices in the EU. Yet, the international pressure due to steel overcapacities, dumping, cost absorption and source shifting would not allow that, leaving European producers exposed to unilateral costs, when they also have to invest in low carbon technologies at the same time.

**3. *The CBAM must raise the ambition to fight climate change all around the world. How can we make CBAM the instrument of a strengthened cooperation with our international and private partners in support of climate action globally?***

- The CBA can indeed be also an instrument of climate diplomacy. However, under no circumstances, this ancillary purpose shall undermine the primary objective of the CBA, which is the carbon leakage protection of sectors exposed to global competition.
- Therefore, exemptions or reductions from the CBA should only be allowed in verified cases where international partners have international climate policy with equivalent costs for the sector under analysis. The structural solution to ensure that is to allow exemptions only for countries whose industrial sectors have a similar emissions trading system, possibly linked to the EU ETS.
- It shall be clear that, general, economy-wide commitments to reduce emissions are not sufficient to address the carbon leakage risk. Therefore, these should not be used as an argument to reduce the CBA. As an example, China has pledged to peak GHG emissions by 2030 and reach carbon neutrality by 2060, but the new 5-year plan released last week could entail an increase of their emissions every year by around 200M (which is equivalent to the entire EU steel industry's emissions roughly).

**Closing remarks by Commissioner Gentiloni**