



EUROFER

THE EUROPEAN STEEL ASSOCIATION

European Energy Forum – 27 January 2022

Circular Economy (CE)



Carbon Direct Avoidance (CDA)

H₂-based metallurgy



Electricity-based metallurgy



Smart Carbon Usage (SCU)

Process Integration



Carbon Valorisation/CCU



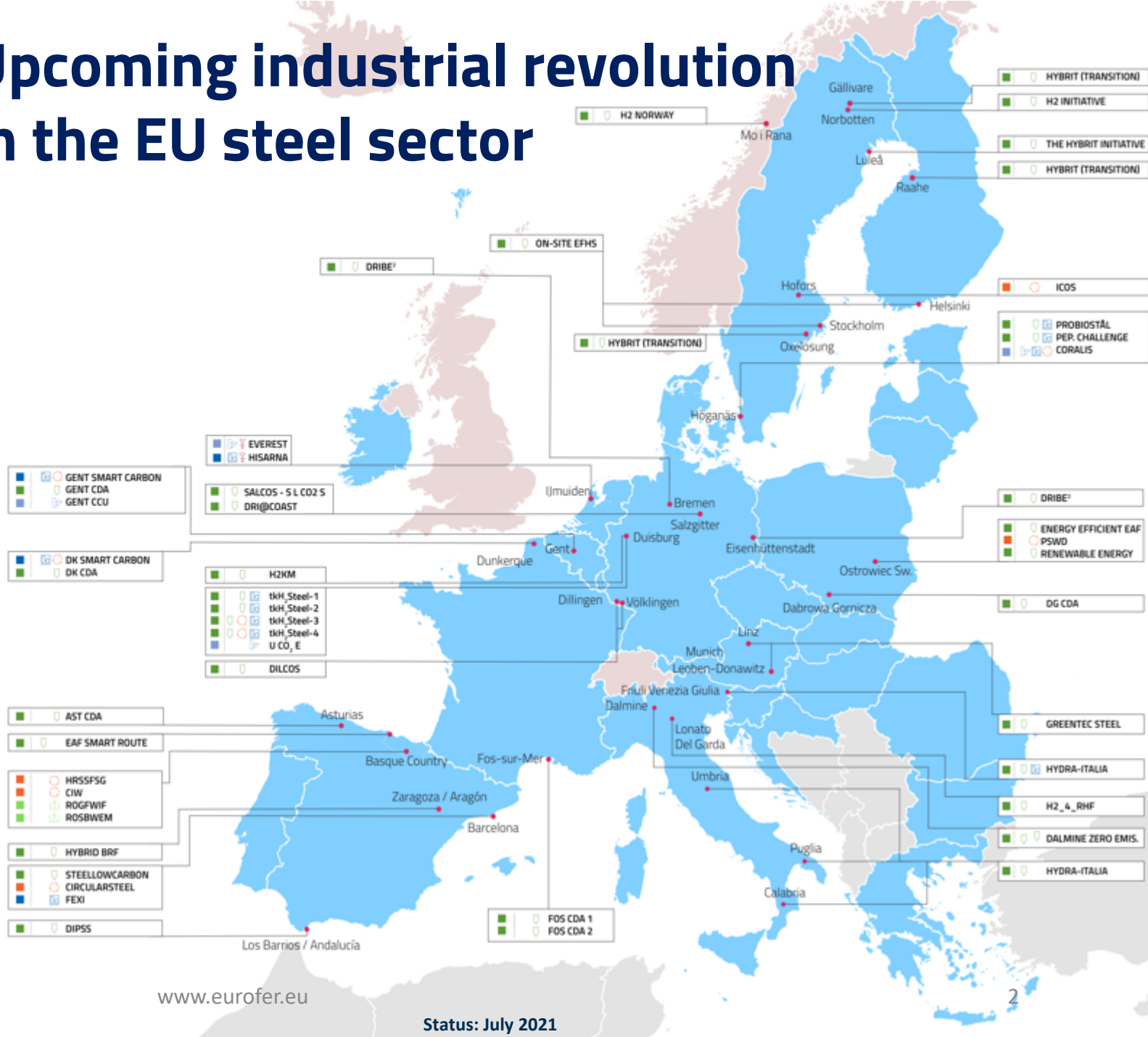
Carbon Capture and Storage CCS²

(not included in SCU, CDA or CE)



Upcoming industrial revolution in the EU steel sector

- CO₂ abatement: ± 30%
- Capex needs : 25 bn EUR
- Time horizon: investments before 2030





DIRECT CARBON COSTS FOR EU STEEL INDUSTRY UNTIL 2025*

± 3.5bn €/YEAR



INTRADAY 3 MONTHS 1 YEAR **2 YEARS** LAST UPDATE TIME: 01-24-2022 8:28 AM GMT



*Under the assumption of 80 €/t carbon price and 160Mt production



More realistic impact assessments are needed



Table 45. EUA prices used for the modelling of carbon costs

Year	EUA price in the given year (in EUR)	
	Baseline (-43% overall ambition)	Strengthened cap (-55% overall ambition)
2021	26.0	42.0
2022	26.0	43.5
2023	26.5	45.0
2024	27.0	46.5
2025	27.0	48.0
2026	28.0	50.0
2027	28.5	53.0
2028	29.5	55.5
2029	30.0	57.5
2030	31.0	60.0

Source: ETS Impact Assessment, Part 2, page 90

No consideration of investment costs

Table 9: Impact on EU ETS price (in EUR)

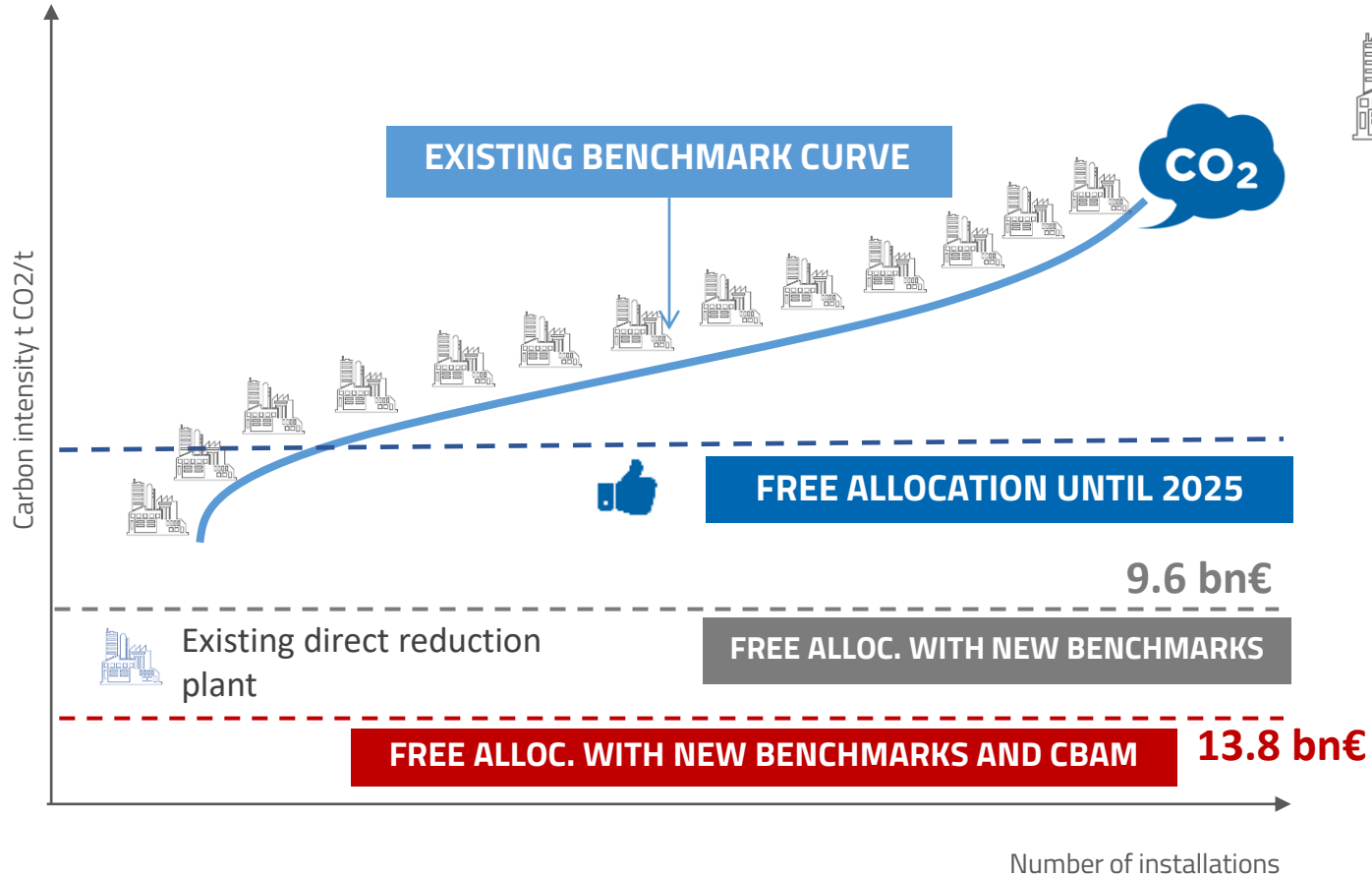
	2025	2030
MIX	35.2	47.9
MIX-full auctioning	32.8	44.8
Options 1 and 2	33.2	45.4
Option 3	33.6	45.9
Option 4	35.2	47.2
Option 5	33.6	45.9
Option 6	34.7	47.3

Source: CBAM Impact Assessment, Part 1, page 55



EUROFER Impact Assessment (entire industry)

Direct carbon costs in 2030 for the EU steel industry



There are 25 installations of primary steel production in the EU



The 10% best performers set the benchmark and the level of free allocation for the entire sector = 2.5 steel installations



One single installation would deeply change the level of free allocation for the entire sector



The CBAM reduces further free allocation by 50% in 2030. The sector would have a huge allocation shortage (8.4bn€) even if it reduces emissions by 30% with around 25 bn€ investments



EUROFER Impact assessment (EU site vs. imports)

Average EU steel company investing in low carbon technologies and a traditional third country producer



CO2 emissions/t

± 1.5tCO₂/t of steel



Direct carbon costs/t

± 100€/t of steel



Total direct carbon costs

±€ 400 M€

Assumptions: 4Mt production, of which 3Mt in blast furnaces and 1Mt in direct reduced iron plant; carbon price: 97 €/t in 2030



CO2 emissions/t

± 2 t CO₂/t of steel



Direct carbon costs/t

± 145€/t of steel



Total direct carbon costs

±€ 30 M€



Assumptions: 4Mt production in blast furnaces, of which 5% is sold on the EU market; carbon price: 97 €/t in 2030





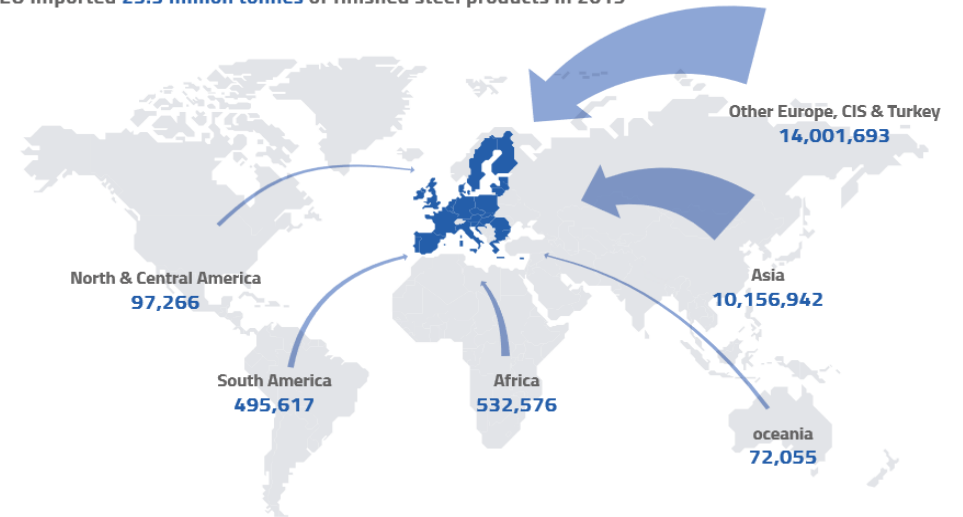
Steel is the real “stress test” of CBAM

- **Very high carbon leakage** risk due to **high trade and energy intensity**
- **Many product categories** (more than **300** customs codes)
- Large trade flows with **many countries**
- Used in **several value chains** by many **downstream sectors**
- **High absorption risk of the levy** (ability to reduce prices and dump the EU market)
- **High risk of resource shuffling** (different emissions across the world)

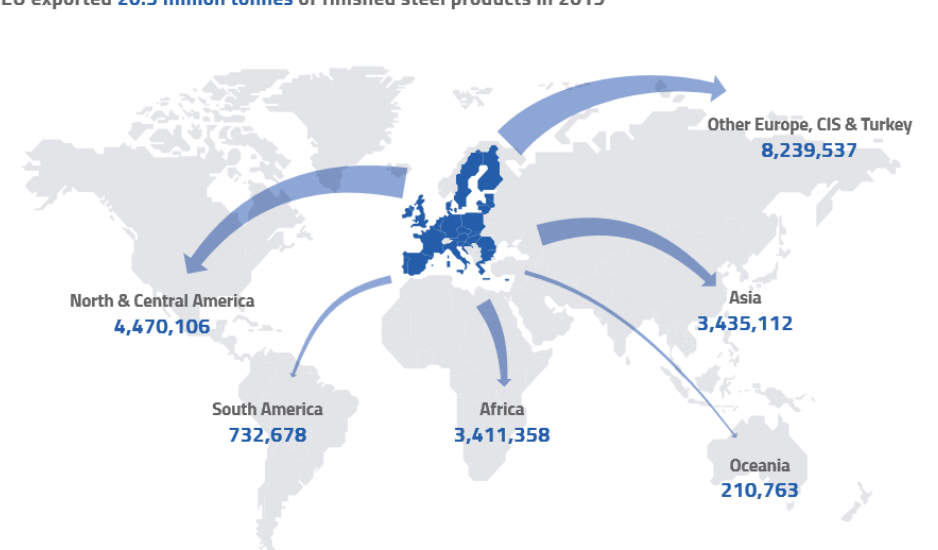


The inclusion of the steel sector in the first or subsequent CBAM wave should be linked to the realistic timeline required for developing and proving an effective regulatory framework for a complex and sensitive sector such as steel

The EU imported **25.3 million tonnes** of finished steel products in 2019



The EU exported **20.5 million tonnes** of finished steel products in 2019





CBAM & ETS: a prudent phasing in/out

E M I S S I O N S

FREE ALLOCATION CBAM

THE UNCONDITIONAL FREE ALLOCATION PHASE OUT AS OF 2026 IS PREMATURE:

- **CBAM's** effectiveness is **unproven**, as the 2023-2025 transition is insufficient
 - Importers will start paying CBAM only in 2026
 - Importers' data will be verified and subject to COM methodology only in 2026
- **Reduced free allocation** will **undermine** companies' **low carbon investment**
- **Export** competitiveness will be **undermined**
- **Phasing out** free allocation **increases** the **impact** on **downstream sectors** and on **trade flows**

ANY FREE ALLOCATION PHASE OUT AS OF 2030 SHOULD BE:

- Accompanied by a **solution for EU exports**
- **Conditional** to a **monitoring system** assessing the effectiveness of the CBAM
- **Coupled** with an **emergency carbon leakage protection** if needed

2026



2030

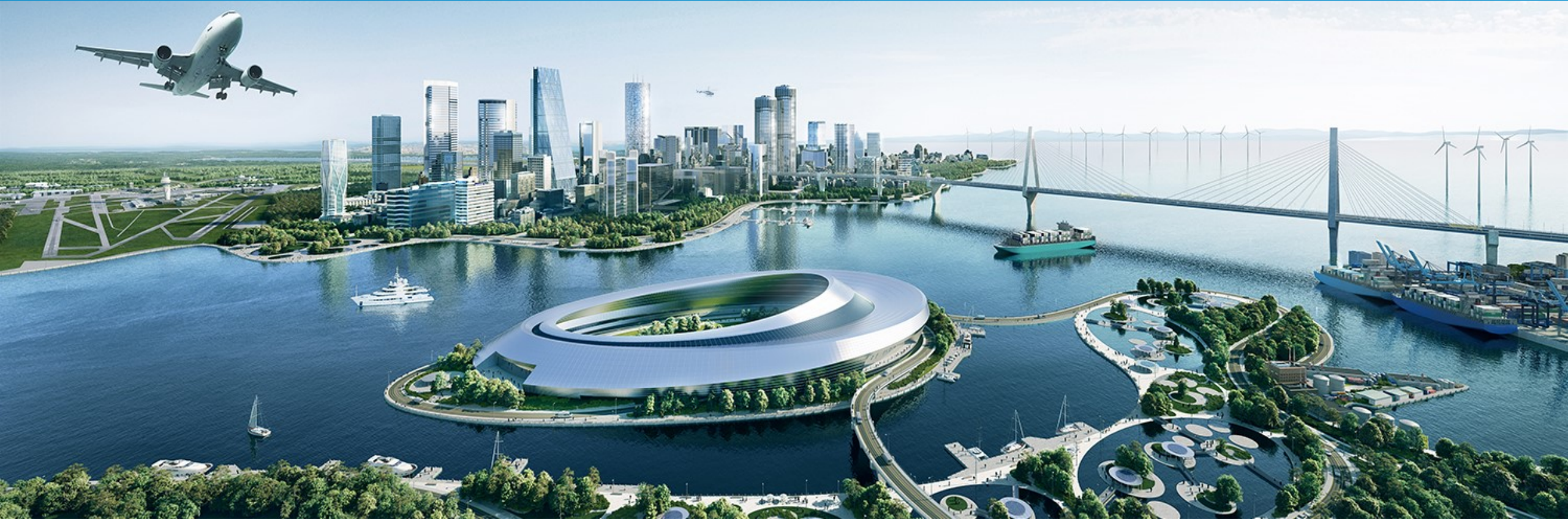


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The European Steel Association
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Thank you



CBAM: The views of Aluminium and other Non-Ferrous Metals Producers in Europe

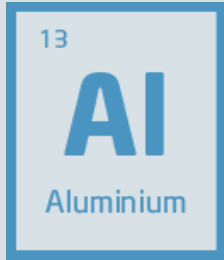
Cillian O'Donoghue, Climate and Energy Director at Eurometaux

Monday, 27th January 2022



Who we are – European Non-Ferrous Metals

Included in CBAM proposal phase 1



Amongst non-ferrous, the aluminium sector is included in the list of CBAM sectors for Phase 1

May be added at a later stage



Other non-ferrous metal energy intensive sectors such as copper, zinc, nickel, ferro-alloys and silicon may be added at a later stage.

3 key facts of our Metals

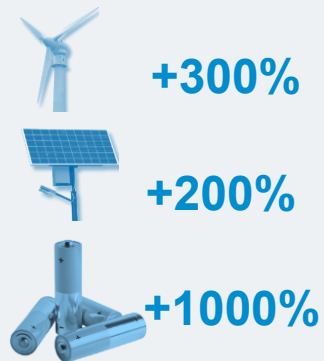
1. Electro-intensive

One of Europe's most electro-intensive industries

Electricity = **38-45%** of production costs

2. Rising demand being replaced by imports

Metals demand increase by 2050



BUT

EU production being replaced by imports with higher carbon footprint



Tonnes of CO₂
 China **20**
 Europe **7**

3. Price-taker

As price-takers, we cannot pass on any regulatory costs to the customer



Metals priced globally by the LME



Unilateral regulatory costs

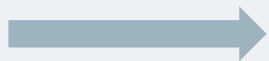
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Automatic competitive disadvantage on global market

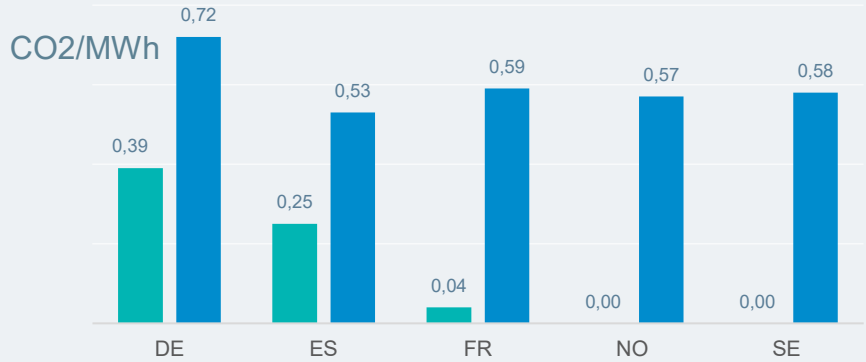
The Challenges of including indirect emissions in a CBAM

As Eurometaux we've been open on the idea to include indirect emissions. But indirect emissions costs are extremely challenging to cover due to Europe's unique electricity market characteristics.

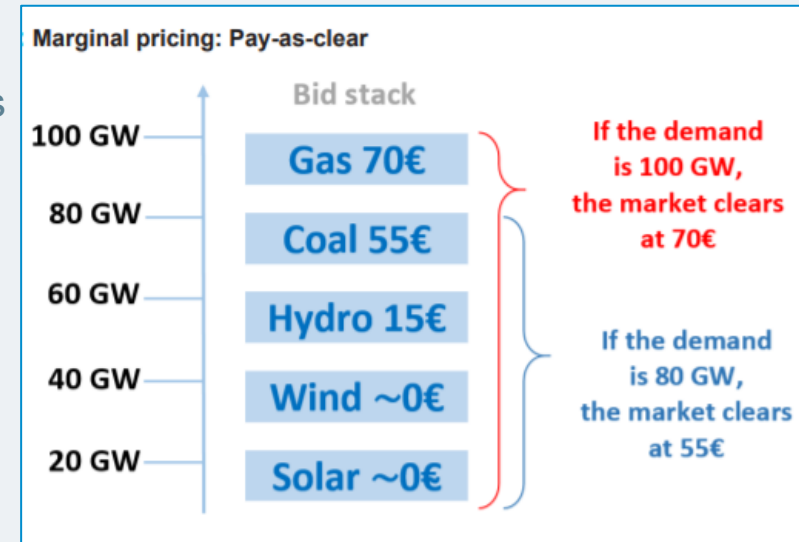
Indirect emissions ≠ Indirect costs



Why?



- ✓ The difference between indirect emissions & costs is caused by the ETS and the **unique design of the pricing system in European electricity markets.**
- ✓ In this design, regardless whether a company consumes wind, solar or hydro-power, **the electricity bill is set by the coal or gas price which has carbon costs embedded**



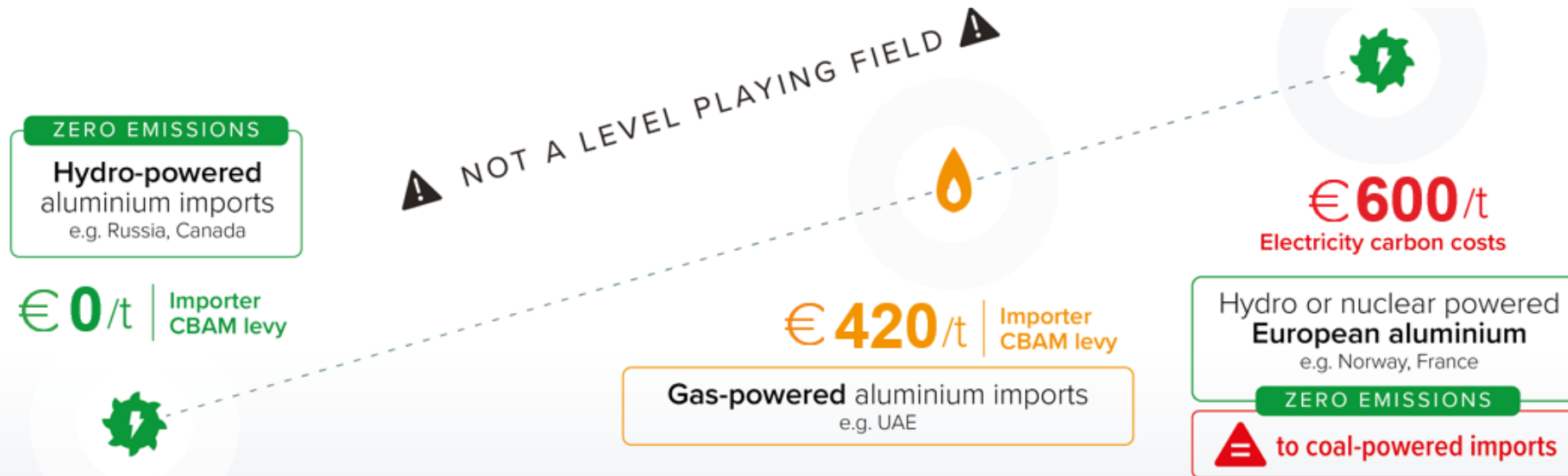
If CBAM covers indirect emissions, a solution must be found out to address the actual costs.

What's our assessment of the proposals presented until now?

Policymakers have put forward some proposals to cover indirect emissions. We've analysed them still see 3 major drawbacks:

1. They will not incentivize indirect emissions reductions in third countries
2. Because of individual assessments, which are needed for WTO Compatibility and climate justification, a low carbon producer in Europe would be exempted from the CBAM fee while the low-carbon producer in Europe would face full indirect carbon costs (if compensation for indirects is withdrawn)
3. Resource shuffling risks exponentially increase

Example of distortions if the current proposals on indirects were implemented



*calculated using a carbon price of €70

A solution is needed for exports outside Europe

Replacement of European exports with e.g. Chinese production will increase CO2 emissions world-wide

The EU's specific carbon costs will have to be reversed somehow in order to make exports competitive. Unfortunately, the Commission proposal does not offer a solution on exports

€7,5bn

In 2019, EU 27 exporters of CBAM products exported 2.2mt of semi-finished products. This represents ca 7,5 bn EUR that will be at risk.

50%

Some of our other non-ferrous metals companies in other sectors sell half of their production outside Europe.

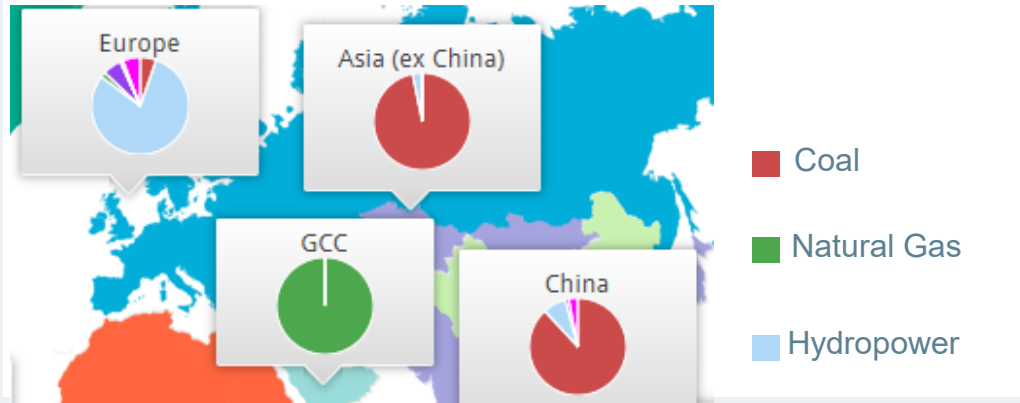
- Without carbon leakage measures, our aluminium exports would face indirect carbon costs of more than 1000 Euros per tonne of aluminium, while our competitors in third markets will not face any costs.
- Given our price taker nature, it would be impossible to compete

Legal assessments have shown that export solutions are WTO-compatible. CBAM is part of the EU ETS system, which constitutes an integrated climate change regulatory regime and will hence not qualify as subsidy under Article 1.1, of the WTO agreement on subsidies and countervailing measures (“SCM agreement”). A summary can be found [here](#).

Circumvention: A CBAM on Aluminium would be easily bypassed

Resource Shuffling

Primary Aluminium Smelting Power Consumption per region



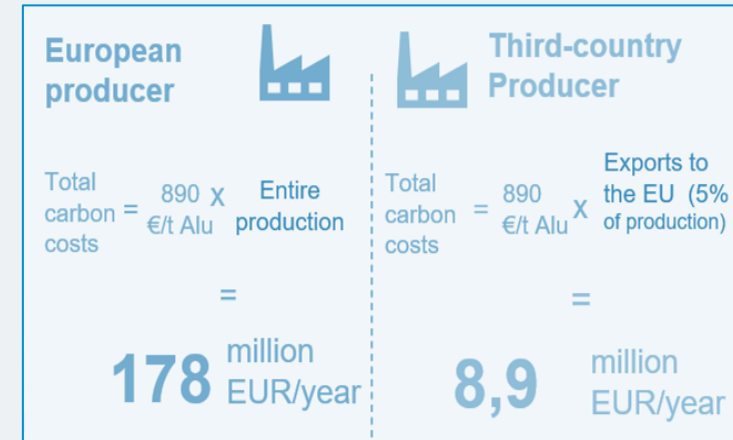
- 88% of Chinese alu production based on **coal-fired power**, while the remaining 12% is hydropower
- Easy to claim that alu exports to EU are based on hydropower, even when produced from coal.
- 12% Chinese production = 4,47 million tonnes > EU alu production

Product Scope

In any event, CBAM should go as far down the value chain as possible. If the scope is too narrow trading parties will simply export products outside the CBAM scope or with minor modifications with no CO2 costs to the detriment of EU producers' competitiveness.

More aluminium products need to be added to avoid circumvention

Cost Absorption



- ✓ Indispensable that resource shuffling and costs absorption is also added to art 27 of the proposal. A broader products scope going further down the value chain is needed.
- ✓ Enforcement mechanisms should be strengthened. Penalties for attempts at circumvention should include also the option of withdrawing the import authorisation

THANK YOU

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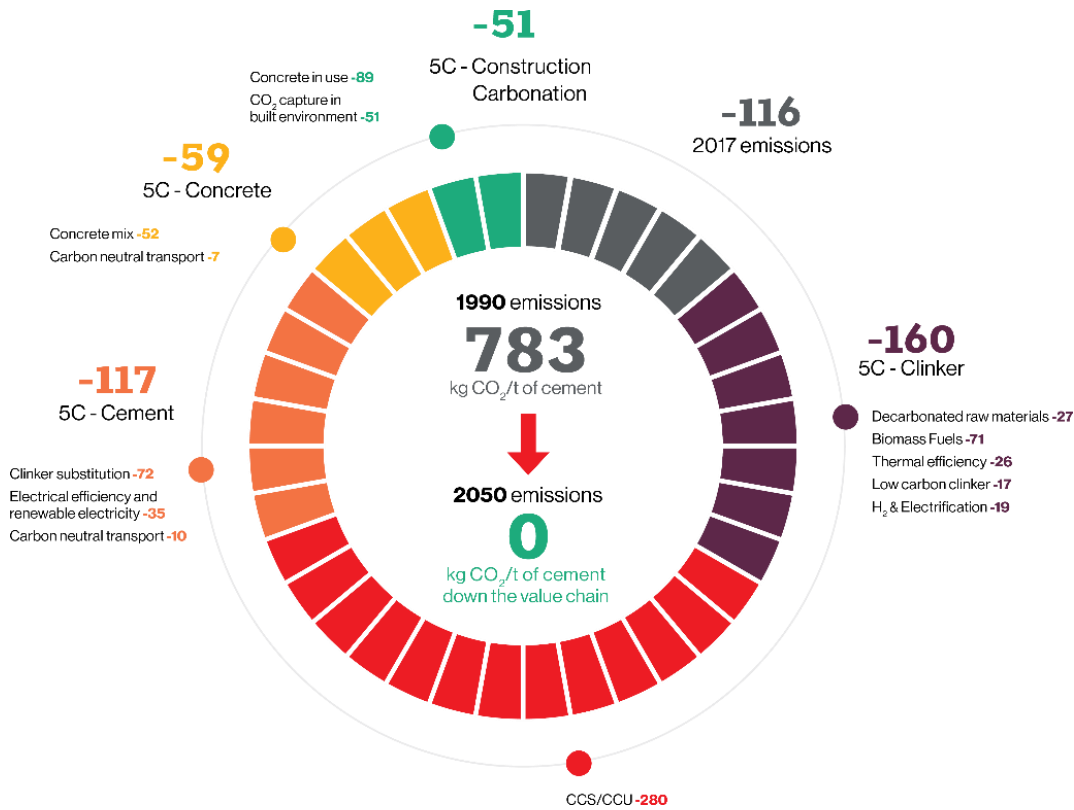
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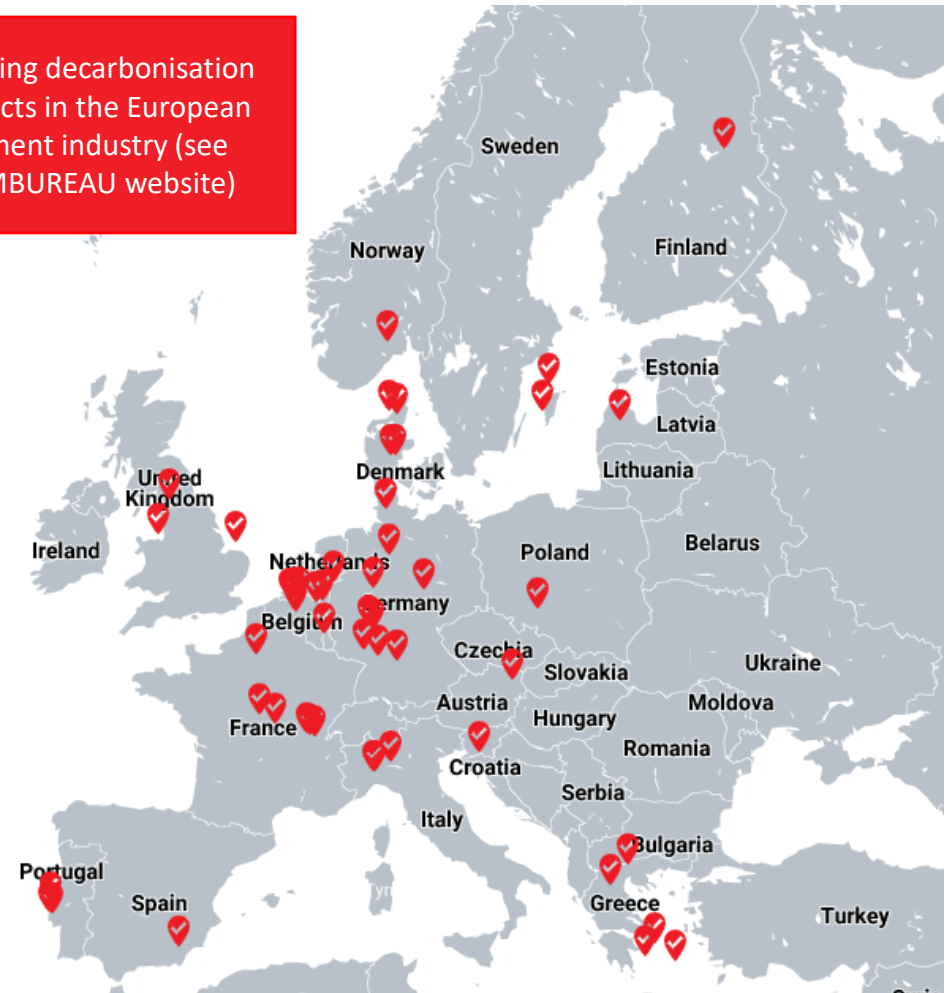


CEMBUREAU





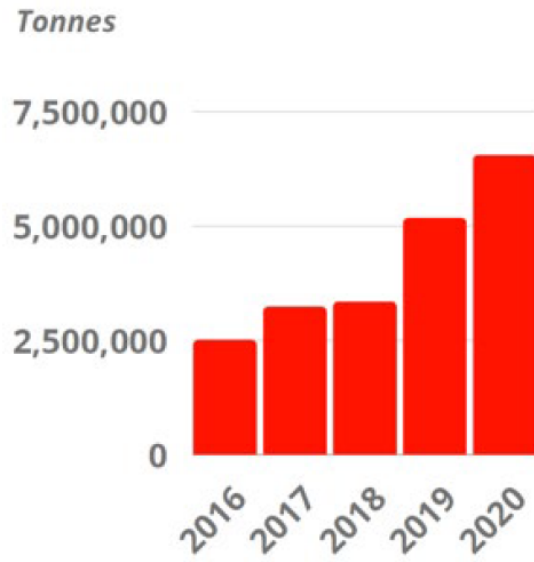
Ongoing decarbonisation projects in the European cement industry (see CEMBUREAU website)



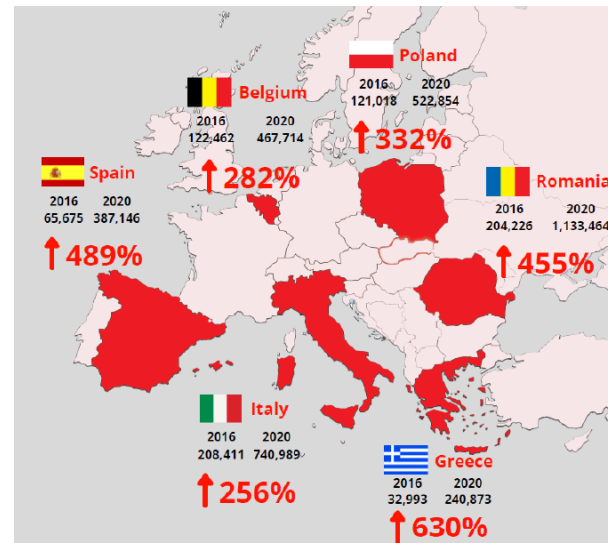
A Level playing field on carbon through CBAM is key to achieve our carbon neutrality ambitions

A CBAM is needed to equalise CO2 costs between EU and non-EU suppliers

- At a carbon price of ~90 EUR/ton, the EU cement industry's CO2 costs amount to 12-15% of our total production costs, despite free allocation under the EU Emission Trading Scheme (ETS).
- Significant increase of non-EU imports in recent years



EU cement imports, 2016-2020 (Eurostat)



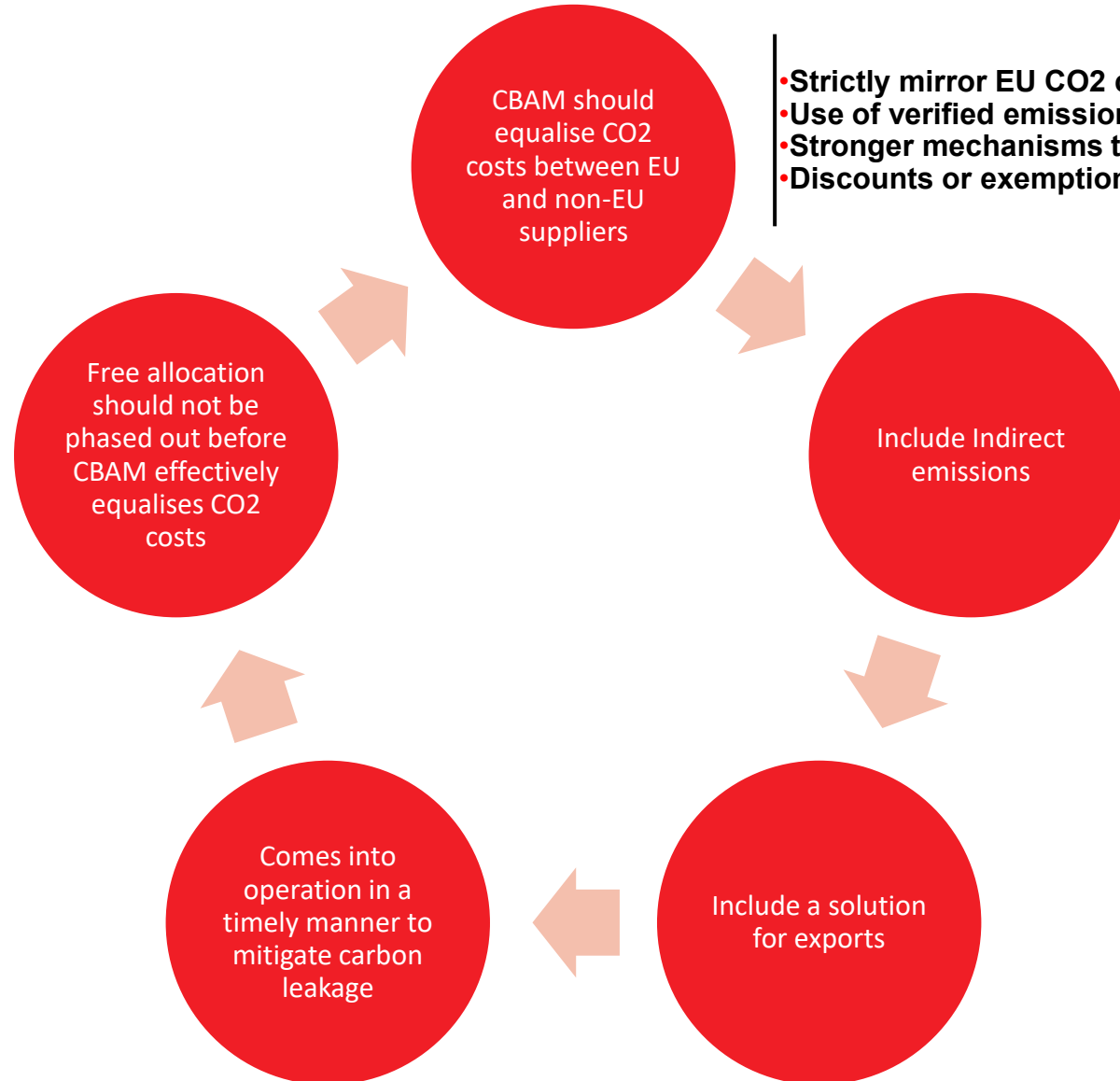
EU cement imports, 2016-2020 (Eurostat)



EU cement imports, Year-to-date January-August 2021 (Eurostat)

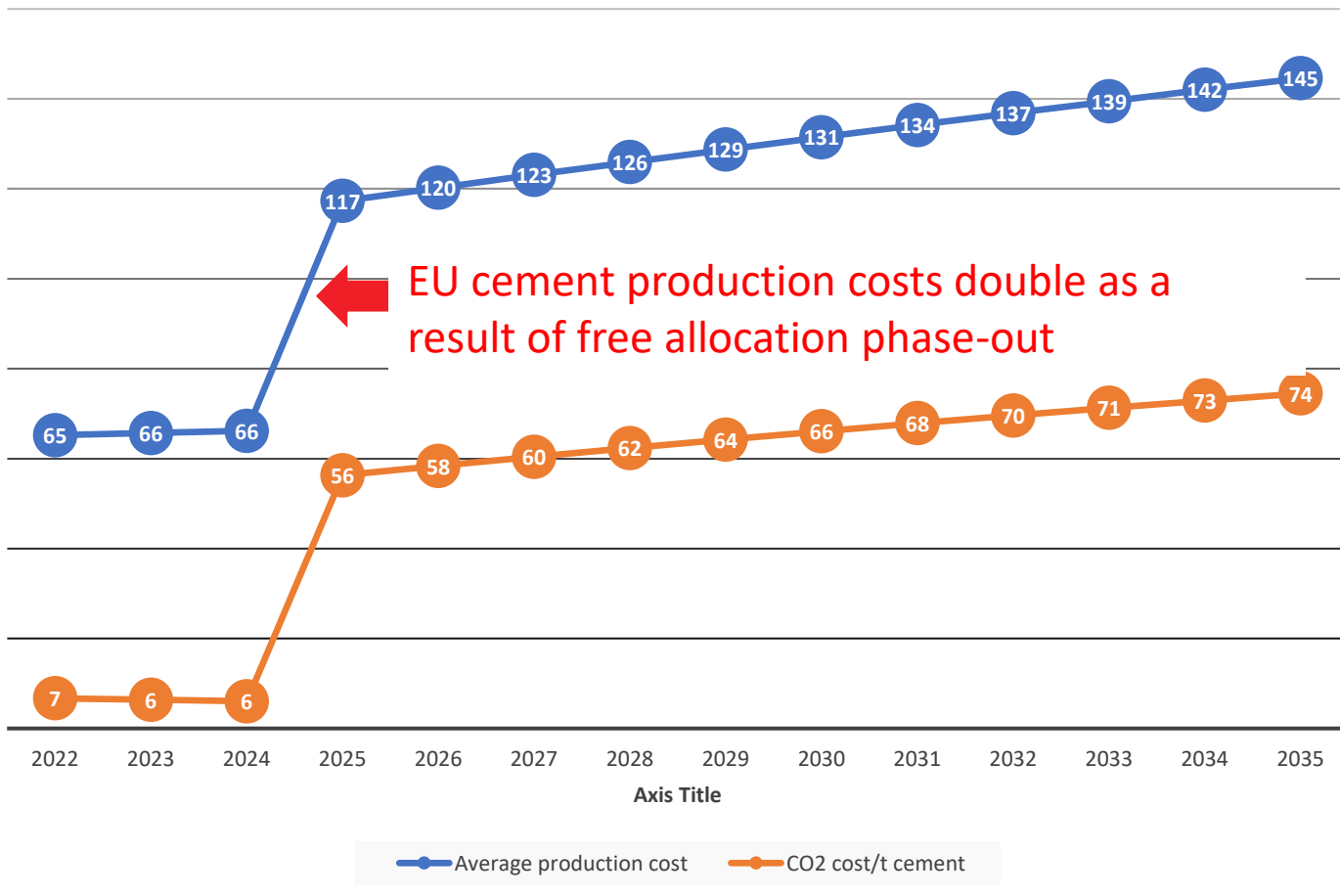
CEMBUREAU –Position on the draft CBAM Regulation

• **‘Gradual phase-out’ of free allocation should only start when CBAM equalises CO2 costs and is fully watertight, operational and tested**



- **Strictly mirror EU CO2 costs & calculations**
- **Use of verified emissions truly incentivised**
- **Stronger mechanisms to tackle circumvention**
- **Discounts or exemptions only based on fully comparable CO2 pricing**

Impact of a removal of free allocation as from 2025
(Low carbon price scenario)



Removing free allocation in 2025 results in:

- Doubling of cement production costs overnight
- Considerable risks as CBAM is untested, with no guarantees on effectiveness
- Disastrous impact on EU cement exports
- Market distortions between cement and other CBAM sectors

(Source: CEMBUREAU calculations, based on a 'low carbon price' scenario and publicly available data)

CO2 price	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
	90 €	93 €	97 €	100 €	105 €	110 €	115 €	120 €	125 €	130 €	135 €	140 €	145 €	150 €



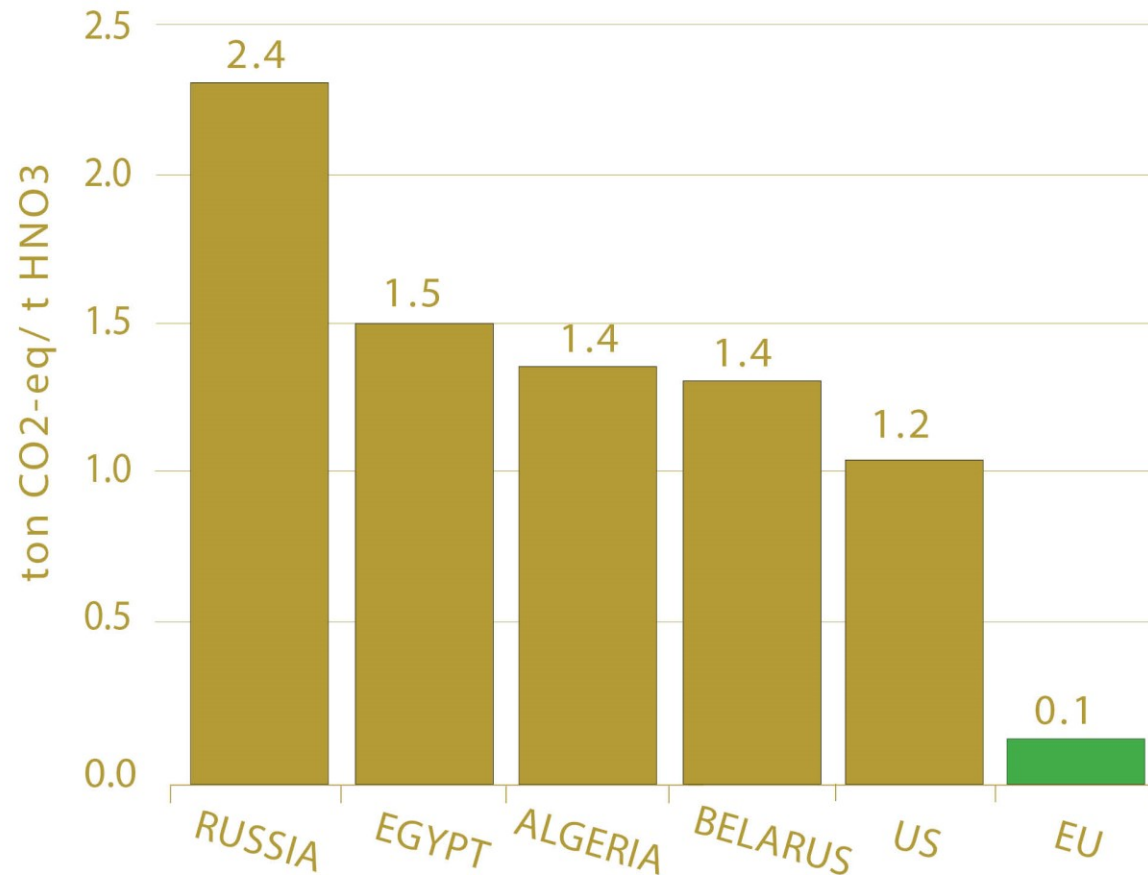
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Fertilizers Europe on CBAM

EU fertilizer industry's excellent record in decreasing nitric acid GHG emissions



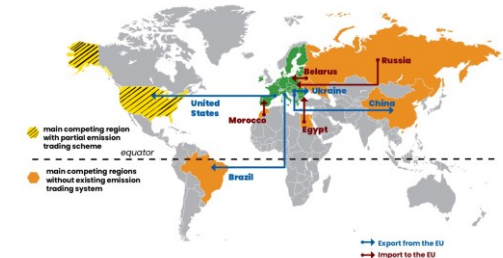
We need a strong and efficient CBAM

Key issues

🌱 Substantial impact on **VALUE CHAINS**



🌱 **EXPORTS** : seasonality of fertilizer consumption



At a time when we are asked to invest in an industrial revolution

There is a solution to these crucial issues : free allocation