

THE EUROPEAN STEEL PROCESSORS ASSOCIATION

ANALYSIS ON WHY THE “MELTED AND POURED” CONCEPT DOES NOT FIT THE CBAM PURPOSE

In recent years, the “melted and poured” concept has been widely used in the area of trade defence to protect domestic industries. While this approach has been effective in some regions, such as the US, it has led to unintended discrimination within the steel value chain in others, particularly in the EU. The “melted and poured” clause embedded in the existing EU-US agreement under Section 232 has already created disparities in market access, disadvantaging EU producers based on the origin of the crude steel used in their manufacturing processes. As a result, the EU steel processing industry - representing over 30 000 jobs - has faced significant restrictions on its export opportunities.

Today, the **European Steel Processors Association (ESPA)** has become increasingly concerned over growing speculation that the “melted and poured” logic could be incorporated into the Carbon Border Adjustment Mechanism (CBAM). Given the serious implications this would create, ESPA wishes to express its strong opposition to such a move and highlight the availability of more effective instruments to prevent potential circumvention of CBAM and ensure effective carbon leakage protection.

Trade vs Climate Measures

CBAM is designed to prevent carbon leakage by imposing a carbon price on imported goods based on their emissions intensity. Introducing a “melted and poured” concept in CBAM would undermine its environmental objectives, shift the focus from carbon intensity to origin, and create trade compliance uncertainty, putting the entire instrument at risk. Furthermore, adding “melted and poured” language could send wrong signal to markets, raising concerns over future market access limitations driven by protectionist motives rather than environmental concerns. ESPA members firmly believe that the EU should carefully distinguish between trade and environmental policies, prioritizing conventional trade instruments to address market imbalances instead of using CBAM as a protectionist tool.

Moreover, requiring “melted and poured” reporting and certification would significantly increase supply chain tracking complexity and compliance costs for both EU importers and foreign suppliers, with no added environmental benefits.

“Melted and Poured” Concept Ignores the Most Carbon-Intensive Part of Steelmaking

The “melted and poured” rule refers to where crude steel is first melted and poured into its initial solid form, however, this does not correctly reflect the most carbon intensive part of the production chain. Namely, in the primary steelmaking route, approximately 70% of total emissions occur before the melting and pouring phase - mainly during the ironmaking process¹. Moreover, even though melted and poured in the same geographical location, steel would have significantly different CO₂ footprint depending on the manufacturing method used (primarily or secondary production route).

Taking into account the distribution of the CO₂ footprint across the steel value chain the incorporation of the “melted and poured” concept into CBAM would represent an arbitrary discrimination of a part of the value chain while creating additional loopholes in CBAM not properly accounting for steel products CO₂ footprint (a steel product could be melted and poured in a country with low emissions steel plants, but the raw materials (like pig iron) could come from a high-intensive site from another location). The

¹ The melting and pouring process represent only around 15-20% of total CO₂ emissions of a steel product in the primarily route (BOF) and around 5-10% - in the secondary route (scrap-based EAF).

“melted and poured” rule captures where the steel takes solid form, but it fails to reflect where the majority of CO₂ are generated.

Weakening Traditional Rules of Origin Concept

By including a “melted and poured” concept in the CBAM regulation, the EU risks triggering a serious, irreversible change in the rules of origin that would affect a substantial part of the EU steel processing and consuming industries. The “melted and poured” requirement has already been included by the US in the rules of origin chapter under the United States–Mexico–Canada Agreement for specific products, it has also become part of the India-Australia Economic Cooperation and Trade Agreement for a number of products and as a part of the monitoring mechanisms in other locations (Canada).

If the EU integrates “melted and poured” into CBAM, it risks legitimizing this approach as a new standard for determining rules of origin. This could set a precedent for EU trading partners, leading to future demands for similar restrictions on EU-processed goods - such as vehicles, industrial equipment, and components for renewable energy projects (e.g., wind turbines) - thereby undermining the global competitiveness of EU exports.

Alternative solutions to mitigate circumvention risk

To prevent circumvention through production shifts, CBAM needs to focus on company-wide emissions, supply chain transparency, and broad product coverage. By implementing strong auditing, tracking, and international cooperation, the EU can ensure that CBAM truly reduces global carbon emissions rather than merely reshuffling them across borders.

- **Company-Wide Emissions**
 - Instead of calculating CBAM based only on the emissions of exported goods, the EU should require that CBAM declarations reflect the average emissions of all production sites operated by a company (or at a group level) in a given country.
- **Supply chain transparency**
 - Full supply chain transparency is needed to track where raw materials and intermediate products originate
 - On top of the annual verification process conducted by independent third-party audits, the EU should ensure the possibility of conducting random compliance checks of 3rd country suppliers' reporting accuracy.
- **Broadening product coverage**
 - Products manufactured using basic materials subject to CBAM should be incorporated into the scope of the mechanism as soon as possible. This would prevent shifts in supplier strategies aimed at avoiding CBAM obligations by moving production further down the value chain.
- **Amending the anti-circumvention provision in the CBAM regulation (Art. 27 of the CBAM regulation)**
 - Shortening the time for investigation of the circumvention practices from 9 months to 3 months
 - Introducing the possibility of capping the imports from the country under investigation at historic levels during the investigation.