THE EUROPEAN STEEL PROCESSORS ASSOCIATION

SUGGESTIONS FOR A FAIR CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

THAT INCENTIVIZES THE

DECARBONISATION OF INDUSTRY BOTH INSIDE AND OUTSIDE OF EUROPE

EXECUTIVE SUMMARY:

ESPA supports the EU's CBAM initiative to prevent carbon leakage and create a level playing field for EU steel producers. However, ESPA highlights several concerns and proposes improvements to ensure CBAM is fair, effective, and aligned with industry realities. A proper and fair CBAM mechanism for importers requires clarity asap and not later than July 2025.

1. Use of Actual Emission Values

Issue: Default emission values unfairly inflate costs for importers using low-emission suppliers.

Proposal: CBAM should prioritize actual emissions data when available to incentivize decarbonization and avoid unfair penalties on low-emission suppliers.To avoid resource shuffling risks, where the 3rd country producer has more than one plant in the same country producing the same CBAM product, the emissions declared in the CBAM data should be the average emissions of all installations producing that product

2. Harmonizing CBAM with ETS Benchmarks

Issue: There is a risk that future CBAM benchmarks will not reflect the diversity of steel production methods, leading to unfair cost allocations.

Proposal: Align CBAM benchmarks with EU ETS methodologies, ensuring that different steelmaking routes (BOF, EAF with scrap and/or DRI) are treated fairly.

3. Extending CBAM to Downstream Products

Issue: CBAM currently applies only to raw materials, allowing carbon-intensive finished goods to enter the EU without similar carbon costs.

Proposal: Expand CBAM coverage to downstream steel products to prevent competitive disadvantages for EU manufacturers. First the Commission could consider the products with the share of CBAM-covered inputs (e.g. steel, cement, aluminium, etc.) above 50% of total product weight

4. Verification & Accreditation of Verifiers

Issue: Limited availability of accredited verifiers could create compliance bottlenecks and increase costs for non-EU producers.

Proposal: Align verification with EU ETS standards, expand accreditation to include non-EU-based verifiers to ensure fair and cost-effective compliance.

6. CBAM & EU ETS Free Allowances Phase-Out

Issue: CBAM should evolve in sync with the phase-out of free allowances under ETS to maintain fairness.

Proposal: Ensure CBAM adjustments mirror any changes in ETS free allowance phase-out to prevent market distortions.

ESPA urges policymakers to refine CBAM implementation to ensure a fair, competitive, and environmentally effective system. The proposed adjustments will support decarbonization while maintaining the competitiveness of EU steel processors.

The European Steel Processors Association (ESPA) actively supports the EU's approach to combat climate change and decarbonize the European and global steel sector, notably with the introduction and roll-out of the Carbon Border Adjustment Mechanism (CBAM).

The CBAM imposes a carbon price on imports (mirroring the EU ETS) to create a level playing field with EU producers while encouraging global emissions reduction. This mechanism specifically targets imports from countries outside the EU Emissions Trading System (ETS) to prevent carbon leakage.

ESPA supports this objective for CBAM and believes that trade distortions should be managed separately from the climate objective and be addressed via existing trade defense mechanisms, including the use of safeguard measures.

With that, ESPA members would like to address a number of issues related to the transition and definitive periods of CBAM, that could crucially influence the business model of EU steel processors and the state of the steel supply chain overall.

1. Use of Actual Values

As representatives of the steel processing industry that buy EU steel but also import steel from outside Europe, ESPA members emphasize the critical importance of relying on actual emission data when calculating carbon emissions under the CBAM. Accurate data is not only a matter of fairness but also a cornerstone for the successful implementation of the mechanism.

Arguments in favor of actual values:

1. Importers rely on a consistent set of suppliers who are already providing actual data and who continue to be willing to go through verification processes. More than 90% of the significant volumes imported by ESPA members are being reported by using actual emissions data.
2. Using actual values incentivizes third country producers to further reduce the CO2 footprint of their products in order to reduce their CBAM payments and thus contribute to the EU climate objectives, mirroring the ETS system.
3. The CBAM regulation enshrined the principle of allowing a company to be taxed based on its actual CO2 footprint. Disallowing this right for a company who provides actual values in favour of default values would open up the CBAM structure to court challenges by companies willing to submit themselves to verification of carbon footprint.

To avoid resource shuffling risks, where the 3rd country producer has more than one plant in the same country producing the same CBAM product, the emissions declared under the CBAM Regulation should be the average emissions of all installations producing that product. Such an approach will strengthen the WTO compatibility of the CBAM and thus increase the acceptance of the measure by the EU key trading partners.

ESPA proposal:

- Where actual values are available, they should be used for purposes of CBAM payment.
- To avoid resource shuffling risks, where the 3rd country producer has more than one plant in the same country producing the same CBAM product, the emissions declared in the CBAM data should be the average emissions of all installations producing that product.
- Should they not be available, default values should be used based on exporting country averages.
- The default values should be assigned based on the country where the most CO2 intensive process took place (iron production for BOF or DRI route and melting for the EAF route).

This is significant as the difference between actual and default values has material implications for ESPA members.

Example (in 2034) with ESPA members importing e.g. 3 mln tonnes:

- *Slabs default Scope 1 embedded emissions – 1.89 t CO2/t*
- *Slabs actual level of Scope 1 embedded emissions – 1.6 t CO2/t*

CBAM payment calculated for 3 mln tonnes imports with the CO2 price at 120 euro/t CO2:

Difference: 104 mln euro, which is an unfair penalty not aligned with ETS costs.

2. Combining different ETS Benchmarks in the steel sector

Today, the EU ETS differentiates two major steelmaking routes: primary and secondary steel production. The benchmarks for those routes follow a different logic and result in different levels of free allowances allocated.

The primary route, based on Basic Oxygen Furnaces (BOF), is more or less homogeneous in terms of technology used and results in a more consistent CO2 footprint. The secondary route, based on Electric Arc Furnaces (EAF), may have a much higher range of embedded emissions depending on the charge materials used – from scrap steel or Direct Reduced Iron (DRI) – thus resulting in different levels of embedded emissions.

As EAFs can use both scrap (secondary production route) or DRI (based on iron ore) or a combination of these, the ETS has recently developed a methodology for setting EAF CO2 benchmarks based on the ratio of DRI and scrap used in the charge mix.

Considering that CBAM should mirror the logic of the EU ETS, we propose that, when importers provide actual values including details on the charge mix, benchmarks be calculated separately for an importer based on the process route and if EAF, the charge mix. All of the data necessary to automatically calculate the benchmark is already available in the importer's CBAM submission/report.

Any other methodology would discriminate against one set of producers in a way inconsistent with ETS and the ambitions of CBAM.

Therefore, ESPA, given its unique perspective as a producer subject to ETS and an importer, is requesting access to EC working groups where the CBAM benchmark methodology is being discussed.

3. Extending CBAM scope to Downstream Products

Steel and other primarily goods are critical to multiple value chains — from mobility and construction to energy and appliances — many of which are strategic for the EU's Green Deal agenda. Numerous downstream sectors, which are heavily dependent on foreign CBAM goods, are however limited in their ability to absorb carbon costs without facing significant competitive challenges and risking losing market share to producers in countries without equivalent carbon regulations.

Extending CBAM scope to cover downstream steel products will help to level the carbon cost and safeguard the competitiveness of EU industries while effectively reducing carbon leakage risks.

Expanding CBAM to include downstream products must however be carefully designed to balance the protection of EU industries while ensuring the administrative burden remains manageable. The Commission could consider adopting a streamlined yet comprehensive system for emissions data collection over the entire production chain. This system could permit the use of default or estimated values for emissions data, particularly in the final production stages where specific data may be unavailable or hard to obtain. At the same time, it is crucial that the carbon footprint of primary CBAM-covered goods — such as steel — undergo a detailed and precise assessment. This assessment should align closely with established Commission rules to ensure accuracy and comparability across all CBAM goods.

To ensure smooth extension of CBAM to downstream goods, the Commission could consider first the products with the share of CBAM-covered inputs (e.g. steel, cement, aluminium, etc.) above 50% of total product weight and then gradually extending the mechanism to the products that contain above 25% of CBAM-covered inputs.

ESPA proposal:

- To extend CBAM scope to downstream products.
- To provide the CBAM materials intensive industries with fair protection and a level playing field similar to those enjoyed by primarily materials.

4. Verification rules and accreditation of verifiers

Clear verification rules and unrestricted access to verification services are essential for non-EU producers to submit accurate emission data and enable EU importers to ensure compliance with CBAM requirements. A significant concern for EU importers regarding the verification process is the potential scarcity of EU-based verifiers and their limited capacity to handle the surge in demand expected from foreign producers once data verification becomes mandatory.

Another challenge is the cost of verification, which could become a major obstacle. Many third countries lack the robust organizational infrastructure available within the EU's data verification system. This disparity, combined with additional expenses such as travel and on-site verification visits, will further inflate the cost of verification for non-EU producers.

To address these challenges, it is crucial to establish a framework for the accreditation of verifiers based in third countries, particularly in key exporting nations of CBAM-regulated goods to Europe. This approach would not only reduce verification costs but also ensure timely and effective compliance, fostering smoother implementation of CBAM.

ESPA proposal:

- To align CBAM verification requirements as much as possible with the existing EU Emission Trading System regulation.
- To guarantee a number of accredited verifying bodies both within and outside the EU sufficient to meet the demand of foreign suppliers, including through providing accreditation to foreign based auditors.

5. CBAM SHOULD HAVE A STABLE CORRELATION WITH THE PHASE-OUT OF EU ETS FREE ALLOWANCES (AFTER 2026)

The CBAM imposes a carbon price on imports to create a level playing field for EU producers while encouraging global emissions reduction. This mechanism specifically targets imports from countries outside the EU Emissions Trading System (ETS) to prevent Carbon leakage — a situation where businesses relocate production to regions with less stringent environmental regulations, thereby undermining the EU's climate objectives.

CBAM certificates are designed to accurately reflect the carbon cost paid by the EU producers under the EU ETS. By applying a comparable carbon pricing standard to imported products, the mechanism promotes fair competition and aligns global trade practices with the EU's climate agenda. Currently, the CBAM regulation is aligned with the EU ETS rules, however, certain details may still evolve through negotiations and after the transition period ends in 2026.

To ensure a level playing field, the CBAM should be symmetrically aligned with the phase-out of Free Allowances between 2026 and 2034. This correlation is essential for maintaining fairness and reinforcing the EU's climate commitments.

ESPA proposal:

- If the pace and scale of the EU ETS free allowances reduction are reviewed in response to specific international economic and geopolitical conditions, the CBAM mechanism should be adjusted accordingly in a symmetrical manner.