

1

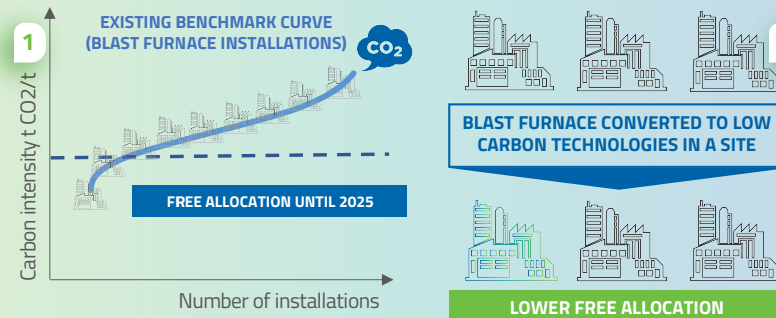
Benchmarks define the level of free allocation, but how does it work in practice?

Under the EU Emissions Trading System, the 10% most efficient installations per sector set the benchmark which determines the level of free allocation for the entire sector. The main benchmark for steel is the hot metal from blast furnaces (BF), which covers over 70% of the sector's emissions.

There are 25 installations of primary steel production (BF) in the EU; so only 2.5 steel installations set the benchmark for all.

The sector under current carbon leakage protection rules already faces carbon costs for about 20% of its emissions.

This translates into €3.5 bn annual regulatory costs for the steel industry.



Why do we need to revise the benchmarks' rules?

2

With the current rules, if a steel company converts a blast furnace (BF) to **an alternative, low carbon technology** – for example a direct reduced iron (DRI) plant using natural gas or hydrogen – this **would be accounted under a different benchmark and receive much less free allowances** as compared to the hot metal benchmark.

The Commission proposal would extend the definition and system boundaries of benchmarks so that allocation would be granted to new DRI plants at the same level as conventional BF plants, thereby incentivising investments.

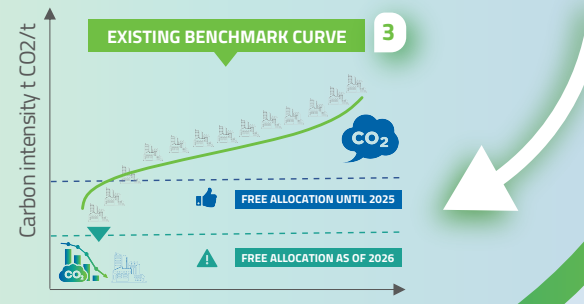
4

Our proposal: incentivising new investments while avoiding massive regulatory costs

By excluding the existing Hamburg site from the calculation of the hot metal benchmark value for the period 2026-2030, rules would distinguish between existing production and truly new investments in low carbon technologies. Granting free allocation to newly installed alternative low carbon technologies is the right incentive to boost decarbonisation.

If the "Hamburg case" remains unsolved, the steel industry would face massive regulatory costs. Combined with the free allocation phase out envisaged in the Commission proposal on the Carbon Border Adjustment (CBAM), this would amount to €14 bn per year in 2030 with business as usual emissions. **Even with a successful implementation of low carbon projects (worth €31 bn of investment) leading to 30% emissions reduction by 2030, the European steel industry would remain subject to €8 bn direct carbon costs per year.**

Such regulatory costs – which risk not being offset by the CBAM – would overshadow and undermine investment incentives.



What is the shortcoming of the Commission proposal?

3

This adjustment of the benchmark definition and system boundaries would also affect the calculation of the benchmark values for 2026-2030.

The only existing DRI plant in Europe (Hamburg) would lead to a significant reduction of the benchmark values in 2026-2030, even though this plant was already in operation but not taken into account in 2007-2008 when the benchmark values were set.

Due to that, **free allocation for the whole sector could be reduced by around 40%** by 2026.

This free allocation decline cannot be matched by equivalent emissions reductions by 2026. European steel sites have on average three blast furnaces. Low carbon projects, worth overall €31 bn in capital investments, will allow steelmakers to convert one blast furnace per plant by 2030, achieving around 30% emissions reductions.