

Non-paper by Belgium, Italy, France, Luxembourg, Romania, Slovakia and Spain on an action plan for the European Steel Industry

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The European steel industry, which provides 310,000 direct jobs and 2.2 million induced jobs, and which accounts for €130 billion in turnover, is facing major challenges. In particular, the so-called “BF-BOF route” that produces steel from blast furnaces and carries more than half of the European Union (EU) steel industry’s weight faces significant pressure. The demise of this historical component of the European steel industry could lead to the loss of about 150,000 direct jobs by 2030, distributed over 25 sites in 14 Member States, and could have a major impact on the EU’s manufacturing sector, particularly in Germany, Italy, France, Spain, Belgium, Luxembourg, Hungary. Supplying essential industrial sectors such as the automotive, energy, construction and defense industries, the steel industry is a major component of our industrial sovereignty.

The effects of this crisis are already being felt: for the past years, the EU steel producers saw continued low production and had to idle capacity to adjust to depressed demand and increasing import penetration. Production volumes in the European steel industry reached an unprecedented low level in 2023 with only 126 million tonnes (Mt) produced, whereas pre-covid annual levels were fairly stable around 160 Mt/year.

Moreover, despite the announcement of several decarbonization projects, only few have been confirmed yet. Industrial stakeholders cite the lack of clarity on European market conditions after 2026 linked to forthcoming regulatory changes – real or anticipated – as a key motive for putting decarbonization projects on hold. Topics of concern include potential risk of resource shuffling to be closely monitored in the implementation of the CBAM, and the future of the safeguard measures. Besides, the EU steel industry is already committed to stricter requirements compared to the global level due to the Best Available Techniques reference document. Moreover, the current guidelines on avoiding a lock-in on fossil fuels hamper cost-effective decarbonization. As highlighted in the Draghi report, decarbonization is essential to the viability and future competitiveness of this sector, significant investment is thus needed in the short or medium term to not further diminish the level playing field for the European steel industry.

This critical situation is due to several causes:

- First, the EU steelmaking industry is confronted with increasing global excess capacity, putting downward pressure on steel market prices, which are therefore too low to meet the average production costs of European steelmakers. According to the OECD, excess capacity that does not meet a demand equals 600 Mt/year (out of 2500 Mt/year of total capacities), accounting for 275% of total EU capacities, and expected to reach 350% by 2026;

Second, EAF steel production, which is also largely widespread in many EU countries, is heavily affected by high energy prices. Therefore, the EU industry’s competitiveness is worsening: production costs for the EAF route (the main option, combined with the importation or local production of DRI, to decarbonize the European steel production) are hampered in particular by high electricity costs in the EU. The electricity price paid by the industry in the EU is indeed structurally higher than in China or in the USA, with an increasing differential¹. As abundantly pointed out the Draghi report, the price differential between the EU and other major economies weighs heavily on industrial costs and on the

¹ Historically, the European price was on average 1.5 to 2 times higher than the US price, but this ratio has reached a 2 to 3 factor.

productivity gap with the US and China. Current industrial and consumer prices are largely driven by the international trade of oil, gas and coal, which, through the EU's market design is reflected on electricity prices, especially during market turbulences². As a growing share of energy, driven by market forces, is produced from decarbonised sources in Europe, the EU's dependency on fossil fuel imports will decrease over time. In the meantime, however, it is key that the most important shortcomings of EU energy markets are immediately addressed by means of measures to ensure a competitive cost of energy at EU level for companies in energy-intensive sectors exposed to international competition;

- Third, the carbon costs for steelmakers in the EU are expected to increase with the combined effect of the CO₂ price increase on the one hand and of the gradual phase-out of free allowances on the other hand. In order to ensure that this carbon price signal is a powerful incentive for decarbonization, it is important to ensure to have a robust and efficient regulatory framework to avoid carbon leakage and enable the steel industry to massively invest in decarbonization.
- Finally, it is expected that in the upcoming years high technological investments will be demanded from the EU Steel Industry. In 2026 the BAT reference document for Iron and Steel will be reviewed. It is foreseeable that requirements will become more rigorous, putting further pressure on the European steelmakers. Applicable measurements should be taken to avoid harming the EU competitive position and ensure a prominent role for the EU in the global decarbonization transition.

Faced with these challenges, the EU need to explore rapidly solutions such as:

In the short term, we must continue making full and efficient use of the EU trade defence toolbox to ensure that the Union's steelmakers compete with their counterparts on a leveled playing field:

- Anti-subsidies and anti-dumping investigations have to be carried out whenever needed. In principle investigations should continue to be based on a request by the industry. Regarding the increasing number of already ongoing cases and still to come requests, the DG Trade must be able to rely on sufficient resources. In this respect, the reallocation of certain staff should be considered. It could also continue to open investigations on the basis of a "threat of injury", without waiting for material injury to occur, in order to protect the industry as soon as possible, before the damage become irremediable. The Commission's decision to systematically register imports in trade defence investigations is welcome. Additional duties should now be levied retroactively on a case-by-case basis if that is deemed appropriate and whenever the legal conditions are met. Similarly, the Commission should be able to impose provisional duties, even in cases of threat of injury, when the conditions are met, and as soon as possible. In this regard it could be examined for example, whether it is possible to reduce the usual 8/9 months period before imposing these measures, as allowed by the legal framework, as long as a thorough investigation as well as the participation rights of all stakeholders can still be guaranteed. The application of lesser duty rule should be evaluated on a case-by-case basis as well;
- Whenever needed, anti-circumventions and anti-absorption tools must be used on a systematic basis to ensure that EU measures remain fully effective. To that end, the Commission should monitor closely the patterns of trade, and should contemplate,

² During the 2021/2022 crisis, ACER acknowledged that: "*whilst the current circumstances impacting the EU's energy system are far from 'normal', ACER finds that the current electricity market design is not to blame for the current crisis. [...] The electricity market design is, however, not designed for the 'emergency' situation that the EU currently finds itself in.*"²

implementing an appropriate “melted and poured” origin rule in case of circumvention, after careful consultation with the industry and users;

- We also want to point out that several specific points have to be urgently improved to make the safeguard measures more efficient, as regards the concrete proposals we refer to the previous letter addressed by 13 Member States to the Commission as well as the relevant attachments by the European steel industry. We welcome the initiation concerning a functioning review of the safeguard measure applicable to imports of certain steel products. In particular, we would support the revision of the quotas to be more in line with the actual demand.

Regarding the major issue of overcapacities, we must keep in mind that the steel safeguards will expire in June 2026 since the extension of the existing safeguards is not permitted under WTO rules. It is thus necessary to give clarity to European steelmakers that the EU will work on designing an efficient solution, and we therefore strongly urge the Commission to examine possible ways to protect the steel industry after the expiration of the safeguards in June 2026.

By 2026, the economic context is expected to significantly deteriorate for the steel industry with the anticipated rise of global excess capacity (+27% from 2023 to 2026, from 275 % of EU capacities to 350 %) according to the OECD and the Global Forum on Steel Excess Capacity. For flat steel from blast furnaces, for instance, the price gap our steelmakers cannot bridge is estimated to amount to about 55 € per ton (t) of steel, in addition to the extra-cost of CO₂ (also 55 €/t of steel, in 2026, and assuming a ETS cost of 85 €/ton_{CO2}).

Furthermore, dumped volumes from Chinese excess capacities are exported to third countries, mainly in South-East Asia, where markets become saturated by these exports and result in depressed prices, making their domestic steelmakers unable to compete in their own domestic or regional markets. These local steel producers then redirect their production towards a carry-over market, which can be the EU since the Single Market is large enough to absorb these flows, since the European production costs and market prices are higher, and since the EU market is far more open than the US one. For flat steel for instance, exports from China to South-East Asia hiked to 37,7 Mt in 2023, gaining +50% from the average 2018-2022 level. On the other side, and consequently, exports of flat products from South-East Asia to EU increased a +57% in 2023 (reaching 13,4 Mt/year, from 8,5 Mt/year on average in 2018-2022). The dynamic is not different for long products, which also account for a significant proportion of imports into the EU (30% by volume), and which need as much as flat steel to be covered by a broad post-2026 framework for all steel products.

In parallel, EU steelmakers have suffered from decreasing EU demand. EU apparent steel consumption has fallen by 27.1 Mt/year in the last five years, from 152.7 Mt of steel consumed in 2018 to 125.6 Mt in 2023, representing an average annual decline of -3.84% per year (smoothing the 2019-2020 trough and rebound covid-effects). On the steel consumers side, the construction sector, which accounts for 35% of steel consumption in the EU, suffered from a strong recession (mainly for the residential real estate sector), weighing on steel demand. Evolutions in the mechanical and automotive sector also had a negative impact on the steel sector. Over the last years, this downtrend demand has also stemmed from high energy costs affecting steel consumers, as well as from high interest rates both on housing and manufacturing. While steel imports remained stable between 2018 and 2023 (around 26-27 Mt/year), the EU domestic production absorbed the whole demand fall: total European crude steel production fell from 160 Mt in 2018 to 126 Mt in 2023, losing an annual production volume of 34 Mt/year (27 Mt due to the fall in demand and 7 Mt as a direct consequence of the European exports drop, that severely falls from 24,2 Mt in 2018 to 16,3 Mt in 2023). For these reasons, the upcoming EU Steel and Metal Action Plan and the Industrial Decarbonization Accelerator act will have to explore all policy, regulatory and funding options to give impulse to the internal (EU) demand of steel.

The safeguard measures implemented since 2018 have proven efficient in protecting the EU steel industry from global overcapacities, but some quotas are now too high in relation with the decreasing EU demand (the annual liberalization rate made the Tariff-Rate-Quotas (TRQ) volumes have increased by over 25% since July 2019, while the steel demand in EU kept falling within the same period).

It appears necessary that a defense mechanism frame for steel takes over the current safeguard measures at the latest by June 2026. Depending on the best operational and legal solution, and as long as the shortcomings of the current safeguard related to tackling overcapacity are taken into account and EU demand evolution is addressed, this could be the current safeguard extended on the basis of a new investigation and new circumstances subject to further analysis on its feasibility by the Commission, or a new instrument that would take over from the safeguard measure. Whatever the legal nature of the tool, these issues will have to be addressed by tariff levels adapted to the overcapacity level of each third country, and by quota levels adapted to EU demand, to take into account both producers and consumers interests. Designing this frame will need a balanced approach, considering the Union interest as a whole, including producers and users, as well as importers and consumers, and the impacts throughout the value chain will have to be fully assessed.

In order to ensure the progressive decarbonization of European steel production while addressing carbon leakage, in addition to ensuring the availability of steel scrap for the EU steel industry, it is necessary to ensure the efficient and transparent implementation of the carbon border adjustment mechanism (CBAM). CBAM is designed to tackle carbon leakage by making sure that the carbon price of imports is equivalent to the carbon price of domestic production so that the EU's climate objectives are not undermined in a context of widening gap in ambitions with other regions of the world. Further work is needed by 2026 to assess the anticipated risks, in particular regarding risks of carbon leakage both on downstream side and exports side. In addition, further in-depth sectoral analysis should be carried out before considering the possible extension to indirect emissions and the eventual CBAM extension to indirect emissions which will have to be consistent with the indirect costs compensation mechanism necessary to the competitiveness of the electro-intensive steel industry. The solutions for mitigating these risks are needed as soon as possible as the definitive CBAM regime will take force in 2026.

In the specific case of steel, the existence of both primary and EAF production capacities in third countries create a great risk, that countries could direct their EAF production towards the EU and redirect primary production for domestic needs, thus avoiding CBAM tax without incentive to decarbonize their production capacities. Such a circumvention of the CBAM would threaten the continued production of primary steel in Europe in the next decade and the success of existing or future decarbonization projects in the European steel industry. It would then have the countereffect to increase lead to extensive carbon leakage and job destruction. Given all that above, default emission values depending on origin could³ apply, as soon as possible, for all steel products within the scope of the CBAM.

Default values shall be set at an appropriate level, both for ensuring the environmental integrity of the CBAM, and for discouraging resource shuffling practices, building on the most up-to-date and reliable information. As an exception, actual emissions could be accepted for specific origins and steel products where the risk of circumvention, and notably of resource shuffling is evaluated as very low, due to the national industrial decarbonization ambition being fully aligned with the climate efforts of the European Union, and the level of transparency on local plant-level audits of CO₂ emissions being consistent with the one of the ETS reporting for plants emitting inside the EU. Considering the materiality of the risk of circumvention practices, including the resource shuffling, the application of this exception clause shall be based on a transparent assessment and decision-making process. To that end, the list of origins where

³ *subject to an urgent and thorough analysis by the Commission on its feasibility*

actual emissions could be used by substitution to default emissions for the steel sector shall be defined through an implementing act under an examination procedure.

The European Union aims to become a circular economy by 2050, including by promoting a low-carbon and circular steel industry. Research on scrap recycling must be encouraged, scrap exports outside EU must be better controlled and measures should be taken to restrict or ban, exports to third countries that do not adopt environmental and production legislation similar to that of Europe. Ecodesign requirements for iron and steel should be used to implement circular-related requirements applying for both EU and foreign steel on the Single market.

The EU's objective to become a *circular economy* by 2050 is relevant for establishing a low-carbon and circular steel industry. In practice, this implies replacing as much as possible iron ore as a resource by iron scrap. A high level of dependency on mining and import of iron ore does neither comply with the 2050 circular economy goal, nor with the EU's strategic autonomy goals.

In this light, Research, Development and Innovation must be promoted on improved scrap recycling techniques. In particular, the Innovation Fund which supports innovative projects should become simpler and more efficient, paying attention to the administrative burden. The Commission should also ensure the coherence between CBAM, Ecodesign requirements and other policy instruments regulating steel. This is essential to green the steel industry and boost its competitiveness in the coming years.

Production of steel from scrap in EAF is a steady route for decarbonization when this is supported with electricity from low carbon sources. Decarbonization of the sector is essential, but it must be recognised that EU permitting requirements enforce strict general environmental standards, incorporating different environmental aspects. The opportunities which will be available with new decarbonization technologies will substantially improve environmental performance in the imminent future. As such, zero emission technologies will not be feasible without sufficient supply of steel produced with best available technologies. Decarbonization needs to be supported with competitive energy prices, stable and secure energy supply, the availability of affordable scrap, easier access to finance for the development and implementation of infrastructural projects, including hydrogen networks and technological solutions for carbon capture and storage.

The necessary investments to transition to decarbonized steel production routes (e.g. H₂-DRI-EAF, replacing natural gas with hydrogen or biomethane for EAF production) should be facilitated beyond funding from the Innovation Fund. The role of the European Investment Bank in facilitating funding in favourable conditions for decarbonization and electrification projects of the steel industry should also be taken into account. The upcoming EU Steel and metal action plan should make an in-depth assessment of the need for public and private funding for the steel sector and propose new financing avenues.

Green public procurement should be encouraged across the EU, so that there are obligations in, for example, public infrastructure and construction, that certain percentages of the steel used must come from zero-emission or low-carbon technologies. Taking into account the WTO plurinational public procurement agreement, but also the current geopolitical and WTO context, local content requirements could be analyzed.