

Feedback submission

Carbon border adjustment mechanism

Laminoirs des Landes (LDL), is located in Tarnos, Southern France, a company starting operations in Spring of 2018, is an independent Carbon Steel Plate re-roller (manufacturer of Plate which purchases a semi-finish product, Slab, and hot-rolls to get the final Plate).

With regards to the main objective, we support the Commission's endeavour in instituting a carbon border adjustment measure to "[fight] *climate change by avoiding carbon leakage*". As the fight against climate change needs to be global, the measure can be an opportunity for the EU to project its climate leadership globally. It is equally important to consider the EU's existing internal climate targets (by 2030, and climate neutrality potentially by 2050). When designing the measure, it is therefore important to consider the impacts of the measure on both these EU internal targets (greenhouse gas reduction, renewable energy production), and global CO₂ reduction ambitions, and "*to prevent environmental harm*" as stated in the inception report.

Regardless of the policy instruments suggested by the Commission in the report (i.e. a carbon tax on selected products – both on imported and domestic products; a new carbon customs duty or tax on imports; the extension of the EU ETS to imports), what is paramount is that the measure should enable a level playing field in which the 'polluter pays' – a cornerstone of EU environmental policy enshrined in Art 191 TFEU.

For the steel sector in particular, the final measure then needs to do two things:

1. The scope of the measure needs to cover the full steel value chain
2. The measure needs to enable an individual exporter adjustment

With regards to the first point, the scope of the measure needs to include the full steel value chain, from finished products to upstream raw materials. Both direct and indirect CO₂ emissions also need to be included to prevent further carbon leakage, even when the indirect segment is not yet subject to EU ETS.

According to the UN's 2019 Global Resources Outlook, resource extraction and processing account for half of the world's carbon emissions.¹ In addition, according to the OECD, raw materials use is expected to double by 2060.² Failing to include the entire value chain would lead to a potential increase in imports of carbon-intensive non-taxed products like coke, pig iron, directly reduced iron (DRI) or other products, and could increase rather than reduce carbon leakage. Choosing to cover one part of the value chain but not others would also disrupt the level playing field within the EU industry: segments of the industry would be advantaged over the other which is not acceptable from a policy perspective (technology/product neutrality).

¹ Euractiv (2019), 'Resource extraction responsible for half world's carbon emissions', <https://www.euractiv.com/section/circular-economy/news/resource-extraction-responsible-for-half-worlds-carbon-emissions/>

² OECD (2018), 'Raw materials use to double by 2060 with severe environmental consequences', <https://www.oecd.org/environment/raw-materials-use-to-double-by-2060-with-severe-environmental-consequences.htm>

On the second point, adherent to the 'polluter pays' principle, it is critical that 'cleaner' third-country producers importing steel into the EU should be taxed less, and / or third-country producers with a CO₂ footprint lower than the EU benchmark (however it is calculated) should be exempted. For example, a third-country integrated steel producer performing better than an average EU integrated producer should be taxed less or exempted when they import into the EU.

The 'polluter pays' principle could also be used to adjust the mechanism to incentivise producers whose CO₂ footprint is better than that of the average EU producer, setting a clear stimulus for decarbonisation. This setup would not only contribute to negative carbon leakage (reducing emissions elsewhere), but also ensure that the EU preserves its capacity to achieve its internal climate targets, by stimulating a material import flow of cleaner materials from third regions.

Without an individual adjustment, a 'one-size-fits-all' mechanism applied to third-country producers exporting to the EU, would be discriminatory towards 'cleaner' third-country producers who have already invested in lowering emissions, and would not lead to better global CO₂ mitigating outcomes. On the contrary, a flat tax for example without an individual adjustment would benefit importers with the lowest costs, including lower investments in CO₂ reductions. Moreover, such a mechanism could result in substitution of more expensive 'cleaner' steel (their price already including abatement costs) with cheaper products manufactured by companies with less ambitious decarbonisation efforts. To keep their market share and remain price-competitive, cleaner producers would be forced to reduce their R&D and/or stop investing in decarbonisation efforts, slowing down global CO₂ mitigation progress.

The measure outlined in the above requires establishing a universal standardised CO₂ certification methodology and an independent universal verification system to allow for an individual company to prove they are eligible for the tax reduction or exemption. We believe it should be modelled after the EU ETS and therefore be producer-based. The burden of proof would be on the producer, and ideally it should be an automatic ex-ante system to prevent the need for a complex administration, avoiding barriers to trade.

About Laminoirs des Landes (LDL)

Laminoirs des Landes (LDL) originally was a greenfield project put on hold due to the crisis for several years until its main shareholder, Spanish Hierros Añon holding 60%, decided to invest on it and as a consequence was able to start its operations in Spring of 2.018. LDL then faced the basic problems of every greenfield project with the lack of know-how which in this case had the added difficulty of a not so well designed facility with many constraints that had to be overcome with additional effort and investments. Total investment in LDL is around 60 million €.

Finally in 2.020, if current Covid19 crisis allows, LDL will finally look forward to the monthly (just monthly) breakeven point at some point in Q4.

In any case future is yet to be seen LDL competitiveness in form of more expensive raw materials supply while having to compete with Integrated Steel plants.

A fair system to reduce Carbon emissions will be more than welcome by LDL, not just a system to reduce its potential presence in the market.