NOVOLIPETSK STEEL

NLMK | Feedback submission

Carbon border adjustment mechanism

NLMK Group is an international steel producer, employing over fifty thousand people globally. In Europe we employ 2200 people in our six production facilities in Belgium, France, Italy and Denmark, and we have invested over 1 billion euro in these assets since 2005. Our steel products manufactured in Europe are used in various industries, from construction and machine building to the manufacturing of power-generation equipment and offshore wind turbines.

The Group actively supports the existing and potential measures to combat climate change, including by way of decarbonizing the steel sector in the EU and other jurisdictions.

With regards to the main objective, we welcome the Commission's endeavour to seek the ways to design the mechanism which can "[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 CO_2 reduction ambitions, and *"to prevent environmental harm"* as stated in the inception report. The European response to the growing gap between countries' climate ambitions shall be comprehensive and may among other things include progressive market standards for carbon intensity of traded goods and/or promotion of multilateral arrangements which would ensure the enforcement of similar carbon regulation in the majority of jurisdictions.

Further developing and strengthening of the European carbon policy can also be achieved through the introduction of a Carbon Border Adjustment Mechanism (CBAM). If properly designed it may become an additional option in providing an effective carbon leakage protection.

Regardless of the policy instruments suggested by the Commission in the CBAM impact assessment 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 starting from the raw materials the production of which is often carbon intensive
2. The measure needs to enable an individual adjustment based on the actual carbon intensity of the producer

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With regards to the first point, the scope of the measure needs to include the full steel value chain, from upstream raw materials to finished steel-containing products. Both direct and indirect CO_2 emissions (including Scope 3) 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 to the Union. 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).

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 CO_2 footprint lower than the EU benchmark (however it is calculated) should be exempted. Otherwise, its duty should be adjusted. 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 CO_2 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 CO_2 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 CO_2 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 CO_2 mitigation progress.

The measure outlined in the above requires establishing a universal standardised CO_2 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

[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

ideally it should be an automatic ex-ante system to prevent the need for a complex administration, avoiding barriers to trade.

To sum up, any border measure to be designed smartly needs to be inclusive in terms of product scope (start from the very upstream and cover as much downstream as possible) and be flexible in terms of accounting for the actual carbon intensity of the imported products to avoid carbon leakage.

About NLMK Europe

NLMK Europe is a steel producer consisting of the business units NLMK Europe Plate (comprising NLMK Clabecq in Belgium, NLMK DanSteel in Denmark and NLMK Verona in Italy) and NLMK Europe Strip (comprising NLMK La Louvière in Belgium, NLMK Strasbourg in France and NLMK Manage Steel Center in Belgium). With an overall annual production capacity in 2018 of 3.4 million tonnes of value-added steel products, NLMK Europe employs roughly 2,200 people. Key end users include the automotive, shipbuilding, construction and energy-producing companies, as well as offshore windmill manufacturers.

NLMK Europe focuses on innovations, long-term customer relations and sales network development, which enhances on-time deliveries to customers in Europe and across the globe. It belongs to NLMK Group, which is a leading international manufacturer of high-quality steel products with a vertically integrated business model. NLMK Group is headquartered in Russia, and its shares are traded at the Moscow and London stock exchanges.

In August 2019, NLMK joined the UN Global Compact, the world's largest sustainable development and corporate social responsibility initiative. As a participant to the UN Global Compact, the NLMK Group voluntarily commits to align its operations and strategy with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of the Sustainable Development Goals. The Group will report on its progress in the sustainable development area on an annual basis.

NLMK has continuously strived and invested to be a leader in sustainable development. In October 2019, we announced a 150-million-euro project for NLMK La Louvière (Belgium) to revamp its mill and produce more environmentally friendly steel. Since 1990, we have reduced our CO_2 emissions by 13% per ton of steel, with an increase in output growth by 35% at the same time.