Feedback submission

Carbon border adjustment mechanism

VÍTKOVICE STEEL, a.s., is a company organized under the laws of the Czech Republic, having seat in Ostrava, Českobratrská 3321/46, Postal Code 702 00, Czech Republic. The company is a leading European manufacturer of hot rolled steel products and the largest manufacturer of steel plates in the Czech Republic.

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 CO_2 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 CO_2 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).

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[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 CO_2 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 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 ideally it should be an automatic ex-ante system to prevent the need for a complex administration, avoiding barriers to trade.

About VÍTKOVICE STEEL, a.s.

The company´s main production program includes heavy plates and shaped cut outs, which are produced in the sheet metal rolling mill, and sheet piles, which are produced in the heavy section rolling mill.

The company is the only manufacturer of sheet piles in the Czech Republic and one of only two manufacturers in the European Union. The production of heavy plates enjoys a strong market share in the key domestic market. Products undergo quality control in our own accredited testing laboratories that have the most advanced testing equipment.