

## EUROFER POSITION ON TECHNICAL REPORT ON EU TAXONOMY PUBLISHED IN JUNE 2019 BY THE TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE



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On 18 June 2019 the Technical Expert Group (TEG) on Sustainable Finance – set up by the European Commission – published its technical report on the EU taxonomy. The report sets out the basis for a future EU taxonomy in legislation. It presents the results of the development of an EU classification system for environmentally-sustainable economic activities ('Taxonomy').

The published report constitutes a positive evolution of the interim results, which were submitted to the stakeholders for the first and second rounds climate change mitigation activities and adaptation activities.

EUROFER welcomes that the report makes a **distinction between 'green', 'greening of' and 'greening by' activities** (e.g. see page 30). **This distinction is essential for the success of the taxonomy**, as not only are activities that are already low carbon considered but also activities that contribute to a transition to a net-zero emissions economy in 2050 in still CO<sub>2</sub>-heavy activities as well as activities that enable carbon emissions reductions. We understand that this will recognise the efforts of the steel sector in developing new low-carbon technologies and the contribution of its products and by-products as mitigation enablers in other sectors - as mentioned on page 202 of the report.

In addition, EUROFER very much supports the report's proposal that technical screening criteria for 'Manufacture of iron and steel' should be based on **standard EN 19694-2:2016**, which would **allow the consideration of the steel value chain**. This is of **essential importance for the steel sector as the production process steps of steel making are interlinked with the aim of achieving the highest resource efficiency**.

We also welcome that the upcoming Sustainable Finance Platform, successor of the TEG on sustainable finance, will ensure the inclusion of the required multidisciplinary expertise/competencies and secure better transparency in the development and decision-making process. Hence, we understand that **the governance will be adjusted accordingly and experts from manufacturing sectors will be selected as effective members** in order to ensure better balance of expertise within the platform.

#### Proposed areas for improvement

However, the report still needs further improvements, which are summarised below.

- Even if the report proposes basing the screening criteria on the standard EN 19694-2 for the manufacture of iron and steel, it still recommends use of the ETS benchmarks because the

report deems those benchmarks reliable and considers them as the only consistent data today. It should be noted that the regulation of the EU Parliament and of the Council on the establishment of a framework to facilitate sustainable investment sets out not only the criteria for determining the environmental sustainability of an economic activity, for the purpose of establishing the degree of environmental sustainability of an investment (Article 3) but this regulation also sets out the requirements for the technical screening criteria (Article 4). In particular, the regulation requires that technical screening criteria **shall**:

- take into account the environmental impacts of the economic activity itself, as well as of the products and services provided by that economic activity, notably by considering their production, use and end-of-life (Article 14 (f));
- cover all relevant economic activities within a specific sector and ensure that those activities are treated equally if they contribute equally towards one or more environmental objectives, to avoid distorting competition in the market (Article 14 (i));

EUROFER stresses that, to understand and assess/evaluate the environmental impact of activities of the steel industry, the entire lifecycle needs to be taken into consideration, this in line with the aforementioned Article 14 (f) of the regulation. **It is key to assess the performance along the entire steel value chain, in order to avoid misleading results which would compromise the emergence of sustainable value chains in Europe. Hence, ETS benchmarks are not able to evaluate the environmental impact of the activities of the steel industry as they do not consider the steel value chain. Therefore, EUROFER urgently calls for an effective use of the standard EN 19694-2.** This standard, which was developed with a mandate of the EU Commission sets up CO<sub>2</sub> accounting rules and metrics aimed at carrying out the CO<sub>2</sub> emission performance assessment of steel production facilities while taking into account and properly addressing potential distortion due to differing facility structure. To this end, this standard goes beyond the mere ‘CO<sub>2</sub> intensity’ approach to determine the performance of each process and unit that is part of the value chain in order to identify the strengths and weaknesses in the value chain and, at a later stage, consolidate the performance for the value chain<sup>1</sup>. The standard is also already formulated as an Excel tool ready for use.

- Reducing CO<sub>2</sub> emissions is a very important factor in climate change mitigation, which the EU steel industry supports. However, CO<sub>2</sub> emissions should not be the exclusive metric to assess the environmental sustainability of an activity of the steel sector. The TEG report clarifies that *“to be included in the proposed EU Taxonomy, an economic activity must contribute substantially to at least one environmental objective and do no significant harm to the other five, as well as meet minimum social safeguards”*. It should be noted that there are six environmental objectives foreseen in the regulation establishing the framework to facilitate sustainable investment, including climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, etc. However, the technical screening criteria for the manufacture of iron and steel presented in the TEG report actually focus on climate change mitigation, especially on CO<sub>2</sub> emissions. We stress that while climate change mitigation is a very important environmental objective, it should not be the exclusive focus of the EU Taxonomy. The TEG report should consider that an activity of the steel sector could substantially contribute to other environmental objectives such as, for example to (1) sustainable use and protection of water and marine resources, or (2) transition to a circular economy, waste prevention and recycling, or (3) pollution prevention and control, or (4) protection of healthy ecosystem, while not doing harm to the objective of climate change

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<sup>1</sup> CO<sub>2</sub> emissions and CO<sub>2</sub> intensity per unit of reference product for a value chain can be determined. However, the mere “CO<sub>2</sub> intensity” is not enough for assessing the CO<sub>2</sub> emission performance of the value chain. Performance is being understood as the extent to which an operator uses the total potential of the installation.

mitigation. With six different objectives, the number of options or alternatives are so high that the taxonomy can only mention a few examples but **should be sufficiently flexible and open to innovative ideas that have not been spotted by the TEG.**

- Furthermore, the report includes contradictory elements on secondary steel production. While EUROFER welcomes that the report deems the secondary steel production route eligible for sustainable finance, the report contradicts itself in later on introducing a threshold of 90% for minimum scrap use in the secondary steel production route as a condition for being considered eligible. Unfortunately, this threshold does not correspond to a series of efficient practices in this production route. EUROFER strongly calls for the real situation of the industry to be reflected while at the same time avoiding contraction in the report. Therefore, **EUROFER is asking to remove the requirement that impose to all EAF production a scrap input of at least 90%.**

The following rationale justifies this request:

1. The introduction of a minimum content of 90% of ferrous scrap for the steel production via EAF does not consider all the produced steel qualities. For instance, stainless steel grades are the most valuable steel qualities, characterised by material properties fit for sustainable applications (e.g. resistance to corrosion, versatility, durability, recyclability, reusability ...). However, in order to produce stainless steel, stainless scrap is mixed with ferro-alloys. According to a study published by Yale University in 2013, “Comprehensive Multilevel Cycles of Stainless Steel”, the global stainless steel scrap input rate into the stainless steel production is at around 59%<sup>2</sup> (European stainless steel production can be higher than or similar to this level, but in any case is below the proposed 90%). Therefore, the threshold will have the unintended and detrimental effect of making EU stainless steel production ineligible under the criteria, which is entirely from EAF (considered already eligible to be classified as climate change mitigation enabler) and which produces the higher value and most durable steel grades.
2. The introduction of this minimum content of 90% of ferrous scrap will play against some breakthrough technologies (characterised by ultra-low CO<sub>2</sub> emissions). In particular, two technologies use the EAF process:
  - a. direct reduction with natural gas for production of direct reduced iron (DRI) combined with EAF steelmaking;
  - b. advanced EAF steelmaking with scrap pre-heating and oxy-fuel combustion.

These two techniques are work with an appropriate mix of ferrous scrap and iron metallics (e.g. pig iron, DRI or Hot Briquette Iron – HBI); the mix leads to the best compromise between the maximisation of ferrous scrap input, the minimisation of environmental impacts and the best product performances. However, for the time being it is not known how much ferrous scrap this mix will contain. Thus, the proposed threshold – and in general the use of this type of threshold – is far from ideal and is not clear if it would be compatible with these new technologies.

- Care should also be taken for **the way by-products are being addressed in the report.** In particular on ‘Do No Significant Harm assessment’ (DNSH) the report includes a passage which clearly puts at risk the steel sector’s efforts in engineering dedicated by-products which substantially help reduce the emissions of other sectors. EUROFER welcomes that, for example, the report (page 193) acknowledges the contribution of blast furnace slag to the decarbonisation of the cement sector. However, this recognition is unfortunately undermined

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<sup>2</sup> Comprehensive Multilevel Cycles of Stainless Steel in 2010, Final Report to the International Stainless Steel Forum (ISSF) and Team Stainless, authors: Barbara Reck and T.E. Graedel, Center for Industrial Ecology - Yale University; May 2, 2013 (updated of this report by Yale with more recent data, not public available anymore; however, the ferrous scrap input levels only slightly moves away from 59%)

by the same report through the inclusion of ‘wastes and by-products from the coking and smelting operations **including blast furnace slag**, tar and benzole’ in the list of sources which constitute ‘the main potential significant harm to other environmental objectives from iron and steel production (page 202). The steel sector deems this absolutely completely unacceptable with regard to blast furnace slag, or indeed other by-products. **Hence, EUROFER urgently calls for the deletion of this part from the DNSH list.**

- When assessing other manufacturing activities considered as climate change mitigators, such as the manufacturing of wind turbines, the environmental standard of the materials should be taken into account. Under the ‘doing no significant harm’ objective, wind turbines or towers should not be made with steel produced in a country with legal standards less stringent than, for example, the European BREFs.
- Finally, the taxonomy project is focused on the activities but questions arise on how corporate financing is carried out. The TEG should clarify how EU taxonomy – a European classification targeting activities in Europe – would work with corporate financing which is not limited to Europe.

Brussels, 08/09/2019