EUROFER
THE EUROPEAN STEEL ASSOCIATION

EUROFER contribution: Platform on Sustainable Finance Draft Report on Activities and Technical Screening Criteria to be Updated or Included in the EU Taxonomy

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The Platform on Sustainable Finance has published a draft report on preliminary recommendations for the review of the Climate Delegated Act and the addition of activities to the EU taxonomy. In particular, the draft presents a set of recommendations for revision of technical screening criteria of activities included in the Taxonomy Climate Delegated Act.

Technical screening criteria

The platform has formulated a general, common recommendation to all transitional activities with thresholds based on references to the EU ETS values, including among others the activity of "3.9 Manufacturing of iron and steel" (see page 67 to 69).

The recommendation reads:

> *Revise the Taxonomy threshold values for the specific GHG emissions of tCO2e per tonne of product to a) or b), whichever is lower:*
>
> *a) the new values, representing the average value of the 10% most efficient EU ETS installations in 2021 and 2022, for the respective products after the 2025 update of the transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC (EU ETS free allocation rules), or*
> *b) the new EU ETS Benchmark value set in the same 2025 update of the transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC, due in 2025 (EU ETS free allocation rules).*
>
> *This recommendation applies unless in certain industries more rapid developments, e.g. by the successful introduction of breakthrough decarbonisation technologies, allow for a more ambitious development of the Taxonomy thresholds.*

The platform informs that:

> *[…] the stakeholder input received in this regard was divergent and only applied to specific activities. Therefore, in this review,* ***the Platform decided to follow the approach used in the original Climate Delegated Act to account for the need to revise transitional activities every three years, as specified in the EU Taxonomy Regulation.***

EUROFER comments

EUROFER has been supporting the EU Commission's comprehensive strategy on sustainable finance with the aim of redirecting capital flows to help generate sustainable and inclusive growth. However, this objective can only be achieved if the EU sustainable finance taxonomy takes into consideration the needs of hard to decarbonise industries such as steel, where massive transformative investments are needed for the development, demonstration and scaling up of new CO_2-low technologies over a relatively short time period. The sustainable finance taxonomy should facilitate the transition and therefore maintain a flexible approach that prevents prescriptive and rigid categories which do not take the dynamic evolution of technology into account. **The transition of the steel sector will not be linear, but will rather require step changes and investment spanning over several decades**.

The design of EU taxonomy needs to be appropriate otherwise investments will be made outside of the EU (risks of investment leakage) as companies will compete globally for finance.

The EU taxonomy should **use genuinely an integrated lifecycle approach** to take into account steel as an enabler for CO_2 mitigation in multiple value chains. We would like to reiterate that, in order to understand and assess/evaluate the environmental impact of activities of the steel industry, the entire life cycle needs to be taken into consideration, this in line with Article 19 (g) of the regulation.

Hence, EUROFER has been asking to use a life cycle approach. If this is still not possible, the principles of standard EN 19694-2, developed with a mandate from the EU Commission, should be used to assess relative performance instead of **ETS benchmarks, which do not entail a lifecycle approach and are thus not suitable for the taxonomy purpose. ETS benchmarks are not able to evaluate the environmental impact of the activities of the steel industry as they do not consider the interconnected processes that make up the steel value chain.** An agreed methodology is necessary to clarify how to consider the value chain.

However, we welcome that **the Platform decided to follow the approach used in the original Climate Delegated Act to account for the need to revise transitional activities, as specified in the EU Taxonomy Regulation, i.e., point a) of the above recommendation, while emphasising the importance of ensuring predictability in technical screening criteria.** On the contrary, we do not support point b) of the recommendation: we do not agree with using the EU ETS benchmarks as thresholds for technical screening criteria, because the EU ETS benchmarks **are not able to evaluate the environmental impact of the activities of the steel industry as clarified here above.**

It is our understanding that the methodology to calculate the CO_2 intensities in the frame of the ETS benchmarking will still be used, but not the ETS benchmarks. As matter of fact, the approach of the original Climate Delegated Act uses the EU ETS methodology for calculating the CO_2 intensities and set the thresholds at the average of 10% most efficient installations for the

relevant period (e.g. data 2016-2017 are used for setting the thresholds for the EU ETS period 2021-2025, data 2021 and 2022 for period after 2025) for establishing the technical screening criteria for determining the conditions under which manufacturing of iron and steel activities qualify as contributing substantially to climate change mitigation. However, for the technical screening criteria for DNSH, the thresholds are set at the median value instead of the average value of the top 10% of installations.

Predictability in taxonomy criteria needs to be ensured due to investment planning. Any possible update of those criteria must be based on real technology development in the sector and due assessment of applicability/viability of the technologies at industrial scale across the EU. Some technologies are usable/viable only in some EU regions (due to different geographic and other conditions) and these should not become basis for taxonomy criteria update. Changing requirements put predictabilty at risks, which can create legal uncertainty in financing legal agreements. This will hinder investments in new steel making assets which are typically long-term investments with financial arrangements (potentially with taxonomy alignment clauses) reaching over several years.

3.9 DNSH for Circular Economy

The Platform on Sustainable Finance also recommends revisions to DNSH: New criteria shall read as follows:

“The steel scrap input relative to product output is not lower than 15% [of post-consumer scrap].”

Rationale:

Every tonne of scrap used saves CO2, energy and resources while avoiding primary raw material extraction and transport on a large scale (e.g. fewer ore transports from America/Australia to Europe). The steel industry itself has provided evidence of the saving made by scrap in different steel crude production processes in extensive studies. Multiple studies show that most sense would be to have product-specific targets (differentiating between long and flat products). While this approach might not be aligned to the current wording/approach in TSC for substantial contribution, the option that aligns the suitable one-size-fits-all criteria of at least 15% (regardless on the steelmaking production route) should be introduced. [The Platform still discusses whether a threshold should relate to the post-consumer scrap only as circularity might be improved rather substantially. Recommendations will be double checked against additional JRC data as well as other consultation inputs.]

EUROFER comments

While we agree that increasing the use of steel scrap in production is vital to reducing CO2

emissions, energy consumption, and primary raw material extraction, the proposed criterion are inappropriate for the following reasons:

Broad Applicability of the 15% Threshold:

The proposed 15% threshold, applied uniformly across all steelmaking production routes and product types, does not account for the varying technical and economic constraints between production processes, such as the Basic Oxygen Furnace (BOF) and Electric Arc Furnace (EAF) routes. The BOF process inherently relies on a lower percentage of scrap due to its reliance on hot metal from iron ore, while the EAF process can achieve significantly higher scrap input rates. Typical scrap ratio for BOF starts usually at 15% and the exact ratio can vary depending on factors such as the specific steelmaking requirements, the type of steel being produced, and the availability and quality of scrap. With future steel producing technologies the mix of scrap and other iron bearing materials will be even more flexible to the benefit of resource efficient use of different scrap properties. Having a percentage threshold, however, won't improve circularity of iron- and steel scrap. For ironmaking, this criterion would be irrelevant in any case, as the iron and steel activity include iron production by direct reduction of iron ore, which, of course, does not involve any scrap.

Product-Specific Targets:

As there are options to produce specific products (long or flat) in both BOF or EAF routes, thus there is no sense to set any product specific threshold as this would lead to resource shuffling according to those criteria. Various steel product categories make this proposed approach unrealistic in practice. Different scrap qualities, such as varying levels of alloys, need to be used where they are most effective, depending on the specific products being produced.

Focus on Post-Consumer Scrap:

The emphasis on post-consumer scrap risks overlooking the significant role of pre-consumer scrap (e.g., process scrap from manufacturing). Pre-consumer scrap is a critical part of the circular economy and is already integrated into production cycles. Limiting the threshold exclusively to post-consumer scrap could introduce unnecessary constraints and fail to reflect the actual circularity improvements achieved by the steel industry. For the recycling of iron and steel, there is a functioning market for scrap based on sorting and quality classification for different types of scrap. Legislation should avoid imposing restrictions that could affect this market, as it might hinder the optimal use of scrap.

Hence, imposing a rigid one-size-fits-all threshold without considering the nuances of production routes and product types risks undermining the credibility and effectiveness of the proposal.

Imposing recycled content requirements should always be considered in relation to other legislation that has more precise technical requirements and may therefore overlap or nullify them.

For the manufacturing of copper, nickel and lithium the Platform considers DNHS criteria for circular economy as "not applicable" with the rationale that: "Metals are recyclable materials and by their nature contribute to the circular economy". This is also true for iron and steel and the same approach should be used for all metals to secure consistency within the taxonomy.

3.9 Iron and steel

The Platform on Sustainable Finance recommends revisions on substantial contribution (SC) by preparing FAQ to address approach for integrated steel mills (FAQ to clarify):

- EAF Steel manufacturing criteria are applicable for manufacturing of steel by remelting of pre-consumer and post-consumer scrap in a cast house and guidance if further downstream processing (e.g. rolling) to steel sheets etc.) may be included in the Taxonomy reporting or not;
- guidance shall be provided on steel manufacturing activities which are carried out at an integrated site including whether such activities, individually and collectively (e.g. sheets) can be included in the Taxonomy reporting or not should be considered eligible.

Rationale: scope / usability

There are no detailed criteria for steel rolling mills when these are integrated with meltshop activities. The standard practice is that melting activities exist within the same location with the downstream activity.

Steel companies that produce EAF steel products and then use rolling mills, are not able to show alignment, even though TSC are respected, due to the fact that intermediate steel slabs do not have a selling price coming out of the melt shop.

EUROFER comments

We agree that guidance is needed as we find the Commission's current guidance (Commission FAQ document November 2024, i point 11) unsatisfactory with regards downstream processes not being included.

The criteria for iron and steel based on the ETS methodology sets emission levels for specific process steps e.g smelting in electric arc furnace. The intermediate product from that process, crude steel, is not the product that is sold and the companies do not have any economic data for

that product. The economic activities referred to in the criteria document are NACE codes that are much wider than the process step that the criteria refer to which indicated that the full activity should be included. If downstream processes cannot be included with the product that the company actually sells, no data can be reported even if the asset itself would meet the technical screening criteria.

Given that the large majority of CO2 emissions occur upstream the continuous casting, it should be assumed that the alignment of steel products with the climate change mitigation objective is considered to be the same as the alignment of the crude steel from which they are manufactured.

Appendix C on generic DNSH to Pollution Prevention and Control

In Appendix C there are several points we would like to address.

EUROFER comments

With regard to the Review of Appendix C on generic DNSH to Pollution Prevention and Control, EUROFER members agree with the purpose of this initiative as it provides an opportunity to help achieve the ambition under the Taxonomy regulation, we appreciate and support the proposed positive changes to Appendix C regarding points b), c) and d) and the addition on all points on flexibility regarding detection and measuring devices.
However, for point f) there are concerns and more detailed comments below.

Appendix C on generic DNSH to Pollution Prevention and Control, point f

1. The recommendation to use SoC (Substance of Concern) is not appropriate in this context. EUROFER members believe that a purely hazard-driven selection is not justified regarding the aim of Taxonomy (No Significant Harm). The mere presence of a SoC in a product does not lead to significant risk or harm. For example, activities concerning the manufacture and placing on the market of several metals are not aligned with the Taxonomy criteria, although perfectly safe. The most prominent example is nickel: it fulfils the criteria as SoC, is present in large quantities in stainless steel, and stainless steel is not only extremely useful to society, but can be manufactured and used safely at all stages of its lifecycle. Another example of this is the use of non-soluble lead anodes in electrolytic processes.
2. EUROFER members are of the opinion that REACH is the key legislation regarding chemicals and should be the driving principle in Taxonomy. To this end, we propose that:
    - the scope of the DNSH criteria should be restricted to the substances submitted to authorisation, i.e. listed on REACH Annex XIV. The proposed

recommendation in the table would by far exceed the REACH requirements for companies which use SVHC-substances on the REACH Candidate List, whether on their own, in mixtures or in article, and/or other substances.

- There should also be a threshold under which these criteria do not apply: for mixtures, it should be aligned with classification and declaration threshold under REACH and CLP; for articles it should be aligned with SVHC declaration threshold of 0.1%.
- The DNSH criteria should not go further than the considerations for substances in articles under the REACH regulation. REACH considers that the risk associated with the use of substances in an article without intentional release is generally not significant (and where they may be significant nevertheless, REACH provides a mechanism for restriction). So, the criteria should be aligned with this and exempt articles whose substances of very high concern are not intentionally released during the intended use.

Under the need of proportionality and risk-based approach, every exemption from burdens placed on SVHC's by REACH should be reflected in the DNSH Appendix C. Under the REACH Regulation in the European Union, certain laboratory and intermediate uses may be exempt from authorization requirements. As an example, the use of chromium trioxide in laboratories is considered sufficiently controlled and thus exempt.