EUROFER
The European Steel Association

POSITION PAPER

SUSTAINABLE FINANCE TAXONOMY UPDATE (EUROFER PRIORITIES FOR THE TAXONOMY REGULATION AND COM EXPERT GROUP)

THE TAXONOMY REGULATION

On 24 May 2018 the Commission published legislative proposals on sustainable finance, including the Regulation on the establishment of a framework to facilitate sustainable investment (EU taxonomy). The main objective is to define the concept of 'sustainable investments' with a view to channelling capital flows towards those type of investments.

This framework is intended to serve two purposes: **Member States authorities** shall use it when setting national legislation to promote sustainable investments (e.g. **labelling schemes, green bonds schemes**, etc.), and **financial actors** shall use the criteria above to determine the environmental sustainability of an investment.

EUROFER welcomes the legislative proposal to mobilise investments in the EU in view of achieving the Paris Agreement and Europe's 2030 & 2050 climate goals. Achieving these goals will require massive transformative investments for development, demonstration and scaling up of new technologies in a relatively short period of time. Therefore, the proposed EU taxonomy should not hinder innovation and the transition of the European steel industry to climate neutral and circular economy. The issue of up-scaling projects to industrial scale needs to be at the center of ongoing policy discussions, including access to finance, awareness of risks and benefits, long-term predictable policy frameworks, etc.

By 2050, the steel industry hopes to have shifted from high dependence on fossil energy and raw materials to become a low-carbon energy-based sector integrally part of the circular economy. The aim is, by this time, to emit at least 80% less CO_2 compared to 1990 levels. Europe will be a leading provider of low-carbon products, services and technologies worldwide - access to investment will be key to making this successful.

For these reasons EUROFER advocates that:

- A purely binary consideration between 'environmentally sustainable' or 'activities with a negative environmental impact' does not represent current industrial realities and societal needs. To keep industrial production in Europe, preventing carbon and investment leakage, industrial value-creation chains consideration is essential and should be fully represented in the taxonomic system.
- Taxonomy should maintain a flexible approach that prevents prescriptive and rigid categories which do not take the dynamic evolution of technology into account.
- Taxonomy should not be misused as punitive instrument. There should be no black listing. Taxonomy should facilitate and support any activities in the process of transformation towards carbon-lean configuration and operation, including preparatory large-scale innovation projects and specific timelines and pathways of its transition.

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- Taxonomy should not lead to any disproportionate reporting duties or cost increases for the real economy.
- Taxonomy must consider a fully comprehensive life-cycle analysis.

COMMISSION TECHNICAL EXPERT GROUP WORKSHOPS

In addition, and parallel to the legislative work on EU taxonomy, the Commission has formed a **Technical Expert Group** (TEG) to work on the specific screening criteria by which to determine whether an economic activity is sustainable. These screening criteria will subsequently be proposed for use in the delegated acts in accordance with the Regulation. We have strong reservations about the proposal for screening criteria suggested by the Commission for the 2ndRound climate change mitigation activities. In particular, EUROFER advocates the following:

- The **scope of the initiative for sustainable investment needs further clarification** – whether activities or companies are to be considered.
- Technical screening criteria should be **quantitative and/or qualitative,** carefully and thoroughly assessed by the Technical Expert Group (TEG) and the coming Platform, open for public for consultation and submitted to impact assessments.
- Furthermore, the proposed mitigation principle and criteria for iron and steel only cover part of the full activity since neither the improvement potential nor the contribution from the use of its products over the lifecycle is included. The transition to a climate-neutral economy will need the innovative steel products that are enablers for low carbon technologies, which needs to be recognised. Hence, **entire value chains, as assessed by Lifecycle Assessment (LCA), should be considered to assess the real impact of the full value chains**.
- **LCA – which we deem the most suitable approach – includes both the so called 'greening of' AND the 'greening by' principles**. In addition, **LCA should include indirect emissions** such as from electricity or alloys consumption.
- The **ETS benchmarks are the wrong reference to assess the environmental sustainability of the installations.** They are not meant to reflect the technical feasibility of the steel sector and only focus on greenhouse gas emissions as values based on the rules for sharing the free allocation. Using EU ETS Benchmarks is therefore not useful and is counterproductive for this policy; alternatives should be applied. We suggest instead use **the LCA approach or, alternatively, European Standard EN 19694**.
- Finally, it is important that the technical screening criteria developed by the TEG are only a mean to assess the criteria "contributing substantially" and "does not significantly harm" of Article 3 and do not form an additional criterion in themselves – to this end, the compatibility of the TEG work with regards to the on-going legislative work on the Regulation should also be further clarified.