

EEB's contribution to the Free Allocation Regulation public consultation.

GENERAL POINTS

This contribution is focused on the benchmarks linked to steel and cement production. As a matter of fact, despite being subject to the EU ETS, CO₂ emissions of such sectors haven't decreased fast enough in the last decade¹; a quick change of approach is required if we want to see such sectors making the right investment decisions to become climate-neutral by 2050.

The last ETS review provided an opportunity for such a radical change of approach² by designing benchmarks *"independent of the feedstock or the type of production process"* and modifying *"the definition of the products and of the processes and emissions covered for some benchmarks, to ensure a level playing field for installations using new technologies that partly reduce or fully eliminate GHG emissions"*.

Such an opportunity has not been grasped. The Commission failed to modify the benchmarks related to steel and cement production in such a way that would have put faster decarbonisation options at the same level of "business as usual" ones. Namely, steel-related benchmarks still disregard the role of scrap-based steel and circularity, whereas cement-related benchmarks consider low-clinker cements only very marginally.

STEEL-RELATED BENCHMARKS

Such conservative text will not allow to put primary and secondary steel on a level playing field, since it gives incentives only to the iron ore-based route with consequent risks in terms of environmental damages caused by mining, higher energy and resource use and higher overall carbon emissions. Putting circularity practices at the same level as iron ore transformation would have been crucial for the sector to strive towards net-zero; not only by reducing emissions much more quickly, but also by improving energy and resource efficiency compared to steelmaking processes that rely predominantly on mined iron ore. As pointed out by Sandbag³ and supported by the recycling industry^{4 5}, *"this methodology disincentivises the use of scrap in the steel production process, since recycled steel is not covered by the free allowances, and instead encourages steel manufacturers to use higher proportions of iron ores"*.

¹ Production of pig iron and steel: -10% - Production of cement clinker: -6% (2012 – 2022 period) Source: ETS Registry

² Directive, recital 10 and article 10a

³ <https://sandbag.be/wp-content/uploads/Sandbag-Factsheet-on-flat-steel-in-the-FAR.pdf>

⁴ <https://eeb.org/wp-content/uploads/2023/12/Joint-letter-on-the-FAR-revision.pdf>

⁵ <https://sandbag.be/2023/05/05/free-allocation-needs-to-incentivise-circularity/>

CEMENT-RELATED BENCHMARKS

While at least the revised FAR partially considers low-clinker options by including calcined clays in the scope of the clinker benchmarks, nevertheless such an addition excludes “*by-products or waste resulting from other processes*” so limiting its potential, being a lot of the clays currently investigated for calcination coming from waste streams. Moreover, we consider it a very minor addition that regrettably does not consider the short-term CO₂ emission reduction potential of the broader family of low-clinker cements, as signalled by the Alliance for Low-Clinker Cements and Concrete (ALCCC)⁶.

PROGRESSES

We recognise progress in the design of some of the current benchmarks. Namely:

- The new “agglomerated iron ore” benchmark, which will allow to spark the use of iron ore pellets, resulting in less CO₂ emissions.
- The inclusion of direct reduced iron (DRI) in the scope of the hot metal benchmark.
- The inclusion of calcined clays in the scope of clinker benchmarks, even though with the limitations stated above.

RECOMMENDATIONS

- Design benchmarks based on products instead of processes. Reduce the agglomerated iron ore, coke and hot metal benchmarks to only one “steel” benchmark (see suggestion by Sandbag²) and reduce the grey and white clinker benchmarks to only one cement benchmark (as suggested by the ALCCC⁵).

Alternatively:

- Keep the agglomerated iron ore and hot metal benchmarks as designed by the Commission.
- Open the clinker benchmarks to the whole family of Supplementary Cementitious Materials (SCMs), such as uncalcined clays, silica fume, pozzolans, recycled concrete fines, etc.
- Keep calcined clays in the clinker benchmarks and remove the prohibition to use “*by-products or waste resulting from other processes.*”

⁶ <https://alliancealccc.com/wp-content/uploads/2023/08/ALCCC-joint-position-FAR-for-cement-August-1.pdf>