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The Bigger Picture

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Global implications of the EU's steel strategy beyond CBAM

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Executive Summary

In response to growing domestic and international pressures on the EU steel sector, the European Commission has made the steel industry a priority for the current legislative cycle, culminating in the adoption of the Steel and Metals Action Plan (SMAP). The SMAP introduces a range of regulatory measures designed to enhance competitiveness while advancing decarbonisation. While measures like the Carbon Border Adjustment Mechanism (CBAM) have received significant attention, other elements of the strategy remain relatively underexplored, despite their potential impact on steel exports to the EU.

This discussion paper provides a cross-cutting analysis of the EU's new steel strategy, focusing on four pillars with the most significant international implications: (i) preventing carbon leakage, with a focus on CBAM; (ii) creating lead markets through the development of low-carbon steel label; (iii) promoting circularity, examining the Eco-design for Sustainable Products Regulation (ESPR) and scrap restrictions; and (iv) supporting and protecting the domestic steel sector, including the recently proposed steel safeguard. For each pillar, the paper unpacks the features of the relevant regulatory measures and their potential external impacts on trading partners. It then examines the interlinkages across these measures, assessing scope overlaps, compliance requirements, and (mis)alignment in terms of objectives. Finally, the paper puts forward cross-cutting policy options for early partner engagement as the EU rolls out the SMAP, calling for a multipronged approach combining sectoral cooperation to better tackle the cumulative impacts of EU steel-related measures, bilateral engagement with key steel suppliers, and targeted support measures. In doing so, this discussion paper seeks to move the conversation beyond CBAM, highlighting the broader and cumulative impacts of the EU's steel strategy,

particularly on developing countries and emerging economies. It offers insights and policy options to help mitigate potential negative spillovers, ensuring that the EU's steel strategy supports, rather than undermines, its trading partners' decarbonisation pathways while preserving the EU's global standing as a climate champion and reliable trading partner.

1. Introduction

The European Union's steel industry competitiveness is under threat. The EU's share of global steel production has shrunk to 7-8% over the last decade, and the sector's capacity utilisation stands at a mere 67% (compared to a healthy rate of 80%). Since the 2008 financial crisis, the sector has lost about 25% of its workforce, equivalent to approximately 100,000 jobs.¹

The shrinking of the EU steel industry is the culmination of various pressures: domestically, it reflects high decarbonisation costs, linked to high electricity prices and costly adoption of new technologies. High costs, coupled with a lack of customer willingness to pay a clean premium and insufficient regulatory incentives, make it challenging to attract investment in green steel. Indeed, in the past year, several green steel projects in the EU have been abandoned or delayed.² For example, in November 2024, ArcelorMittal suspended decarbonisation investments across Europe, citing unfavorable market and energy conditions.³

Internationally, it reflects increased imports driven by global excess capacity and market restrictions. Indeed, growing global steel overcapacity – which is expected to further increase from the current 602 million tonnes to 721 million tonnes by 2027 – is distorting markets and fueling subsidised exports, weakening the competitiveness of

¹ E3G & Beyond Fossil Fuels, "The State of the European Steel Transition", Report, March 2025.

² Richard Mine, "Flagship Green Steel Start-up in Funding Crisis as Europe's Low-Carbon Ambitions Falter," 13 October 2025, Financial Times.

³ Reuters, "ArcelorMittal drops plans for green steel in Germany due to high energy costs", Reuters, 20 June 2025.



the EU's steel sector in a global market.⁴ The United States' increase in its steel tariff to 50% – while eliminating quotas – has added further pressure to an already strained sector.⁵ These developments are resulting in margin compression and a cost disadvantage for EU producers vis-à-vis other major steel producers.

Yet the steel industry is considered vital to the EU's economic security and social stability, and holds strategic importance for the EU's defense and aerospace sectors.⁶ It generates around €215 billion in gross value added annually, directly employs 298,000 people, and supports an estimated 1.5 million indirect jobs.⁷ Therefore, as expressed in the Clean Industrial Deal (CID), reviving the competitiveness of strategic EU industrial sectors, including the EU steel sector, is a key objective of the European Commission. To this end, in March 2025, the Commission adopted the Steel and Metals Action Plan (SMAP), which addresses the dual challenge of enhancing the EU steel sector's competitiveness, including through subsidies and tariff measures, while accelerating decarbonisation. In particular, the SMAP suggests further legislative action around six pillars: ensuring abundant and affordable clean energy; preventing carbon leakage, including through expanding the scope of the Carbon Border Adjustment Mechanism (CBAM); promoting and protecting European industrial capacities, including through additional steel safeguards; promoting circularity for metals under the Ecodesign for Sustainable Products Regulation (ESPR); defending qual-

ity industrial jobs; and derisking through lead markets and investment support, including by developing a voluntary label on carbon intensity of industrial products such as steel.⁸

As steel is a highly traded commodity, the cumulative impact of the proposed regulations and initiatives set out in SMAP will be significant for EU trading partners in this sector, especially countries with high levels of carbon emissions, and small and medium-sized enterprises (SMEs) in developing countries. While measures like the Carbon Border Adjustment Mechanism (CBAM) have received significant attention, other elements of the SMAP remain relatively underexplored, despite their potential impact on steel exports to the EU.

This policy paper seeks to address this gap. It maps EU regulatory measures – both existing and upcoming – that directly impact EU steel imports, offering a cross-cutting analysis of their potential implications for EU trading partners.⁹ The authors argue that, as the EU rolls out these and other steel-related measures, it must carefully consider and manage the cumulative global impact of this “green spaghetti bowl of regulation”¹⁰ on its trading partners, especially on developing countries. In particular, the Commission must enhance examination of the interlinkages between the various measures that impact steel trade, and ensure they do not send contradictory signals,

⁴ Organisation for Economic Co-operation and Development (OECD), “[Surging excess capacity threatens steel market stability, employment, and decarbonisation plans](#)”, Press Release, OECD, Paris, 27 May 2025.

⁵ The White House, “[Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs](#)”, Press Release / Fact Sheet, The White House, Washington, DC, 11 February 2025.

⁶ European Commission, “[COM\(2025\) 726: Proposal for a Regulation addressing the negative traderelated effects of global overcapacity on the Union steel market](#)”, Official Document, European Commission, 7 October 2025; European Commission, “[A European Steel and Metals Action Plan](#),” Communication, European Commission, 19 March 2025 (SMAP).

⁷ European Steel Association (EUROFER), “[European Steel in Figures 2025](#)”. EUROFER, June 2025.

⁸ European Commission, “[A European Steel and Metals Action Plan](#),” Communication, European Commission, 19 March 2025 (SMAP).

⁹ This paper does not provide an exhaustive list of EU measures affecting steel trade, focusing on selected instruments with a more direct external impact on trading partners. Other EU regulatory measures may also directly or indirectly affect steel exporters to the EU, such as Corporate Sustainability Due Diligence Directive (CSDDD), the End-of-Life Vehicles Regulation, and the EU Hydrogen Strategy.

¹⁰ Jodie Keane and Colette van der Ven, “[Letter: Letter: Brussels is creating a green spaghetti bowl of regulation](#)”, Financial Times, 17 December 2025.

especially regarding their role as levers to accelerate global decarbonisation – a key objective of the CBAM.

Therefore, the Commission's challenging task is not only to better integrate the development dimension into its green trade policy as part of the "triangle", as we have argued before,¹¹ but also to ensure that both development concerns and global decarbonisation objectives do not become subservient to the EU's national security and industrial competitiveness priorities. Doing so is critical not only to strengthen the EU's leadership role in climate diplomacy, reflecting its unique responsibility,¹² but also, from an enlightened self-interest perspective, to deepen cooperation with key trading partners in an increasingly fragmented and geopolitically volatile world.

2. The external dimension of the EU's steel strategy

In the face of competitiveness and transition challenges, supporting the EU industry, including the steel sector, is a priority for the Commission. Indeed, Commission Communication "A Competitiveness Compass for the EU" (January 2025), first set this direction by placing industrial competitiveness at the core of the Commission's agenda for the new legislative cycle, identifying steel and metals as a priority sector.¹³ The Clean Industrial Deal (CID), the EU's new industrial strategy announced in February 2025, reinforced this focus, emphasising the need to accelerate the transition of energy-intensive industries, including steel and metals.¹⁴ Together, these initiatives paved the way to the adoption of the SMAP in March 2025, a sector-specific roadmap for the steel and metal industry, that outlines

actions to achieve seven different objectives: (i) ensuring access to clean and affordable energy for the metals industry; (ii) preventing carbon leakage; (iii) promoting and protecting European industrial capabilities; (iv) promoting circularity for metals; (v) defending quality industrial jobs; (vi) de-risking decarbonisation projects through lead markets and public support; (vii) and working together on implementation for a fair transition.

In this discussion paper, we focus on the four objectives and associated regulations – both existing and proposed – that will have the most significant implications for EU trading partners (with Figure 1 below providing a timeline of the selected regulations). These are:

- **Preventing carbon leakage**, with a focus on CBAM; (section 2.1)
- **Creating lead markets**, with a focus on the low-carbon steel standard that is being developed under the Industrial Accelerator Act; (section 2.2)
- **Promoting circular steel**, with a focus on the Eco-design for Sustainable Products Regulation, and the associated (upcoming) Delegated Act for steel; restrictions on scrap under the Revised Waste Shipment Regulation, and the possibility of additional scrap restrictions (section 2.3); and
- **Promoting and protecting the EU industry**, covering the proposed new steel safeguard measure (under discussion), the recently adopted safeguard measure on certain ferroalloys, and the ongoing assessment regarding the introduction of a "melted and poured" rule of origin for steel (section 2.4).

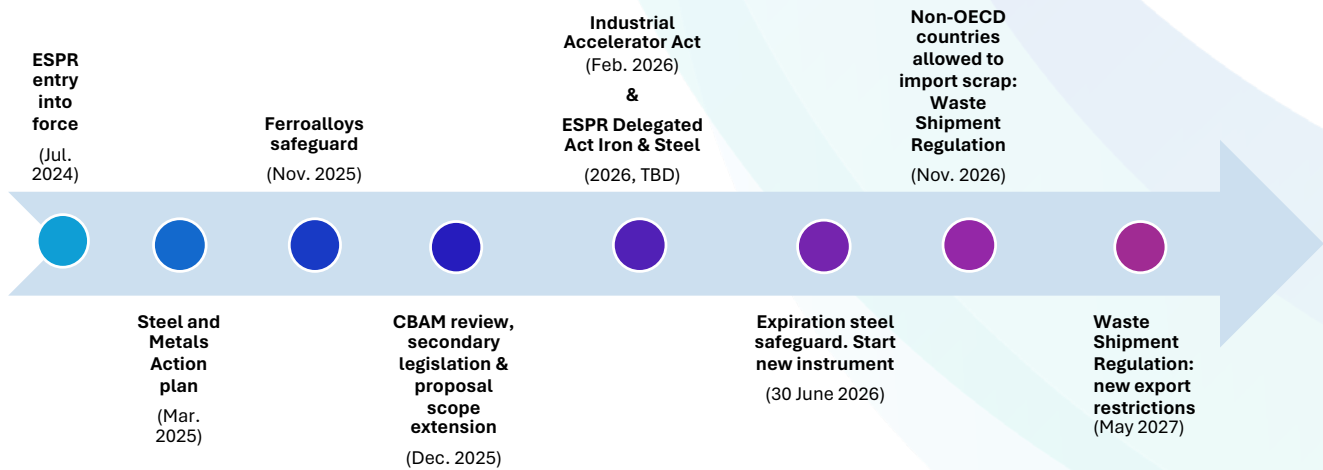
¹¹ Pascal Lamy et al., "EU Trade and Environment: Development as the Missing Side of the Triangle". Europe Jacques Delors. June 2023.

¹² *Ibid.*

¹³ European Commission, "A Competitiveness Compass for the EU", Communication, European Commission, 29 January 2025.

¹⁴ European Commission, "The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation", Communication COM(2025) 85 final, European Commission, 26 February 2025.

Figure 1: Timeline of key regulations with implications for steel exporters to the EU



Source: Author's analysis

For each of these four objectives, the sections below provide an overview of the main measures and their anticipated impact on EU trading partners, before turning to a discussion of their cross-linkages in section 3. This analysis has taken into account information available as of January 21, 2026. Any amendments or new regulations developed after this date will not be included in this analysis. However, for measures yet to be adopted, the analysis identifies limitations stemming from speculation.

2.1 Preventing carbon leakage

2.1.1 The EU CBAM

Among the measures that affect steel firms, the CBAM has received significant attention. The CBAM – a historic first in regulating carbon-intensive imports – is a key component of the EU's "Fit for 55" package of legislation, designed to reduce the EU's net GHG emissions by at least 55% by 2030 compared to 1990 levels and to reach net zero by 2050. Specifically, CBAM introduces a carbon price on selected imported goods that is equivalent to the carbon price on EU-produced goods under the EU Emissions Trading

Scheme ("ETS"), a cap-and-trade system designed to lower emissions through a carbon market. This scheme seeks to lower aggregate emissions from energy-intensive industrial sectors by setting a limit, or "cap" on the total amount of GHG emissions that can be released and issuing tradeable emission allowances within this limit.

The CBAM, which covers steel, is designed to level the playing field between domestic and imported producers. It requires EU importers to buy CBAM certificates to cover the price difference between the carbon price paid in the producer country (if any) and the price of carbon allowances under the EU ETS. In doing so, the CBAM aims to "prevent the risk of carbon leakage, thereby reducing global carbon emissions and supporting the goals of the Paris Agreement".¹⁵ To date, the EU has mitigated this risk by providing free allocation of emission allowances to certain industries, including iron and steelmaking, allowing them to emit specific amounts of GHG without incurring costs, thus shielding them from the full carbon cost of the ETS.¹⁶ Indeed, the iron and steel sector is among

¹⁵ European Parliament and Council, "Regulation (EU) 2023/956 of 10 May 2023 establishing a Carbon Border Adjustment Mechanism (CBAM)", Regulation, Official Journal of the European Union, 16 May 2023.

¹⁶ According to the European Court of Auditors (Special Report 18/2020), free allocation of allowances under the EU ETS represented over

the largest recipients of free allowances, according to the European Environmental Agency (EEA).¹⁷

CBAM will fundamentally change this framework by enabling the phase-out of the current free allowances system under the EU ETS for EU-based firms in hard-to-abate sectors, while minimising exposure to carbon leakage. In particular, free allowances are scheduled to start being phased out from 1 January 2026, once CBAM enters its definitive phase. From then onwards, free allowances for EU ETS installations producing CBAM goods will be phased out from 2026 to 2034, in parallel with the gradual phase-in of the CBAM's financial obligations for imported goods. This phase-out is essential to encourage emissions reductions and end the business case for coal-based ironmaking.

2.1.2 The external impact of the EU CBAM

The external impact of the CBAM can be approached from an environmental and trade angle. From an environmental perspective, the CBAM aims to incentivise operators in third countries to reduce emissions. A recent Review Report from the Commission suggests that the CBAM has contributed to decarbonisation efforts outside the EU, partly through outreach and technical assistance in developing and implementing carbon pricing and market policies.¹⁸ Indeed, recent years have seen a notable increase in

the uptake of carbon pricing policies, particularly in emerging and developing economies such as Türkiye, India, and Brasil, a trend encouraged, at least in part, by the EU's CBAM rollout and its anticipated trade effects.¹⁹

More controversial are the CBAM implications on trade. Indeed, many developing countries, including India, South Africa, and Brasil, have been vocal critics of the CBAM, citing the instrument's potential to serve as a market access barrier, especially for firms from developing countries and Least-Developed Countries (LDCs), and small and medium-sized enterprises (SMEs).²⁰ Critiques further contend that CBAM is not aligned with the UNFCCC principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) and could deprive developing countries of economic opportunities available to the West.²¹ Concerns about CBAM's impact have increased amid tighter implementation rules and expanded scope, discussed in more detail below.

A country's CBAM exposure depends, in part, on the emission intensity of its steel production, as well as its reliance on the EU market for the export of CBAM-covered goods.²² High exposure to CBAM will place certain countries and sectors at a competitive disadvantage when exporting steel to the EU compared to countries with relatively low exposure. Countries with relatively low levels of

40% of total allowances in 2013–2020 period, yet there is limited evidence that this contributed to effective decarbonisation, especially in the power, industry and aviation sectors. See European Court of Auditors, "[Special Report 18/2020: The EU's Emissions Trading System - free allocation of allowances needed better targeting](#)", Report, European Court of Auditors, 2020.

¹⁷ European Environment Agency, "[EU ETS Data Viewer](#)", Webpage, European Environment Agency, 2025.

¹⁸ European Commission (2025) "[Review Report on the application of the Carbon Border Adjustment Mechanism \(CBAM\)](#)", Review Report, European Commission, 17 December 2025; European Commission (2025) "[EU Climate Diplomacy: Strengthening Carbon Pricing around the World](#)", Policy Paper, European Commission – Directorate-General for Climate Action, October 2025.

¹⁹ World Bank (2025), "[State and Trends of Carbon Pricing 2025](#)", Report, World Bank, 10 June 2025.

²⁰ See South Africa (2025) "[Submission by the Republic of South Africa in respect of the public consultation on the extension of the Carbon Border Adjustment Mechanism \(CBAM\) to downstream products, anti-circumvention measures and rules for electricity emissions \(Initiative 14748\)](#)", August 2025; Times of India, "[COP30: India calls EU's proposed carbon border tax an instrument of protectionism, saying it contradicts the spirit of the UN climate convention](#)", News Article, Times of India, 11 November 2025.

²¹ Pascal Lamy, Geneviève Pons, Colette van der Ven & Cláudia Azevedo, "[GT14 – EU Trade and the Environment: Development as the Missing Side of the Triangle](#)", Europe Jacques Delors, June 2023.

²² European Commission (2025) "[Review Report on the application of the Carbon Border Adjustment Mechanism \(CBAM\)](#)", Review Report, European Commission, 17 December 2025.



CBAM exposure stand to gain a competitive advantage. At the aggregate level, recent Commission analysis highlights that CBAM's impact on the GDP of LDCs is expected to be negligible (at less than 0.01% by 2035), with similarly small aggregate impact on the GDP of other developing and neighboring countries, and limited macroeconomic impact on individual countries.²³ However, these aggregate data mask the significant implications CBAM can have in specific sectors.

For the steel sector, the World Bank Trade Exposure Index finds that Egypt's, India's, and Uzbekistan's steel sectors are highly exposed, leading to the risk of higher CBAM payments and the loss of the sector's competitiveness.²⁴ The implications on specific industries can be significant: for instance, one study projects that Indian steel exports to the EU could fall between 8 and 14%.²⁵ Conversely, Turkey's steel industry might have a competitive edge under CBAM, given that, despite its export dependence on the EU market, the industry is heavily reliant on electric arc furnaces (EAFs) that use scrap steel, resulting in a structurally lower emissions profile.²⁶ However, upcoming EU restrictions on metal scrap exports (discussed in section 2.3.3) could undermine this advantage, as Turkey's steel industry relies heavily on EU scrap imports.²⁷

CBAM exposure also varies within countries and across companies: large steel companies tend to be better

placed to gather verified emission data, invest in low-carbon production, engage in resource shuffling, and finance Monitoring Reporting and Verification (MRV) systems, whereas SMEs face higher relative costs, tend to rely on default values, and lack access to the capital necessary to green their production.²⁸

Indeed, SMEs, which are often unable to report verified emissions data due to limited MRV capacity, are more likely to continue relying on default values. These values are punitive by design to encourage companies to report actual emissions, and will become more stringent over time, rising from a 10 percent mark-up in 2026 to 20 percent in 2027 and 30 percent from 2028.²⁹ Without targeted support to strengthen MRV capacity, SMEs risk being locked into inflated default values – regardless of their actual emission performance – turning a transitional compliance tool into a structural penalty that increases their CBAM exposure.

Moreover, given the differentiated rate in embedded emissions in steel products resulting from distinct production routes (see box 1), firms that produce steel through the Blast Furnace-Basic Oxygen Furnace (BF-BOF) Route, which tends to be more CO₂-intensive, are typically more exposed than those using the less-carbon-intensive Domestic Reduced Iron (DRI)/Electric Arc Furnaces (EAF) route. The CBAM Implementing Regulation on the meth-

²³ European Commission (2025) "Review Report on the application of the Carbon Border Adjustment Mechanism (CBAM)", Review Report, European Commission, 17 December 2025.

²⁴ World Bank, "CBAM Exposure Indexes", Data page, World Bank (accessed November 2025).

²⁵ Anandita Gupta et al., "Potential Implications of the EU's Carbon Border Adjustment Mechanism", 21 March 2024. NIPFP Working Paper Series.

²⁶ Bureau of International Recycling, "Ferrous Report 2019–2023", Report, BIR, 2023.

²⁷ EuRIC, "Metal Recycling Factsheet" (Factsheet, EuRIC, 2022). GMK Center, "EU exported 15.6 million tons of scrap in January–November 2024", News, GMK Center, February 4, 2025.

²⁸ See, e.g., NewClimate Institute, "Navigating CBAM in China: Exploring Policy Pathways for Guangdong province", Report, NewClimate Institute, April 2025; Suranjalo Tandon and Kevin Le Mere, "Evaluating the Impact of CBAM on Developing Countries: The EU's New Approach to Multilateralism and Trade," Policy Study, FEPS, November 2024; <https://www.mdpi.com/2071-1050/16/8/3113>; Centre for Social and Economic Progress (CSEP), "India's Carbon Border Adjustment Mechanism (CBAM) Challenge: Strategic Response and Policy Options", Working Paper, CSEP, February 2025; Ongoing project by TULIP Consulting focused on the Indian steel sector.

²⁹ European Commission (2025), "Commission Implementing Regulation (EU) 2025/2621 of 16 December 2025 laying down rules for the application of Regulation (EU) 2023/956 of the European Parliament and of the Council as regards the establishment of default values", Official Journal of the European Union, L 2621, 31 December 2025.

ods for the calculation of emissions embedded in goods, published ahead of the definitive period, has laid down rules that allow for monitoring and calculation methods to

attribute emissions to goods proportionally to the level of emissions of the production routes.³⁰

Box 1. Steelmaking routes and decarbonisation options³¹

Steel is typically produced through two main routes, which differ in terms of raw materials required, energy sources, and carbon footprint, as showcased in the table below. The decarbonisation of the steel sector can follow two main pathways: shifting primary steelmaking from coal-based blast furnaces to hydrogen-based DRI (H₂-DRI), and expanding secondary, scrap-based production. Most of the EU's steel decarbonisation is taking place through Electric Arc Furnaces (EAF) and the increase of scrap use, with predictions that EAF will increase to around 57% of EU steel making by 2050.

Route	How it works	Global Carbon footprint (t CO ₂ /t steel)
Primary Blast Furnace-Basic Oxygen Furnace (BF-BOF)	Iron ore is reduced in a blast furnace (BF) using coal (coke) or natural gas as fuel or reducing agent, then converted into steel in a basic oxygen furnace (BOF).	2.34
Secondary Electric Arc Furnace (EAF)	Steel scrap, sometimes mixed with direct reduced iron (DRI), is melted in an electric arc furnace (EAF) powered by high-voltage electricity.	Scrap-EAF (scrap use > 70%): 0.69 DRI-EAF (scrap use < 30%): 1.47

Finally, the scope of the CBAM will determine the level of exposure. In December 2025, the European Commission released a series of legislative and guidance documents, which include proposed changes to expand the CBAM scope to 180 steel- and aluminum-intensive downstream products and to add pre-consumer scrap as an input material in the CBAM calculation. These developments could enhance exposure and increase compliance challenges for EU trading partners, particularly for countries such as India, where SMEs play an essential role in exporting downstream steel products.³²

2.2 Developing lead markets through a low-carbon steel label

2.2.1. Establishing a low-carbon steel label

A key challenge for decarbonising the EU steel industry is the lack of profitability of green investments. Given low

demand for paying a premium for green steel, it is challenging to attract investment in steel decarbonisation technologies, as short-term cost savings are typically prioritised over the higher capital and operational costs associated with decarbonising steel.³³ As low-carbon metals, including steel, are expected to remain more expensive than conventionally produced steel in the foreseeable future, and to position the EU as a "global leader in the clean transition," the Commission is developing lead markets to ensure that metal producers receive a green premium.³⁴

The forthcoming Industrial Accelerator Act (IAA) seeks to boost demand for low-carbon steel in the EU, including by introducing non-price criteria, such as resilience and sustainability criteria (e.g., clean, resilient, circular, cyber-secure). These criteria are expected to be introduced into the EU budget, national support programs, and public

³⁰ European Commission (2025), "Commission Implementing Regulation (EU) 2025/2547 of 10 December 2025 laying down rules for the application of Regulation (EU) 2023/956 of the European Parliament and of the Council as regards the methods for the calculation of emissions embedded in goods", Official Journal of the European Union (OJ L 130), 22 December 2025.

³¹ Based on the information from: World Steel Association (2025), "Sustainability Indicators Report 2025", World Steel Association (accessed 21 January 2026).

³² CESP, "India's Carbon Border Adjustment Mechanism (CBAM) Challenge: Strategic Response and Policy Options". Working paper, February 2025.

³³ SMAP, p. 14.

³⁴ *Ibid*; CID, p. 7.



and private procurement – even if the exact scope remains unclear. In particular, under the IAA, the Commission will develop a voluntary EU-wide label for the carbon intensity of products. At the moment of writing, specifics about the low-carbon steel standard remain unknown. This includes the emission intensity threshold that must not be exceeded for a product to merit the low-carbon steel label, the MRV requirements that must be applied, the interplay with upcoming “made in Europe” requirements, and how the voluntary low-carbon steel standard will relate to the ESPR.

2.2.2 External impact of a voluntary low-carbon steel standard

The development of a voluntary low-carbon standard for steel in the EU could create significant challenges for EU trading partners. Even though the standard would be voluntary, its widespread adoption could make it a *de facto* EU market-access requirement. This would require third-country producers to adjust their production methods, adopt certification schemes, and report transmissions transparently. Moreover, a firm’s inability to produce low-carbon steel in line with the EU’s definition could exclude it from receiving a green premium—an important motivator for firms to continue importing steel to the EU.³⁵ Conversely, firms that can adapt quickly could gain preferential access to EU buyers required to meet the low-carbon standard.³⁶

The impact of a low-carbon steel definition on EU trading partners will depend on the approach and methodology adopted, as well as the scope of the standard’s applica-

tion. One approach, followed in many existing sustainable steel standards and initiatives, is the ‘sliding-scale’ method, which sets emission-intensity thresholds that vary with the percentage of scrap used in the steelmaking process: sites that use more scrap, which is less emissions-intensive compared to virgin steel, are given stricter thresholds to meet than sites that use little scrap and are more emissions-intensive.³⁷ As a result, all producers, regardless of production route (see Box 1 above), can be recognised for their progress in decarbonisation. Another approach, which is advocated by the Global Steel Climate Council, is to establish performance classes based solely on carbon footprint, with lower carbon footprints for products that are more heavily scrap-based.

Barriers may also arise from fragmented, uncoordinated approaches to defining green or low-carbon steel. Over 150 sustainability standards and initiatives to define low-carbon emissions steel exist across the steel value chain, which vary significantly in scope, emissions thresholds, and emissions accounting methodologies.³⁸ As a result, it is difficult to assess how one ton of low-carbon green steel under one standard compares with another.³⁹ For instance, under India’s Green Steel Taxonomy, steel is considered “green” if the steel plant from which it is produced emits less than 2.2 tons of CO₂ per ton of finished steel.⁴⁰ The EU’s low-carbon steel definition will undoubtedly set a lower threshold, given that the average CO₂ emission intensity of steel production in the EU is well below the 2.2

³⁵ Data collected through firm interviews conducted between May-October 2025, in the context of an ongoing TULIP Consulting research project on the role of trade in decarbonisation the Indian steel sector

³⁶ Marta Kulesza and David Kleimann, “Steel in transition: aligning climate, trade and industrial policy”, ODI, Briefing paper, June 2025; Poorva Karkare and Alfonso Medinilla, “The geography of green iron and steel: New opportunities for Europe and North Africa”, Discussion Paper, ECDPM, 11 December 2024.

³⁷ Examples of initiatives that use the sliding scale approach are the IEA’s definition of near-zero steel and low-emissions steel; the Responsible Steel Certification (site-level certification); LESS – WV Stahl (German Steel Association); and the Low Carbon Emission Steel Evaluation Method Standard developed by the China Iron and Steel Association.

³⁸ European Commission, Joint Research Centre (JRC), “Draft Preparatory Study on Iron and Steel”, Report, JRC/European Commission, May 2025.

³⁹ Colette van der Ven and Cláudia Azevedo, “Inclusive Ecodesign Requirements for a Just Transition”, Expert View / Blog Post, TESS, 14 August 2025.

⁴⁰ Press Information Bureau (PIB), “Union Minister of Steel and Heavy Industries, Shri H.D. Kumaraswamy, Releases India’s Green Steel Taxonomy”, Press Release, Government of India, 12 December 2024.

threshold.⁴¹ This means that qualifying as “green” under the Indian Green Steel Taxonomy is unlikely to automatically make a steel product fall within the EU’s low-carbon steel standard, which will be defined in accordance with the EU’s own decarbonisation objectives.

Likewise, the methodologies used to measure embedded emissions under the green steel or low-carbon standards our partner countries use might differ from those in the EU, creating an additional barrier. This would be especially problematic if the methodology used to calculate embedded emissions for the green steel standard differs from the one required for the CBAM. In particular, for SMEs that lack MRV capacity and will thus rely on CBAM default values, demonstrating compliance with the EU’s upcoming low-carbon steel standard will be highly challenging.

2.3 Promoting circularity for steel

2.3.1 An overview

To accelerate steel decarbonisation and reduce the EU’s dependence on imported primary raw materials, the Commission is seeking to stimulate demand for recycled metals by increasing the volume of scrap for recycling. Specifically, in the CID, the Commission highlights the importance of providing incentives to increase the use of metal scrap. Promoting circularity is critical to decarbonising the steel industry: using scrap in steelmaking could save up to 72% of the energy needed for primary production and reduce CO₂ emissions by 58%.⁴²

There are two main ways in which the EU is seeking to promote circularity for steel: (i) by developing steel-specific ecodesign and performance requirements under the ESPR; and (ii) by preventing “resource leakage” through restricting scrap exports and establishing a customs surveillance system.⁴³ This section will provide an overview of these two approaches, followed by an analysis of their external implications for EU trading partners.

2.3.2 Ecodesign and performance standards for steel under the ESPR

The ESPR, in force since July 2024, establishes a horizontal framework for ecodesign, performance, and information requirements that most products consumed in the EU, including imports, must comply with.⁴⁴ In particular, the ESPR provides the legal framework for the Commission to establish performance requirements to extend the life cycle of the product, including by enhancing a product’s durability, repairability, reusability, recyclability, and remanufacturing, while seeking to reduce a product’s material footprint, including through emphasising the use of recycled material. A key feature of the ESPR is the introduction of information requirements through the Digital Product Passport (DPP). Secondary legislation will establish sector- and product-specific performance requirements for a list of priority products identified in the 2025-2030 Working Plan. Steel, along with textiles and apparel, has been identified as 1st priority sector.⁴⁵ In this context, the Commission is preparing a delegated act to define sector-specific performance requirements for steel, expected to be adopted by 2026.⁴⁶ The delegated act is expected to complement the

⁴¹ E3G & Beyond Fossil Fuels, “[The State of the European Steel Transition](#)”, Report, March 2025

⁴² EuRIC AISBL, “[Metal Recycling Factsheet](#)”, European Circular Economy Stakeholder Platform, February 2020.

⁴³ Directorate-General for Taxation and Customs Union (DG TAXUD), “[Commission introduces surveillance of imports and exports of metal scrap](#)”, News Article, European Commission, 23 July 2025.

⁴⁴ The ESPR does not apply to products for which ecodesign requirements are not suitable or where other EU frameworks already provide for the setting of such requirements, such as certain agricultural and pharmaceutical products.

⁴⁵ European Commission, “[Ecodesign for Sustainable Products and Energy Labelling Working Plan 2025–2030](#)”, Communication COM(2025) 187 final, European Commission, 16 April 2025.

⁴⁶ *Ibid*; A Commission study has further identified five representative products for steel, taking into account EU consumption and production, EU supply dependencies, the products’ carbon footprint, and economic importance. These products are hot rolled coil, galvanised cold rolled coil, cold rolled coil, rod and wire rod, and stainless-steel products. This could offer an indication of the types of steel products that the upcoming delegated act could target. See European Commission, Joint Research Centre (JRC), “[Draft Preparatory Study on Iron and Steel](#)”,

voluntary low-carbon steel label (discussed in section 2.2), by adding criteria beyond carbon intensity, including recyclability and recycled content in specific products, as well as design and waste-treatment features to minimise copper contamination.⁴⁷ The ESPR standard for steel is also likely to require information on the product's carbon or environmental footprint across its entire life cycle.⁴⁸ Furthermore, unlike the low-carbon steel standard, which is voluntary, ecodesign standards for steel developed under the ESPR will be mandatory.

The ESPR ecodesign standards for steel will apply to all covered products consumed in the EU, including imported steel products within its scope. While the exact impact of the EU steel eco-design standards on trading partners will depend on the stringency of the adopted standard and the products initially covered, they will, at a minimum, impose compliance costs on steel exporters targeting the EU market. Different trading partners will be affected differently, and the ESPR will be particularly disadvantageous for steel exports from EU trading partners that are unable to comply with performance or eco-design requirements or lack the requisite digital traceability infrastructure to establish DPPs.⁴⁹

Moreover, impact will differ, depending on a producer country's dominant steel production route and the types of products it exports to the EU. For instance, stainless steel products are more durable and recyclable than carbon steel, with the potential of reducing long-term emissions by 64%.⁵⁰ As a result, it will be easier for stainless steel products to comply with the ESPR than carbon steel products. Moreover, steel produced through the EAF route, which is more scrap-dependent than the BF-BOF route, is typically more circular and thus more aligned with the ESPR requirements for steel. Producers that use the EAF route

will have a particular advantage if the Commission decides to introduce recycled content requirements for steel under the ESPR.

Another key factor affecting EU trading partners is the requirement for a DPP. While the specific requirements for DPPs in the context of steel are currently being developed, it will, at a minimum, require that firms exporting steel to the EU have the potential to trace the origin of the product, identify materials used in the steel manufacturing, and include information about the products' environmental and carbon footprints, as well as end-of-life recyclability. It will also require digitalisation of the traceability process. Complying with DPP traceability requirements will be more challenging for SMEs – either those exporting directly to the EU or those supplying to firms that are exporting to the EU – given their lack of infrastructure to measure direct emissions, which means they won't be prepared to report on the steel products' full lifecycle, and their inability to trace all inputs. As a result, it may disincentivise larger firms from sourcing from SMEs.

2.3.3 Restricting scrap exports

Scrap plays a central role in the EU's strategy to enhance competitiveness and promote decarbonisation of the steel industry. Indeed, the SMAP highlights the importance of using scrap to enhance circularity, reduce CO₂ emissions in steel production, and minimise EU dependence on imported raw materials. It points to diminishing EU scrap volume, reflecting reduced demand from the EU industry for steel, and higher scrap prices often paid for by producers in trading partners, noting that EU ferrous scrap exports have more than doubled over the last few years, reaching a maximum of 19.43 million tonnes in 2021 (about 20% of total scrap generated in the EU). Accordingly, the Commission is considering imposing further restrictions on

Report, JRC / European Commission, May 2025.

⁴⁷ SMAP.

⁴⁸ Colette van der Ven and Cláudia Azevedo, "Inclusive Ecodesign Requirements for a Just Transition", Expert View / Blog Post, TESS, 14 August 2025.

⁴⁹ *Ibid.*

⁵⁰ Claes Tigerstrand, "Stainless Steel's Sustainable Advantage in the CPI," Blog Post, MTI Global, 15 December 2022.

the export of scrap steel, for instance, in the form of export tariffs.⁵¹

These restrictions would come in addition to existing scrap export restrictions. Under the revised EU Waste Shipment Regulation⁵², scrap exports to non-OECD countries are permitted only if a country applies for an exemption and demonstrates compliance with EU-equivalent environmental standards.⁵³ The criteria for determining the eligibility of trading partners to receive exported scrap have yet to be announced, and the new restrictions applying from May 2027 onwards. The EU's export restrictions on scrap steel follow a global trend of increasing export restrictions on waste and scrap: between 2009 and 2023, export restrictions in this category increased more than threefold, more than any other ores and minerals.⁵⁴

These new measures are expected to reduce EU ferrous scrap exports by 0.6 to 2 million tonnes, while contributing to a projected reduction of CO₂ emissions in the EU steel industry by 1-2.9 million tonnes per year.⁵⁵ Additional scrap export restrictions would further reduce EU scrap exports, with significant implications for trading partners, particularly countries with insufficient domestic scrap and that heavily rely on EU imports. This includes Turkey, which

received 67% of all European scrap exported in 2021, followed by Egypt, Pakistan, the United States, Switzerland, India, and Moldova.⁵⁶ Further limiting scrap exports could hinder EU trading partners' ability to decarbonise their steel industries by relying on scrap.

2.4 Promoting and protecting the EU industry

2.4.1 Overview of trade defense instruments covering steel

Another key concern for the EU steel industry is growing global steel overcapacity, which reached record highs in 2023, driving down global steel prices.⁵⁷ EU steel producers are grappling with rising imports, artificially depressed global prices, and growing trade restrictions, such as the latest US steel tariffs, which add further pressure to an already strained sector.⁵⁸ In particular, the latest US tariff increases not only risk further reducing EU exports to the US, but also raise concerns that diverted exports previously destined for the US will flood the EU market.

To protect the EU steel industry, the Commission has already adopted more than 70 trade defense instruments (TDIs), making the steel sector the most protected industry in the EU.⁵⁹ However, to further shield the EU industry from growing overcapacity and surging imports, the SMAP pro-

⁵¹Reuters, "Trump tariffs fan calls by European metal producers for scrap export curbs," News Article, Reuters, 24 June 2025.

⁵² The Waste Shipment regulation implements the Basel Convention on the control of transboundary movements of hazardous wastes and their disposal, as well as the OECD Decision on the control of transboundary movements of waste destined for recovery operations.

⁵³ To date, countries that have Applied for an exemption include: Bangladesh, Bosnia and Herzegovina, Egypt, El Salvador, Georgia, Hong Kong, India, Indonesia, Kazakhstan, Malaysia, Moldova, Monaco, Montenegro, Morocco, Nigeria, North Macedonia, Oman, Pakistan, Philippines, Saudi Arabia, Serbia, Singapore, Sri Lanka, Taiwan¹, Thailand, Togo, Tunisia, Ukraine, Vietnam, Lao DPR and Andorra. See DirectorateGeneral for Environment, "Implementation of the Waste Shipments Regulation", Webpage, European Commission, 2025 (accessed December 2025).

⁵⁴ OECD, "OECD Inventory of Export Restrictions on Industrial Raw Materials 2025: Monitoring the Use of Export Restrictions Amid Growing Market and Policy Tensions", Report, OECD Publishing, Paris, May 2025.

⁵⁵ European Commission, Joint Research Centre (JRC), "Draft Preparatory Study on Iron and Steel", Report, JRC/European Commission, May 2025.

⁵⁶ *Ibid.*

⁵⁷ OECD, "OECD Steel Outlook 2025," Report, OECD Publishing, Paris, 27 May 2025.

⁵⁸ The White House, "Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs", Press Release / Fact Sheet, The White House, Washington, DC, 11 February 2025.

⁵⁹European Parliament, "Answer given by Mr Šefčovič on behalf of the Commission — Parliamentary question E-001037/2025(ASW)", Parliamentary Question, European Parliament, 15 May 2025; European Commission, DG Trade and Economic Security, "Trade Defense Instruments", Presentation, Mihail Milev, Head of Sector, DG Trade and Economic Security, European Commission, Metal Packaging Europe Conference 2025.



poses boosting the use of EU TDIs and other trade measures. These include:

- Enhance monitoring of trade flows and adopt a more proactive use of TDIs, including launching anti-dumping and anti-subsidy investigations based on the “threat of injury” to the domestic industry, rather than waiting for the injury to materialise.
- Speed up a safeguard investigation into ferroalloys, which resulted in the imposition of safeguard measures on imports of certain ferroalloys into the EU on 18 November 2025. These measures consist of country-specific tariff rate quotas (TRQs) for each ferroalloy type, limiting the volume of imports entering the EU market, and will be in place for three years (until 17 November 2028).⁶⁰
- Adopt long-term measures to protect the steel sector from global overcapacity on the EU market beyond 30 June 2026, when the temporary safeguard on steel is set to expire and cannot be extended beyond its eight-year legal limit. In October 2025, the Commission adopted a proposal for a regulation to replace the current safeguard regime, which is under discussion and is expected to ensure the sector’s continued protection.⁶¹ More detailed implementation rules, such as country allocation of tariff-rate quotas (TRQs), will be set out in subsequent secondary legislation.

Taken together, these measures will reduce the volume of steel and steel products imported into the EU, with a direct impact on trading partners’ exports to the EU. In particular, the proposed permanent safeguard measure is designed to significantly affect steel imports. On 7 October 2025, the Commission adopted a proposal for a new regulation

establishing these long-term measures and delivering on the commitments of the SMAP, seeking to (i) reduce steel import quota by 47% (18.3 million tonnes a year) compared to 2024 steel quotas; (ii) double the level of out-of-quota duty to 50% *ad valorem* (compared to 25% under the existing safeguard); and (iii) strengthen the traceability of steel markets by adopting a Melt and Pour requirement to prevent circumvention.⁶² These new measures will apply to imports of all steel product categories covered by the EU’s current steel safeguard, but unlike the safeguard duties, they will not have a defined expiration date. Only European Economic Area (EEA) members (Norway, Iceland, and Liechtenstein) will be exempted. All other trading partners, including those with an FTA with the EU, will fall within the scope of the new instrument.

This proposal marks a shift in the Commission’s approach to addressing excess steel capacity, concluding that drastic action is required to protect European steel interests. In particular, in justifying the permanent tariffs, the Commission invokes decarbonisation and defense readiness, in addition to more conventional justifications for trade defense measures, such as imminent harm to industry and job losses. Thus, the arguments put forward by the Commission are broader and more strategic, as well as more values-driven, compared to the approach adopted when establishing the 2019 steel safeguard, which was more narrowly tailored to legal criteria in domestic legislation and the WTO.⁶³

2.4.2 Impact on EU trading partners

The newly proposed permanent steel safeguard, which seeks to reduce the steel import quota by 47% and increase the out-of-quota tariff to 50%, will have a significant impact

⁶⁰ European Commission, “[Commission imposes definitive safeguard measures on imports of certain ferroalloys](#)”, Press Release, European Commission, 17 November 2025.

⁶¹ European Commission, “[COM\(2025\) 726: Proposal for a Regulation addressing the negative traderelated effects of global overcapacity on the Union steel market](#)”, Official Document, European Commission, 7 October 2025.

⁶² European Commission, “[COM\(2025\) 726: Proposal for a Regulation addressing the negative traderelated effects of global overcapacity on the Union steel market](#)”, Official Document, European Commission, 7 October 2025.

⁶³ Trevor Sutton, “[EU’s Proposed Tariffs on Steel to Address Excess Capacity and Enable Decarbonisation Could Worsen Trade Tensions](#)”, Blog, Center on global Energy Policy at Columbia SIPA, 22 October 2025.

on EU's trading partners, particularly exporters of key steel products such as hot-rolled coil, cold-rolled coil, and hot-dipped galvanised coil (HDG) that have exhausted, or are close to exhausting, their existing safeguard allowances. According to EU safeguard quota usage data from July to September 2025, hot-rolled coil exporting countries such as Turkey, South Korea, and Taiwan have fully exhausted their allocated quotas. With regards to cold-rolled coil imports, Turkey, South Korea, Taiwan, and Japan already used between 91 and 100% of their existing allowances, while for hot-dipped galvanised coil, Turkey, Vietnam, Taiwan, and China used 99% and 100% of their safeguard allowances.⁶⁴ The precise impact of the proposed post-safeguard instrument will depend on how the EU allocates the TRQs among its trading partners. Indeed, the proposal gives the Commission significant discretion in setting TRQs and, if not carefully implemented, could exacerbate trade tensions in an already fraught geopolitical context.

A particularly contentious aspect of the Commission proposal is the treatment of FTA partners, who are not exempt from these measures, raising questions about the EU's adherence to its FTA commitments and how the quotas will ultimately be allocated.⁶⁵ One approach the Commission might take is to allocate most of the quotas to FTA partners, with the Commission negotiating and compensating them through separate channels and on different terms than non-FTA partners.⁶⁶ In that case, the proposed permanent steel safeguard would have severe consequences for steel-exporting EU trading partners without an FTA. It would also put pressure on finishing ongoing FTA negotiations with key steel producers, most notably India. Indeed, while a significant portion of EU steel imports comes from

preferential trading partners, such as Turkey, the UK, and South Korea, major exporters and non-FTA partners, including China, the US, and India, remain important suppliers of steel to the EU, depending on product category.⁶⁷ A key question is whether the Commission will exercise its discretion in setting TRQs as a lever in ongoing trade discussions with the US, in return for additional concessions on EU steel exports to the US.⁶⁸

In any event, for the proposed permanent steel safeguard to be WTO-consistent, the EU will need to maintain the WTO balance of concessions under Article XXVIII, which will likely trigger substantial and complex negotiations with trading partners.⁶⁹ In addition, the Melt and Pour rule, intended to address exporters' growing efforts to circumvent trade defense measures, would require importers to prove where the steel components were initially melted and poured. As of now, the Melt and Pour rule is limited to a traceability requirement, requiring producers to invest in tracing technologies and methods to provide the required information about the product's origin. However, should the Commission adopt the Melt and Pour Rule as a rule of origin with direct impact on the application and enforcement of trade measures, it would further complicate supply chains.

Indeed, introducing a more stringent rule of origin would mean that steel melted and poured in a trading partner, for instance China, and processed in another country, such as Turkey, would not be considered to originate from Turkey, and thus, would not fall within Turkey's allocated quotas under the steel safeguard. Countries such as Turkey and Vietnam, which import substantial quantities of HRCs from

⁶⁴ Alan Yanovich et al, "[EU Proposes Higher Tariffs and Lower Quotas on Steel Imports, and Plans to Renegotiate its WTO Tariff Commitments](#)", Akin, 14 October 2025.

⁶⁵ Ignacio García Bercero, "[The EU should moderate its steel protection plan](#)", Bruegel, 9 October 2025.

⁶⁶ Politico, Pro Morning Trade, "[Queen Ursula won't fall from her throne over US, Mercosur deals](#)", 9 October 2025; Trevor Sutton, "[EU's Proposed Tariffs on Steel to Address Excess Capacity and Enable Decarbonisation Could Worsen Trade Tensions](#)", Blog, Center on global Energy Policy at Columbia SIPA, 22 October 2025.

⁶⁷ Eurostat, "[EU exported €77.8 billion worth of iron and steel in 2024](#)", 12 March 2025.

⁶⁸ Sam Lowe, "[Blue Steel](#)", Most Favored Nation, 9 October 2025.

⁶⁹ Ignacio García Bercero, "[The EU should moderate its steel protection plan](#)", Bruegel, 9 October 2025.



China and subsequently process them before exporting, would be significantly affected.⁷⁰ Affected countries would have to consider using domestically produced steel products instead, which could affect profitability or direct them to other markets.⁷¹

3. Cross-cutting linkages

While the previous sections examined the external dimension of individual EU regulatory measures affecting steel exports, this section takes a more comprehensive approach, assessing their cumulative impact on EU trading partners. It then examines regulatory misalignment across the various EU measures affecting steel imports.

3.1 Scope alignment

Understanding the impact of the examined regulations on steel exports to the EU requires, as a first step, examining whether and how the different measures overlap. There is significant overlap in the products covered between CBAM and the safeguard measures (both the existing safeguard regime and the proposed permanent steel safeguard). Indeed, of the 479 products (measured by 8-digit HS code) covered by the safeguard, 309 also fall within the scope of CBAM, representing 41% of CBAM imports in 2024, according to Commission estimates.⁷² These products would be subject to both CBAM charges and a 50% tariff if they exceed the quota allocated to their country of origin.⁷³ At the same time, CBAM covers an additional

180 products that fall outside the scope of the steel safeguard.⁷⁴ These products would thus be subject to CBAM charges, but not out-of-quota tariffs under the proposed permanent steel safeguard.

Identifying the overlapping scope of steel products covered by the ESPR is challenging, as the delegated act setting product-specific requirements for steel is still under development. However, as noted in section 2.3.2 above, the Commission is likely to adopt a targeted approach, focusing on specific priority products within the broader “iron and steel” product category, as determined in the delegated act. The JRC study identified five products based on criteria such as EU consumption, production, supply dependencies, CO₂ footprint, and economic importance. These products - including hot-rolled coil, cold-rolled coil, galvanised coil, rod and wire rod, stainless-steel products - which will likely be covered by the ESPR, are also covered by CBAM and the safeguard measures.⁷⁵ This means that firms exporting these products (and possibly others covered by the ESPR and the expanded CBAM scope over time) may be required to comply with CBAM and the ESPR and to pay safeguard duties if they fall outside the originating country’s allocated quota under the steel safeguard.

In sum, most products covered by CBAM will also fall under the newly proposed safeguard, and heavily traded products such as hot-rolled coil and stainless steel will likely be covered under the ESPR. This triple regulatory challenge is resulting in a “green spaghetti bowl of regulation”⁷⁶, which could add considerable complexity to firms seeking to export to the EU.

⁷⁰ Marta Kulesza and David Kleimann, “Steel in transition: aligning climate, trade and industrial policy”, ODI, Briefing paper, June 2025.

⁷¹ SteelOrbis, “EU ‘melt and pour’ clause to affect CR and coated steel suppliers to the region” Blog, SteelOrbis, 19 March 2025

⁷² European Commission, “Annex 1 to the Draft Proposal COM(2025) 726”, EU Documents Register, 7 October, 2025; inputs received from DG TAXUD.

⁷³ It remains to be seen how the Commission will distribute the quotas. The extent to which a firm’s steel exports will be impacted by the safeguard will depend on (i) the amount of quotas the country of origin will get; and (ii) whether the export falls within the allocated quota, or outside (and is, thus, subject to the 50% tariff).

⁷⁴ European Commission, “Annex 1 to the Draft Proposal COM(2025) 726”, EU Documents Register, 7 October, 2025

⁷⁵ *Ibid*, p. 192.

⁷⁶ Jodie Keane and Colette van der Ven, “Letter: Letter: Brussels is creating a green spaghetti bowl of regulation”, Financial Times, 17 December 2025.

3.2 Compliance requirements

As a result of this triple regulatory challenge, firms exporting steel and steel products to the EU will have to comply with a wide range of requirements simultaneously. These include paying a carbon price for the embedded CO₂ emissions of a covered product under CBAM, while complying with both financial and emissions reporting obligations. In addition, under the ESPR, firms will have to comply with ecodesign, performance and transparency requirements, which will include reporting on the product's environmental and carbon footprint, possibly ensuring that their products meet minimum recycling content, and put in place DPPs, which, in turn, require having the requisite infrastructure to trace a product's origin, which would also be required under the Melt and Pour Rule.

When it comes to compliance with the CBAM and the ESPR, several questions arise about potential misalignment between their requirements. For instance, will the same methodological requirements for CBAM emissions reporting also apply to calculating the carbon footprint of a steel product under the ESPR? And will the verification rules and requirements be similar? For firms that rely on default values under CBAM, could these values be used in the context of ESPR? Will the ESPR provide its own default values, or is the ability to calculate embedded carbon emissions a prerequisite for ESPR compliance? Similar questions can be asked about the low-carbon steel standard and how it aligns, in both its methodology and verification requirements, with the CBAM and the steel standard under development under the ESPR.

From a market access perspective, the implications of these measures also differ. Under CBAM, all products, including those with high CO₂ emissions, are allowed into the EU market, provided the producer pays for the embed-

ded emissions and meets MRV requirements. By contrast, under the ESPR, failure to comply with the ecodesign and performance requirements could constitute a market-entry barrier. The low-carbon steel standard, while voluntary, could also become a *de facto* market-access barrier if adopted widely, and if firms refuse to buy steel products that do not meet the certification requirements.

The proposed permanent steel safeguard would add yet another layer of complexity, as steel exporters whose exports exceed their country's allocated quota would be subject to a 50% ad valorem customs duty. In practice, this means that for products that fall within the scope of both the proposed permanent safeguard and the CBAM, producers will have to pay for the embedded carbon emissions under CBAM, in line with the EU carbon price, in addition to a possible 50% of the product's value in duty if the product in question exceeds the country's allocated steel quota.⁷⁷ The combination of a hard 50% duty once quotas are exhausted each quarter, and a carbon cost that fluctuates with emissions intensity and the ETS price makes total costs highly uncertain. This will increase price volatility, especially toward the end of each quarter as quotas run out. For importers and buyers, this also means a wider dispersion of prices by product type and origin, and greater uncertainty in cost management and procurement planning.⁷⁸

The combined effect of these measures will make imported steel products less competitive relative to EU-produced steel, even if, as highlighted above, not all countries and firms will be equally affected. For instance, steel produced in countries with high CO₂ emissions, like South Africa and India, may be particularly disadvantaged.

The overall impact on trading partners will also depend on the yet-to-be-defined implementation rules for each regu-

⁷⁷ Based on EU trade data and CO₂IQ calculations, imported steel in 2024 covered by both CBAM and the safeguard totals EUR 26.6 billion. Without trade adjustments, additional costs could reach 37%: EUR 5.9 billion in tariffs on quota-exceeding imports (based on global values; no differentiation by country of origin) and EUR 3.8 billion in CBAM costs for embedded emissions (assuming 2024 carbon prices and fully phased-in CBAM). Ulf Narloch, "Interaction of steel safeguards with CBAM", CO₂ IQ, 29 October 2025.

⁷⁸ *Ibid.*



latory measure and on how their scope may evolve, which will determine the specific compliance requirements. Key upcoming initiatives to monitor include the review of CBAM regulation and outstanding implementing and delegated acts, for instance, with regards to third country carbon pricing; the publication of the ESRP delegated act with product-specific requirements for steel expected in 2026; the development of the low-carbon steel standard under the IAA; the list of authorised non-OECD countries under the Revised Waste Shipment Regulation planned for November 2026; and the determination of country-specific quotas under the new post-safeguard measures.

3.3 The risk of misaligned objectives

The steel regulations examined in this paper highlight the risk of misalignment in their underlying policy objectives. Over the years, the EU has consistently emphasised the need to incentivise and support decarbonisation in trading partners – a state policy objective explicitly referenced in multiple EU policies and regulations. For example, the CBAM explicitly notes that it aims to “create [e] incentives for the reduction of emissions by operators in third countries”.⁷⁹ Likewise, bilateral instruments such as FTAs and Clean Trade and Investment Partnership (CTIPs) stress the importance of supporting the transition to low-carbon economies, including in partner countries. The New Strategic EU-India Agenda, unveiled by the EU in September 2025, explicitly aims to “accelerate the decarbonisation of heavy industry, particularly by developing low-carbon steel and cement in India”.⁸⁰ Most EU FTAs include Trade and Sustainable Development chapters that obligate the parties to enhance their capacity to transition to low-carbon economies.

However, these climate objectives increasingly sit uneasily alongside a growing focus on industrial competitiveness and the protection of strategic sectors within the EU, espe-

cially if we consider the set of overlapping and cumulative regulatory requirements applicable to sectors like steel, as analysed above. While each of these instruments, taken individually, pursues valid objectives, their combined effect risks imposing a heavy compliance burden on trading partners, effectively rendering the EU market semi-closed to steel imports.

This creates a structural tension: measures intended to shield EU industry from unfair trading practices, tackle the risk of carbon leakage, or promote circularity may cumulatively reduce the incentive for third-country producers to invest in cleaner production processes. Indeed, if accessing the EU market becomes increasingly complex, costly, or uncertain, the economic case for investing in low-carbon technologies may weaken, particularly for producers in developing or emerging economies.

Such a dynamic risks undermining one of the EU’s core external objectives of supporting global decarbonisation. It may also further alienate trading partners and reinforce perceptions of “green protectionism,” ultimately weakening the EU’s credibility as a partner in the global transition. Indeed, the threat of paying a 50% custom duty on out-of-quota steel eclipses any price advantages a firm may gain from investing in steel decarbonisation technologies and processes and could potentially discourage green investments, as the reduced CBAM charge alone may not provide sufficient incentive to companies when faced with a potential 50% duty, especially given the fact that the safeguard would apply to all covered steel products, regardless of their carbon emissions levels. In other words, a firm that has invested in clean steel production could face a 50% tariff upon entering the EU, thereby eroding any competitive edge linked to its decarbonisation investments.

Moreover, a key motivator for firms to comply with CBAM and invest in decarbonisation technologies is the prospect

⁷⁹ CBAM, Article 1(1).

⁸⁰ European Commission / European External Action Service, “JOIN (2025) 50 – Joint Communication on a New Strategic EU-India Agenda”, Brussels, 17 September 2025, JOIN(2025) 50 final.

of obtaining a green premium.⁸¹ The introduction of a low-carbon steel standard would likely limit premiums to be afforded to green steel, particularly to non-EU producers, which may not be able to comply with the EU's low-carbon steel standards. In some cases, eligibility could even be further restricted, given the Commission's plans to introduce "made in Europe" sustainability criteria, notably for public procurement, to drive demand for EU-produced clean goods.⁸² The lack of a guaranteed premium price would further reduce firms' incentives to make the requisite green investments to remain competitive in the EU market. Tighter anti-circumvention measures and implementation rules recently proposed by the Commission may make it increasingly difficult for companies to justify developing clean production as part of their operations.

Another area of misaligned regulatory objectives concerns the push for emissions reductions among trading partners, on the one hand, and the EU's restrictions on scrap steel exports, on the other. Restrictions on scrap steel exports are expected to reduce scrap steel imports by 25% by 2030, making it significantly more challenging for countries that rely on scrap imports, such as India and Turkey, to increase scrap use to accelerate steel decarbonisation.⁸³ Indeed, increasing scrap use in steel production is low-hanging fruit for decarbonising steel (see Box 1 above). In other words, EU restrictions on steel scrap exports limit access

to critical inputs for trading partners' steel decarbonisation efforts, potentially hindering their decarbonisation efforts. The EU's proposed restrictions on scrap exports and the pressure it puts on steel decarbonisation efforts in net-scrap-importing countries have increased stakeholders' criticism of the CBAM.⁸⁴

At the same time, the Commission should be applauded for considering regulatory alignment with the ESPR and other circular economy policies when it considered expanding the CBAM scope to include both pre-and post-consumer scrap as a precursor. Ultimately, the Commission decided to expand the CBAM Regulation to include only pre-consumer aluminum and steel scrap – generated unintentionally during production – in CBAM emissions calculations,⁸⁵ noting in its impact assessment that "including [p]ost consumer scrap in CBAM could be perceived as conflicting with [circular economy] policies by discouraging recycling, thereby undermining efforts to create a more circular economy."⁸⁶

In practice, however, this approach can present some challenges: Firms using post-consumer scrap must develop the ability to verify that the scrap is effectively post-consumer, as opposed to pre-consumer scrap. This will be particularly challenging in countries with informal scrap markets, such as India.⁸⁷

⁸¹ Data collected through firm interviews in the context of an ongoing TULIP Consulting research project on the Indian steel sector.

⁸² European Commission, "2025 State of the Union Address by President von der Leyen", Strasbourg, 10 September 2025.

⁸³ Kumar Abhishek, Sunishtha Yadav & Amrita Goldar, "Unpacking India's Scrap Steel Trade Dynamics," Policy Brief, Indian Council for Research on International Economic Relations (ICRIER), New Delhi, May 2025.

⁸⁴ Stakeholder interviews conducted in India as part of TULIP Consulting research project on the role of trade in decarbonisation the Indian steel sector.

⁸⁵ European Commission (2025) "Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures", COM/2025/989 final, Proposal 2025/0419 (COD), 17 December 2025.

⁸⁶ European Commission (2025), "Commission Staff Working Document: Impact Assessment Report accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures", COM(2025) 989 final, SWD(2025) 988 final, part 1/2, p. 44, 17 December 2025.

⁸⁷ Colette van der Ven, Cláudia Azevedo & Sanvid Tuljapurkar (2026) "What does the EU carbon border tax mean for green steel?", Sustainable Views, 6 January 2026.



4. Ways forward: Addressing negative spillovers on EU trading partners

4.1 Why seeking alignment matters

The cumulative effect of various EU steel regulations will not be perceived positively by trading partners.⁸⁸ Already, the CBAM provoked strong opposition from key EU trading partners and is proving a stumbling block in FTA negotiations.⁸⁹ The development of additional regulatory requirements, safeguard measures, and voluntary standards for steel exports, through the ESPR, the proposed permanent safeguard, and other measures, will increase compliance costs for exporting to the EU market. Moreover, there is a risk that these measures will disincentivise trading partners' decarbonisation efforts, potentially reinforcing stakeholders' CBAM criticism.⁹⁰

It is in the EU's self-interest not to alienate trading partners further by addressing market access concerns and the tension between the objectives pursued through the SMAP, which focus on boosting the competitiveness of the EU steel and metals industry, and its climate diplomacy agenda. While SMAP's external implications for EU trading partners are not its focus, failing to anticipate and mitigate negative impacts could undermine the EU's own climate goals, strain trade relationships, and weaken its position in global markets. As highlighted above, the CID acknowl-

edges the critical importance of strengthening partnerships for the EU to accomplish its industrialisation objectives, noting that the EU "cannot realise its clean industrialisation objectives without partnerships on the global stage."⁹¹ In the context of steel, for example, the European steel sector relies significantly on imports of upstream materials, such as manganese, iron ore, ferro-alloys, and coking coal.⁹²

Looking ahead, access to low-carbon hydrogen and green Direct Reduced Iron will be essential for the sector's decarbonisation, particularly to achieve the EU's objective of decarbonising 30% of its primary steel production with renewable hydrogen by 2030. To this end, the EU aims to import 10 million tonnes by 2030.⁹³ This could create new alliances, enabling EU trading partners rich in these resources to position themselves as key suppliers to the new green steel value chain, while allowing the EU steel sector to access critical inputs, especially as it struggles to develop its domestic low-carbon hydrogen capacity.⁹⁴

Moreover, it is critical for the EU to maintain constructive trade relations and establish itself as a reliable and trusted trading partner amid deteriorating transatlantic relations, given the pressing need to diversify trade and find new export markets, including for EU clean products. The CID's emphasis on developing CTIPs with key trading partners, and the conclusion of the first-ever EU-South Africa CTIP in November 2025, further underscores the EU's commitment to deepening partnerships on clean supply chains.

⁸⁸ Pascal Lamy, Geneviève Pons, Colette van der Ven & Cláudia Azevedo, "GT14 – EU Trade and the Environment: Development as the Missing Side of the Triangle", Europe Jacques Delors, June 2023.

⁸⁹ Financial Times, "EU set to reject Indian demand for carbon border tax exemption," Financial Times, November 2025.

⁹⁰ Times of India, "COP30: India calls EU's proposed carbon border tax an instrument of protectionism, saying it contradicts the spirit of the UN climate convention", The Times of India, November 2025.

⁹¹ CID, p. 16.

⁹² Maury, T. et al., "Analysis of the EU Steel supply chain: current trends and circularity opportunities", JRC Raw Material Information System Brief, European Commission, Ispra, 2025, JRC142660; European Commission Joint Research Centre (JRC), "Quick guide – Coking coal: Impact assessment for supply security", European Union, 2022.

⁹³ European Commission, "REPowerEU Plan", Communication, European Commission, 18 May 2022.

⁹⁴ Poorva Karkare and Alfonso Medinilla, "The geography of green iron and steel: New opportunities for Europe and North Africa", Discussion Paper, ECDPM, 11 December 2024; Agora Industry, "The role of green iron trade in accelerating steel transformation", September 2025., Agora Industry.

Moreover, the EU's Global Climate and Energy Vision, which outlines the EU's Climate Diplomacy strategy, establishes a direct link between EU climate leadership and international cooperation to secure Europe's competitive role in global markets.⁹⁵ It further notes the importance of committing to "continue to engage proactively with partner countries to ensure better coherence between internal and external EU policies", and "take a granular approach to assessing the potential cross-border impacts of new EU legislation".⁹⁶ Aligned with the EU's Global Climate and Energy Vision, the EU must not only anticipate but also address the negative implications of its cumulative steel package for trading partners, going well beyond CBAM.

4.2. Policy options to adopt a steel-centric approach

As the EU rolls out its steel strategy under the SMAP, stepping up engagement with trading partners will be essential. With many initiatives still in the early stages of development or implementation, there is a timely window of opportunity to identify, anticipate, and mitigate the negative spillover effects of the EU's trade policies – ensuring greater coherence between SMAP's trade, industrial competitiveness, and decarbonisation objectives. The EU must do so proactively, rather than wait until trading partners raise concerns. Indeed, past instances in which the EU was perceived as engaging too late or insufficiently, such as with CBAM and the Deforestation Free Products Regulation, have shown how trading partners' concerns can escalate into trade and diplomatic tensions that, once materialised, become far more difficult to resolve.⁹⁷

This section puts forward cross-cutting policy options for early partner engagement as the EU rolls out the SMAP, calling for a multipronged approach across different levels

of action: (1) sectoral cooperation to improve understanding of the cumulative impact of EU measures on trading partners' steel exports; (2) bilateral engagement with key steel suppliers; (3) adoption of targeted support measures and 4) ensure alignment of its regulatory objectives.

First, there is a need for a steel-centric (rather than regulation-focused) approach to engaging with trading partners. Given the extensive array of EU measures targeting the sector, it is essential to move beyond analysing individual measures and focus on the cumulative effects of the various measures affecting steel exports to the EU. While regulations like CBAM have received significant attention and public scrutiny – with engagement with trading partners taking place through dedicated mechanisms like the EU Task Force on Carbon Pricing and Markets Diplomacy, the CBAM Expert Group, and the High-Level Dialogue on CBAM⁹⁸ – other measures like the ESPR, or the development of the low-carbon steel standard, have received significantly less visibility. The proposal for a permanent steel safeguard has attracted significant attention from industry and EU trading partners, but the combined impact of the measures remains largely unexplored. Crucially, understanding how the different measures interact and overlap in terms of product scope, requirements, and trade implications is what ultimately matters to exporters seeking access to the EU market.

The Commission should advance sectoral dialogue and regulatory cooperation through dedicated platforms and by leveraging existing channels. Specifically, it could consider setting up a dedicated steel-focused platform, expert group, or task force to provide a structured forum for engaging with trading partners, deliver regular updates on the implementation of EU measures and development

⁹⁵ CBAM regulation

⁹⁶ European Commission (Directorate General for Energy), "EU global climate and energy vision: securing Europe's competitive role in world markets and accelerating the clean transition", Joint Communication, European Commission, 16 October 2025.

⁹⁷ Politico, "EU strains to defend carbon levy as trade tensions engulf COP30", Politico, November 2025.

⁹⁸ European Commission (2025) "Review Report on the application of the Carbon Border Adjustment Mechanism (CBAM)", Review Report, European Commission, 17 December 2025 (pag. 22).



of the rules, anticipate potential trade frictions, identify regulatory misalignments, and foster regulatory convergence. Such an approach could build on existing models, such as the EU's Multistakeholder Platform on Protecting and Restoring the World's Forests, which seeks to facilitate the EU forest Strategy for 2030 and bring together a wide range of stakeholders, including EU member states, industry, civil society, and interested trading partners.⁹⁹

Second, the Commission should better assess the overlap among EU steel regulations, covering all applicable measures, including those examined in this policy paper. This should serve as a basis for engagement with trading partners. Indeed, stakeholders have already raised questions about how these measures interact, and confusion is only expected to increase as additional measures are implemented.¹⁰⁰ Such an assessment would be relevant not only for clarifying requirements for third-country producers seeking to access the EU market, but also for helping EU importers anticipate obligations and prepare for compliance. This will be critical in bringing to firms' attention the complexity of the cumulative effect of the regulatory landscape on steel, going well beyond CBAM.

Third, in some cases, it may be necessary to step up bilateral engagement with trading partners that are expected to be particularly affected by the EU's steel strategy. This could be done in the context of ongoing FTA negotiations

with steel producers, such as India and Malaysia, where the EU is increasingly pursuing sector-specific cooperation to address regulatory and trade issues. A recent example of how sector-specific cooperation can be achieved in this context is the protocol on sustainable palm oil in the EU-Indonesia FTA, which establishes a platform for dialogue, including on regulatory developments relevant to Indonesia's palm oil sector.¹⁰¹ For trading partners not currently in FTA negotiations with the EU, alternative approaches can be considered, such as establishing *ad hoc* task forces to foster technical alignment and dialogue. A relevant example is the Joint Task Force between the EU, Indonesia, and Malaysia on the EUDR.¹⁰² New partnership models, such as the new CTIPs, or strategic frameworks, such as the EU-India Strategic Framework, could also play an important role in this regard, while the Global Gateway could also be mobilised to identify and finance low-carbon hydrogen and steel projects of mutual interest.¹⁰³

Fourth, it is crucial that the Commission enhances alignment of its regulatory objectives. At a minimum, it must ensure that the measures announced in the SMAP will not undermine trading partners' decarbonisation efforts. In this regard, the Commission may need to reconsider imposing additional export restrictions on scrap steel. Additional work is also needed to reduce the trade-restrictive implications of the proposed permanent safeguard, especially regarding its implications for low-carbon steel.¹⁰⁴ Finally,

⁹⁹ European Commission, "[Commission Expert Group/MultiStakeholder Platform on Protecting and Restoring the World's Forests, including the EU Timber Regulation and the FLEGT Regulation](#)", Webpage, European Commission, 2025 (accessed November 2025).

¹⁰⁰ European Parliament, "[Parliamentary question E004266/2025 — Relationship between the Commission's steel tariff mechanism proposal and CBAM](#)", Parliamentary Question, European Parliament, 30 October 2025.

¹⁰¹ European Commission, "[Protocol on Palm Oil under the EUIndonesia Comprehensive Economic Partnership Agreement \(CEPA\)](#)", Official Document, European Commission, 2025.

¹⁰² European Commission, "[The European Commission, Indonesia and Malaysia agree to a Joint Task Force to implement the EU Deforestation Regulation](#)", Press release, 29 June 2023,

¹⁰³ Marta Kulesza and David Kleimann, "[Steel in transition: aligning climate, trade and industrial policy](#)", ODI, Briefing paper, June 2025; Poorva Karkare and Alfonso Medinilla, "[The geography of green iron and steel: New opportunities for Europe and North Africa](#)", Discussion Paper, ECDPM, 11 December 2024.

¹⁰⁴ Experts have suggested a safeguard carve-out for low carbon steel. The implications of this must, however, be further examined. See, e.g., Ignacio Garcia Bercero, "[The EU should moderate its steel protection plan](#)", 9 October 2025. <https://www.bruegel.org/first-glance/eu-should-moderate-its-steel-protection-plan>; Trevor Sutton, "[The EU's Proposed Tariffs on Steel to Address Excess Capacity and Enable Decarbonisation Could Worsen Trade Tensions](#)", 22 October 2025.



the Commission must ensure alignment among CBAM, ESCR, and the low-carbon steel standard, in particular regarding MRV methodological requirements.

5. Conclusion

This policy paper examines the external implications of the EU's steel strategy, as set out in SMAP, which aims to enhance the sector's competitiveness and accelerate its decarbonisation. It has highlighted the SMAP's broader international impacts and noted the importance of discussions on market access barriers on steel to move beyond CBAM to encompass measures such as the ESCR, the forthcoming low-carbon steel standard, scrap export restrictions, and the recently proposed permanent steel safeguard.

By unpacking these instruments, this paper has shed light on the cumulative external effect of the EU steel strategy, focusing on overlapping scopes, simultaneous compliance requirements imposed on firms seeking to export to the EU, and the risk of misaligned objectives. Taken together,

the EU's measures risk creating a "green spaghetti bowl of regulation", increasing the requirements and costs of accessing the EU market while restricting access to critical inputs, such as scrap, essential to trading partners' decarbonisation pathways.¹⁰⁵ In doing so, the measures proposed in the SMAP risk undermine trading partners' steel transition efforts.

Addressing these challenges will be politically sensitive, particularly given the struggling European steel industry. They are, however, necessary to maintain the EU's position as a global climate leader and a reliable trading partner, and to advance its economic and strategic interests by building new partnerships to diversify market access, create resilient supply chains, and develop investment opportunities for EU businesses. Doing so will require strong leadership and careful rebalancing of trade-offs between economic security, efficiency, and decarbonisation objectives, alongside a strong commitment to the EU's climate diplomacy agenda. What is needed is leadership that proactively integrates the development dimension of the trade-development-environment triangle into the present-day geopolitical landscape.

¹⁰⁵ Jodie Keane and Colette van der Ven, "Letter: Letter: Brussels is creating a green spaghetti bowl of regulation", Financial Times, 17 December 2025.



Disclaimer

This policy paper builds on ongoing research by TULIP Consulting focused on the role of trade in decarbonising the Indian steel sector (forthcoming, March 2026).



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