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Outokumpu position on the EU's Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) aims to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries. Outokumpu and the steel sector in the EU have been complying with the EU's Emissions Trading System (ETS) by purchasing emission allowances for already twenty years. Meanwhile steel imported into the EU and produced with up to five times higher emission intensities has not predominantly been facing any costs for their emissions. As a carbon tariff to carbon intensive products, CBAM will ensure the carbon price of imports is equivalent to the carbon price of domestic production, preventing carbon leakage, and that the EU's climate objectives are not undermined.

CBAM is designed to be compatible with WTO-rules, and it takes effect in 2026. CBAM's timetable is aligned with the phase-out of the allocation of free allowances under the EU ETS to support the decarbonisation of EU industry.

Outokumpu owns the only chromium mine in the EU and produces ferrochrome with 67% lower emissions compared to the industry average. We welcome the inclusion of ferrochrome among other ferroallys as precursor material in CBAM as it is a major contributor to the stainless-steel carbon footprint. However, it is also necessary to include indirect emissions in CBAM.

A timely and thorough Implementation of CBAM is critical as the current carbon leakage measures (free allowances) will be phased out in the period when CBAM will be phased in. As Outokumpu has its main operations in Finland, the implementation will be even more critical as the other measure preventing carbon leakage, namely indirect cost compensation, will discontinue after 2026.

The following points should be considered in the CBAM design and implementation to ensure a level the playing field between the stainless steel and ferrochrome producers in the EU and the non-EU countries.

1. **All scopes of emissions should be covered**

   Currently direct emissions (scope 1) and partly emissions of the value chain (scope 3) for certain ferroalloys are covered. The indirect emissions (scope 2) must also be included in CBAM calculations as they are responsible for a very significant part of the total emissions of the imports produced with more emission intensive electricity sources. Currently also EU ETS covers scope 2 emissions and CBAM should be aligned with it.

2. **Default values should reflect real emissions**

   If default values are set below representative emissions levels, they create an incentive for companies to discount the system – undermining the mechanism's effectiveness and distorting the market. Instead of calculating default carbon values based on an average of

all grades, they should be based on the average of most imported grades for stainless steel (austenitic grades, mostly 304) with much higher carbon emissions. The gap between these values is significant – actual emissions are roughly double the current default value. If this is not fixed, the CBAM will fail to capture the true carbon intensity of imports, creating an unfair advantage for emission intensive producers outside the EU.

3. **CBAM benchmarks should reflect the most low-emission technologies and processes**

   To ensure equal treatment between importers and EU producers, the CBAM will be reduced to take into account the level of free allocation granted to the European industry. CBAM benchmarks must reflect the most low-emission technologies and processes, so that all operators have incentives to switch from the most carbon intensive ones. Therefore, CBAM benchmarks for stainless steel should be set at a level that reflects the emissions intensity of best-in-class producers and not exceed the EU average carbon intensity for the most representative stainless-steel grade 304.

4. **Solution to prevent "resource shuffling"**

   CBAM can be circumvented by "resource-shuffling" which means that low-emission steel from the third countries is directed to the EU while the emission intensive steel is exported to the other markets without price for carbon. To prevent this happening, it should be mandatory to apply default values based on the most representative steel grade and have emissions reporting obligations in place on entire corporate groups regarding their total production.

5. **Key downstream sectors should be covered**

   Key downstream sectors must be included in CBAM to maintain competitive environment and avoid carbon leakage. If they are not included, this could further encourage relocation of steel consuming industries to the third countries, which would be detrimental for both the steel producers and consumers. The products with the highest intensities in terms of steel content, emissions and trade should be included.

6. **Rules of origin should be based on Melted & Poured to mitigate from circumvention**

   In steel making more than 90% of emissions are related to the liquid steelmaking process. However, current rules define the origin of a product to be where the latest finished product is transformed. The rules of origin should be based on the "Melted & Poured principle", so the origin of any steel good is the place where steel was melted and poured, regardless of where it is further processed.

7. **Free allowances should be maintained for the EU exports**

   Free allowances will be gradually phased out by 2034. This will undermine the cost competitiveness of the EU exports to the markets without carbon pricing. Also, for climate this will have a negative impact if the exports are displaced by more carbon intensive

products. Maintaining free allocation for exports would be the solution to avoid carbon leakage in global markets.

8. **Inward processing should not be exempted from CBAM**

   Under inward processing, a company can import semifinished steel, process it in the EU, and export the final product, all without paying CBAM costs. This means that high-carbon steel can still enter the EU supply chain and compete unfairly against cleaner European steel. This creates an absurd incentive: European manufacturers that export their products will seek out the cheapest, most emission intensive steel for this part of their production. CBAM must cover all steel entering the EU supply chain – whether for domestic use or export.

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About Outokumpu

Outokumpu is the European market leader in stainless steel and the second largest in the Americas. Our turnover in 2024 stood at EUR 5.9 billion and our European production is in Finland, Germany and Sweden. We also have the only chromium mine in the EU, which is a critical raw material for producing stainless steel. Our business is based on the circular economy with over 90% recycled material content – enabling up to 75% lower carbon footprint[1] compared to the industry average. Outokumpu also brought to the market the first towards-zero stainless steel which has up to 93% lower carbon footprint.