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Cleaning Up The Act

Steep rally in carbon prices and CBAM compliance requirements could pull down the profits of Indian steel exports to EU by US$60-165/MT between CY2026 and CY2034

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OVERVIEW

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Following the European Union's (EU) 2050 net zero target, and industry/site specific emission caps under the EU Emission Trading System (EU-ETS), carbon prices in Europe have more than doubled since the start of CY2021. This has imposed additional costs for most EU based steel mills. The recently signed CBAM, therefore, brings in a level playing field. Unless the carbon footprint of Indian steel mills is brought at par with global standards, it can potentially lead to lower profits and a loss of market share in Europe for domestic producers.

- To bring in a level playing field and avoid carbon leakage through imports, the EU, the second largest steel-consuming block globally, recently signed the Carbon Border Adjustment Mechanism (CBAM). This tax will initially apply to imports from six sectors (including steel).
- In CBAM's 'Transitional Phase' between October 1, 2023 - December 31, 2025, the focus will be on the reporting of carbon, but without any financial adjustment for EU importers. From January 1, 2026, the EU importers will have to buy CBAM certificates, corresponding to the embedded emissions above the EU-ETS benchmark levels.
- The top five domestic primary steel producers have an average emission intensity of ~2.6 MT CO_2/ MT crude steel, which is 12% higher than the global average from the BF-BoF route (~2.32 MT CO_2/ MT crude steel).
- After the end of the transition period, over the subsequent eight years (CY2026-CY2034), the phasing-out of free allocations, available to EU-based steel mills, will happen parallelly with the phasing-in of CBAM. ICRA's analysis suggests that CBAM compliance requirements could pull down the profits of Indian steel exports to EU by US$60-165/MT between CY2026 and CY2034.
- Apart from India, some of the other large steel exporters to the EU are from Turkey, Russia, Ukraine, South Korea, Taiwan, Vietnam, China, and Japan. However, carbon footprint of Indian steel mills is significantly higher than key competing suppliers to the EU.
- The prospect of incidence of a large carbon tax from Q4 FY2026 can incentivise EU importers to shift towards steel producers, having a low carbon footprint, much ahead of the outer deadline. Therefore, unless Indian mills can materially bring down their carbon footprint during the transition period, it can potentially lead to lower profits and a loss of market share in Europe.

MT: Metric Tonne; GHG: Green House Gas; BF-BoF: Blast Furnace-Basic Oxygen Furnace

What's Inside?

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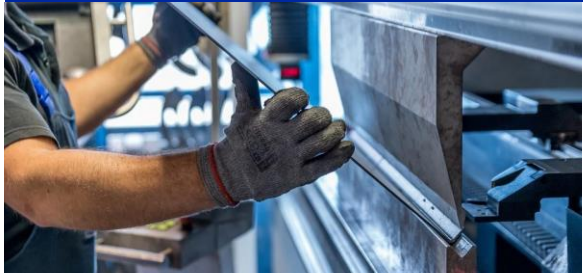
1 Biting the Bullet - Arresting Carbon Leakage



2 The Ascent of Carbon Prices

3 Steel Trade Flows to Europe

4 Measuring Up on Carbon Footprint

5 Counting the Cost

6 The Green Mile

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Thank You!