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Steel's turning point

New rules, new realities

JUNE, 2026

IGPA C&S

CENTER FOR Climate & Sustainability Policy & Regulation

The world is changing rapidly

Escalating geopolitical tensions

Increasing trade complexity & competition

Rising cost pressures

?

Advancing decarbonization transition

Amidst these changes, the EU is driving a GREEN + LOCAL policy revolution

GREEN

e.g., ETS, CBAM, CO_2 fleet targets, Industrial Accelerator Act, …

LOCAL

e.g., Industrial Accelerator Act, EV anti-subsidy tariffs, permanent steel trade regime, …

European Commission objectives

Strengthen competitiveness vs. global players and ensure a level playing field	Enable local industrial growth (≥20% EU manufacturing GDP share)	Decarbonize industry and transport at scale to support overall net zero target

Understanding the effect from individual policies and from policy stack key

Policies in scope

- Industrial Accelerator Act (IAA)
- Vehicle Fleet Emission Regulation
- Safeguards / Perm-anent trade regime
- ETS and CBAM

Effects assessed

Lenses applied	Demand	Supply	Cost
Individual policy			
Policy stack			

Challenges & implications

- For steel producers in EU
- For steel producers outside the EU
- For steel buyers

IAA requirement:
25% 'Low-carbon' steel to qualify for public procurement and subsidy schemes

IAA sets steel requirements... | **...in strategic sectors for industrial manufacturing** | **... for their projects / products to be eligible for public support from 2028/2029[1]**

Focus for today

		Public procurement	Subsidy schemes: Private	Subsidy schemes: Corporate
Directly Min 25% of the total volume of steel in a product / project shall be 'Low-carbon'	Construction & infrastructure	 Bridges	 Home insulation/ renovation supported with gov. grants	 Factory construction tax credit
	Automotive	 Police cars	 Lump-sum support for EV purchase	 Corporate car (ICE or EV) if it receives tax benefits
Indirectly Systems & components (incl. steel intensive) to be of EU origin	Net Zero technologies (e.g. wind)			 Offshore wind auctions with CfD

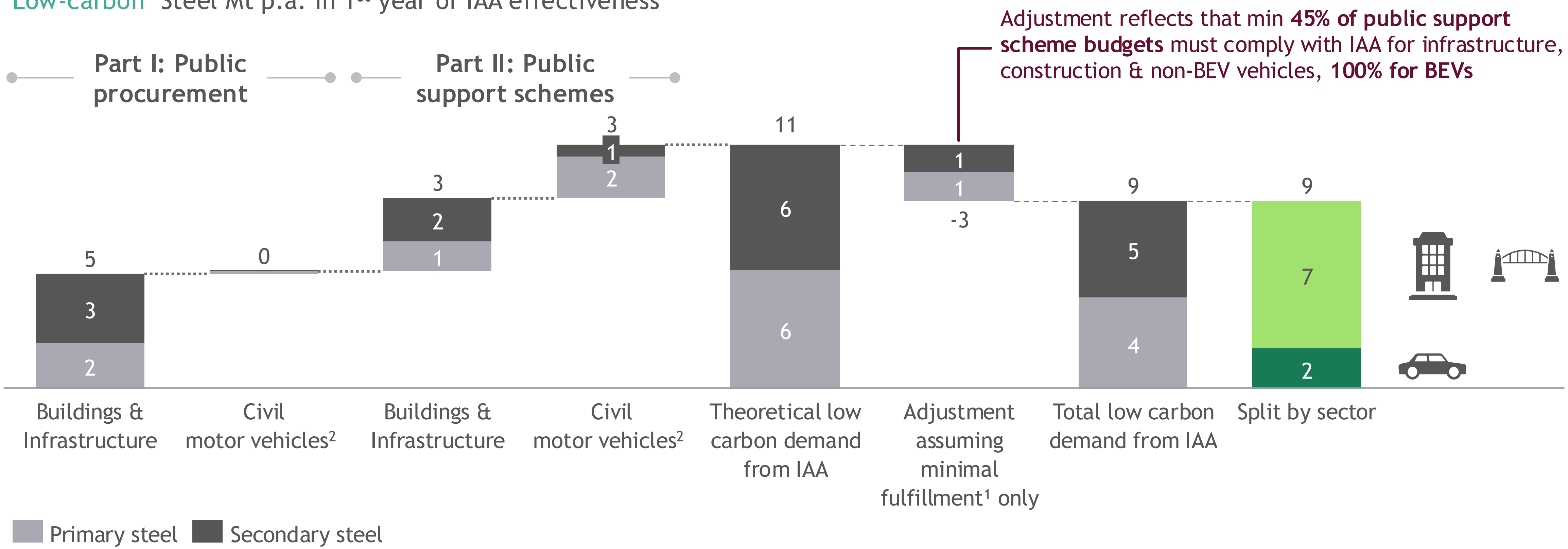
Examples

1. 2029 for Direct requirements on Construction, infrastructure and automotive. 2028 for Indirect requirements on Net Zero technologies. Note: Only 45% of gov. subsidy budget has to fulfil IAA requirements. Sources: IAA, BCG analysis

IAA could create 9Mt p.a. 'Low-carbon' steel demand from automotive, construction and infrastructure

Demand potentially created

'Low-carbon' Steel Mt p.a. in 1st year of IAA effectiveness



1. Driven by Public support schemes requiring only 45% of Gov. budget to be compliant with IAA. 2. Only passenger vehicles are considered in the calculation.
Sources: IAA, BCG analysis

Actual impact of the IAA determined by how 'Low-carbon' steel is defined

The technical issue

CRITICAL

In the IAA 'Low-carbon' steel is not defined, yet it is critical as binary compliance depends on it

The real challenge

Creating a Lead market relies on scarcity—an unambitious green definition would render investments in physical green steel capacity uneconomic

Defining 'Low-carbon' steel in a way that …

Maximizes demand additionality

vs.

Market reality of available supply

Discussed suggestions how to define 'Low-carbon' steel

For rebars and prestressed steel

Construction Product Regulation[1]

And

Delegated acts[2] for calculation methods

For other steel products e.g. in Automotive application

DRAFT version; definition expected for H2 2026

Ecodesign for Sustainable Products Regulation

Class	Carbon footprint range (t CO_2eq/t HRC)	Description
Class A	0.00 – 1.79	Best-in-class
Class B	1.79 – 2.66	High performing
Class C	2.66 – 3.10	Mainstream
Class D	3.10 – 3.75	High emitting
Class E	≥ 3.75	Worst-in-class

Note. Boundaries are left-inclusive, right-exclusive for Classes A–D; Class E is ≥ the stated value.
Source: own elaboration

Example HRC, table for other products available online[3]

1. For construction products referred to in Regulation (EU) 2024/3110 <…>, the delegated acts adopted pursuant to Article 5(5) or Article 22(9) of Regulation (EU) 2024/3110 [Construction Products Regulation]. 2. Delegated acts define calculation methods for environmental performance based on life-cycle assessment, product environmental footprint 3. https://susproc.jrc.ec.europa.eu/product-bureau/sites/default/files/2026-04/DraftStudyESPRSteelClassesPerformance1April_0.pdf Sources: BCG analysis

Vehicle Fleet Emission Reg. creates GREEN & LOCAL Steel demand of up to 11Mt p.a. & sets an economically driven max. of 70% GREEN Steel in a vehicle

Regulation sets strict emission reduction targets by 2035

By 2035 OEMs selling cars in the EU must reduce their tailpipe emissions by 100% vs. 2021, or pay an excess emissions premium

Max 7%

Of emissions can be reduced by **carbon credit** from GREEN & LOCAL[1] steel in production

To maximize carbon credit from steel, OEMs could demand 11Mt in GREEN and LOCAL steel as of 2035

To reach max carbon credit from steel[2], OEMs must replace BF-BOF steel in vehicles with lower emission steel

NG-DRI EAF	✕ Possible, but insufficient for max credit
BF-BOF w/CCUS	✕ Possible, but insufficient for max credit
Scrap EAF	✕ Possible, but max credit technically not achievable as it requires 100% scrap EAF
H2-DRI EAF	✓ **Achievable with** 70% of steel in vehicle

11.9M passenger cars sold in EU[4] in 2035 will require **70% of their steel to be H2-DRI EAF** resulting in **11Mt**[3] GREEN and LOCAL steel demand

1. EU-made. 2. 1.9t CO2e reduction per car needed to maximize credit based on ~110 g CO_2e/km baseline over ~240,000 km lifetime. 3. Assuming 1.35t of gross steel weight per average car with ~2.7t CO2e cradle-to-gate emissions, mainly by BF-BOF steel. Emission savings per ton of low-carbon steel assumed is 2.0t CO_2e/t of steel for H2-DRI-EAF vs. BF-BOF. 4. Excludes BEVs from BEV only OEMs. Sources: European Commission, S&P automotive, BCG analysis

Excursus: For steel, the Vehicle Fleet Emission Reg. – in contrast to the IAA – does have a LOCAL requirement; but what does it exactly mean?

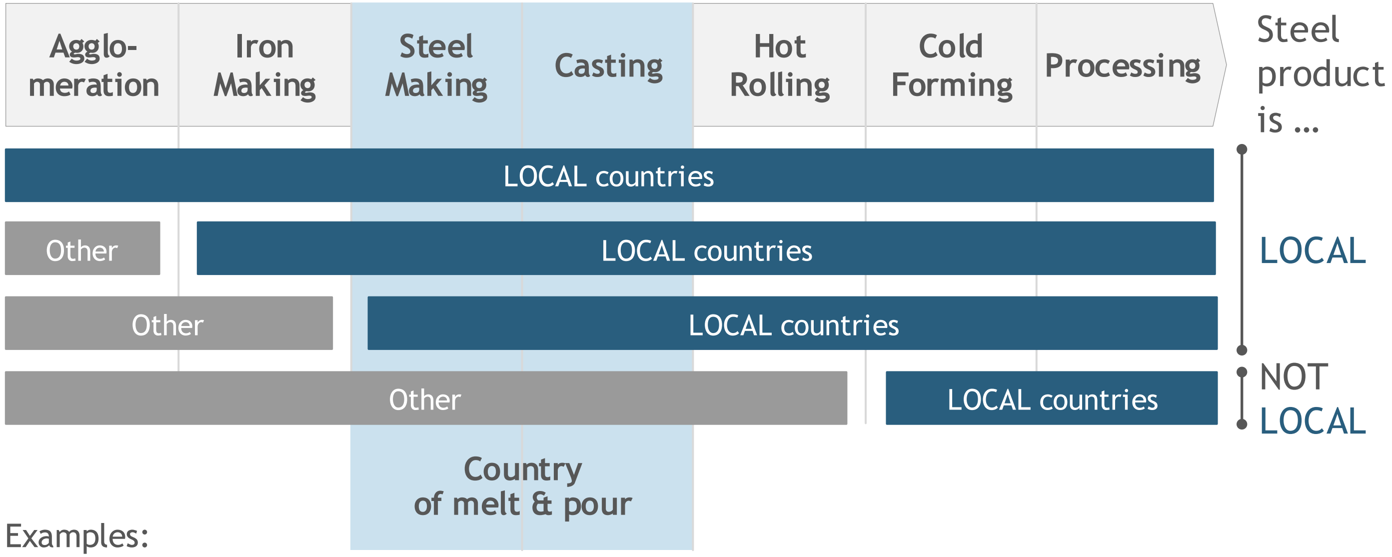
Which countries are LOCAL?

EU regulations define LOCAL differently

Local	Regulations	
EU-27	Vehicle Fleet Emissions	IAA (vehicle assembly)
EEA[1]	ETS	Safeguards / Permanent trade regime
EU + FTA countries		IAA (aluminum & batteries)

How much processing needs to be in LOCAL countries?

In practice steel is commonly considered LOCAL in the **'country of melt and pour,'** where the steel is first solidified, however regulations can be stricter[2]



Examples:

Imported HRC/CRC that is processed in LOCAL countries — NOT LOCAL

Imported DRI that is melted & poured in LOCAL countries — LOCAL

1. EU-27, Norway, Iceland and Liechtenstein. 2. VFE doesn't define the processing needs required in LOCAL countries.
Sources: IAA, Vehicle Fleet Emissions, ETS, Permanent Trade Regime, BCG analysis

For automotive, the Vehicle Fleet Emission and the IAA overlap conceptually

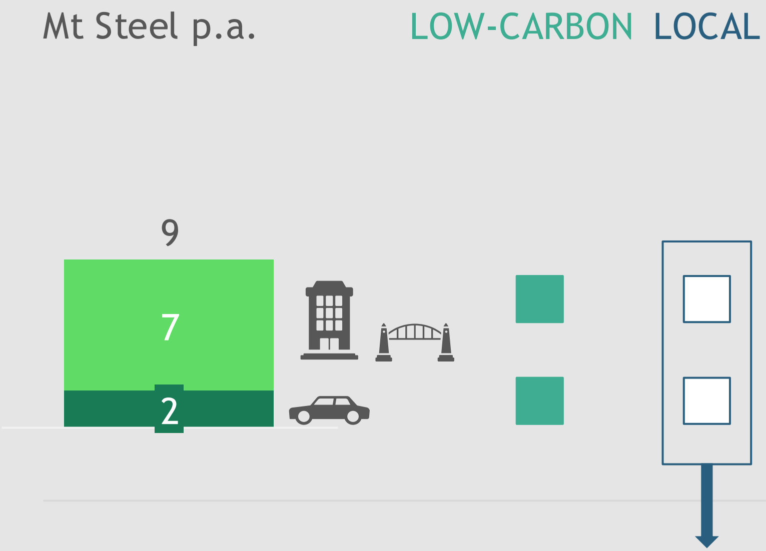
	On fleet level	On car level	In combination
Industrial Accelerator Act	Only certain cars sold in the EU are in scope in public procurement in corporate fleets min. 45% in subsidy schemes	Steel per min. 25%	On **fleet level**, the IAA addresses a sub-set of the vehicles in scope of the other regulation
Vehicle Fleet Emission Regulation	All cars (BEV and ICE) sold in the EU are in scope	Steel per 70%[1] *overlap*	On **car level**, the IAA sets a regulatory GREEN ('Low-carbon') steel minimum, while the Vehicle Fleet Emission Regulation sets an economically driven maximum

1. Required H2-DRI EAF steel content to reach maximum emission reduction to avoid excess emissions premium. Sources: IAA, Vehicle Fleet Emission Regulation, BCG analysis

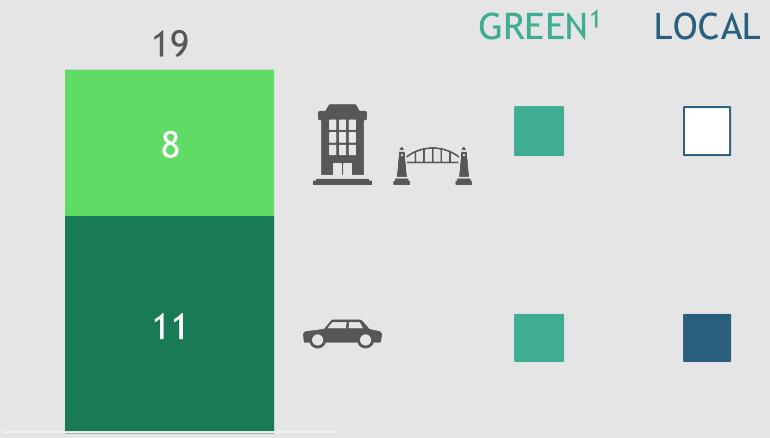
Estimated GREEN Steel demand raises two questions for supply

Demand created & requirements

Before 2035
when only IAA is effective



2035 and after
when IAA and Vehicle Fleet E. Reg. are effective



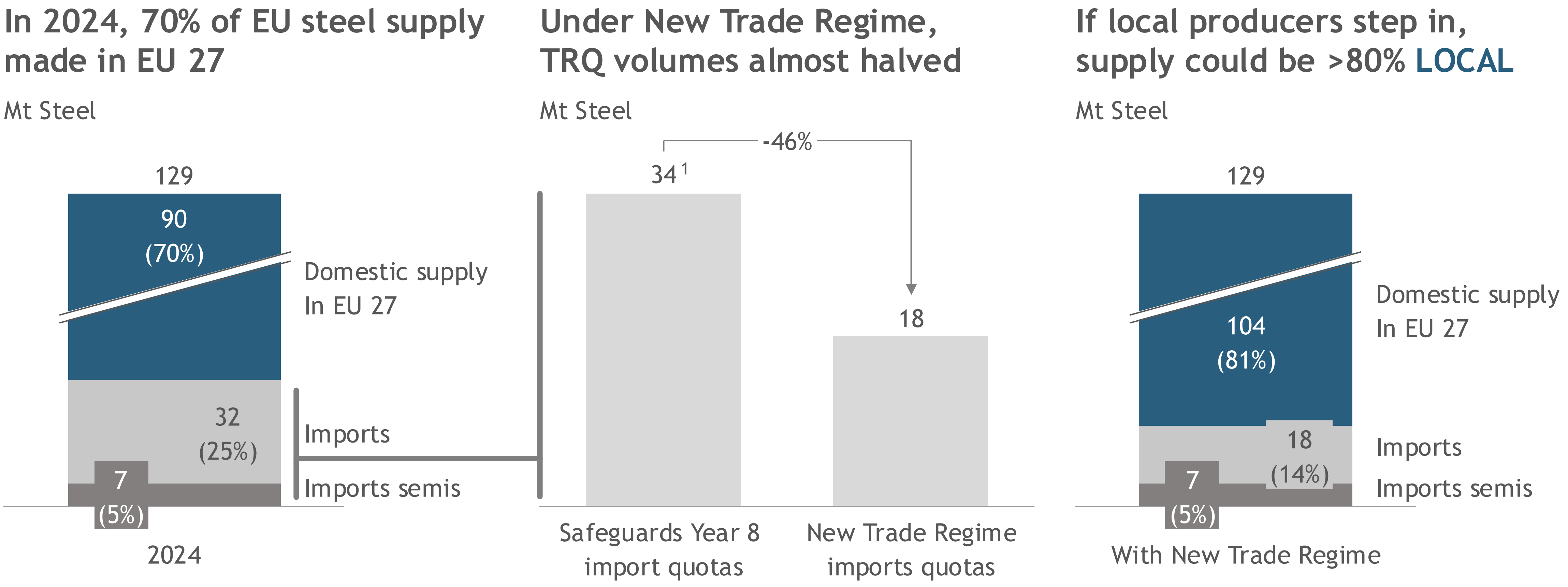
Key questions

In the absence of a LOCAL requirement for demand, is there a policy that makes supply (more) LOCAL?

Is there sufficient GREEN[1] (and LOCAL) supply to fulfill cumulated GREEN[1] demand?

1. GREEN or 'Low-carbon'. Sources: IAA, Vehicle Fleet Emission Regulation, BCG analysis

Halving imports quotas will reduce imports of steel products making supply more LOCAL



1. Imports 32 Mt in calendar year 2024 vs. 34 Mt TRQ volumes in SG year 8 from July 2025-June 2026 Sources: Eurofer, European Commission, GSTM, BCG analysis

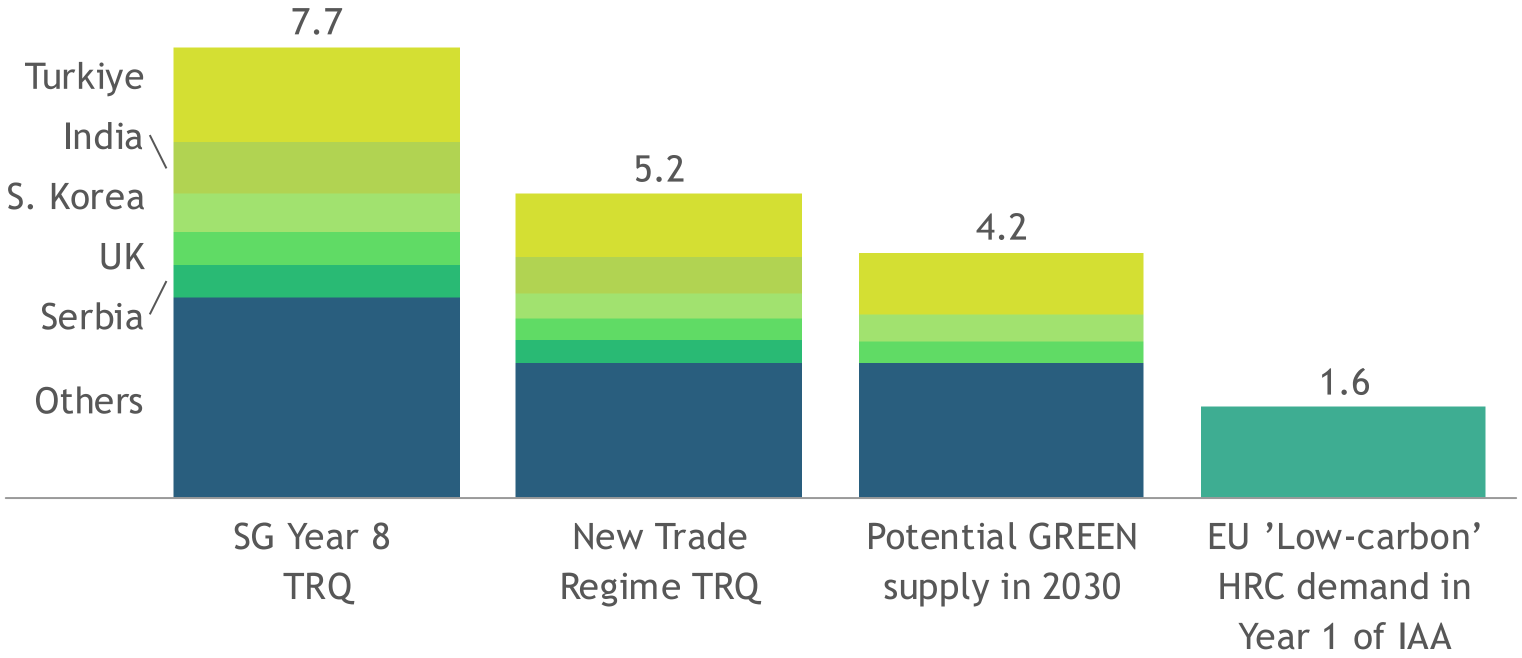
Yet, volume-wise, remaining imports would still be large enough to fulfill 'Low-carbon' demand from IAA

Volume-wise, imports would be sufficient to fulfill IAA demand

Mt Steel

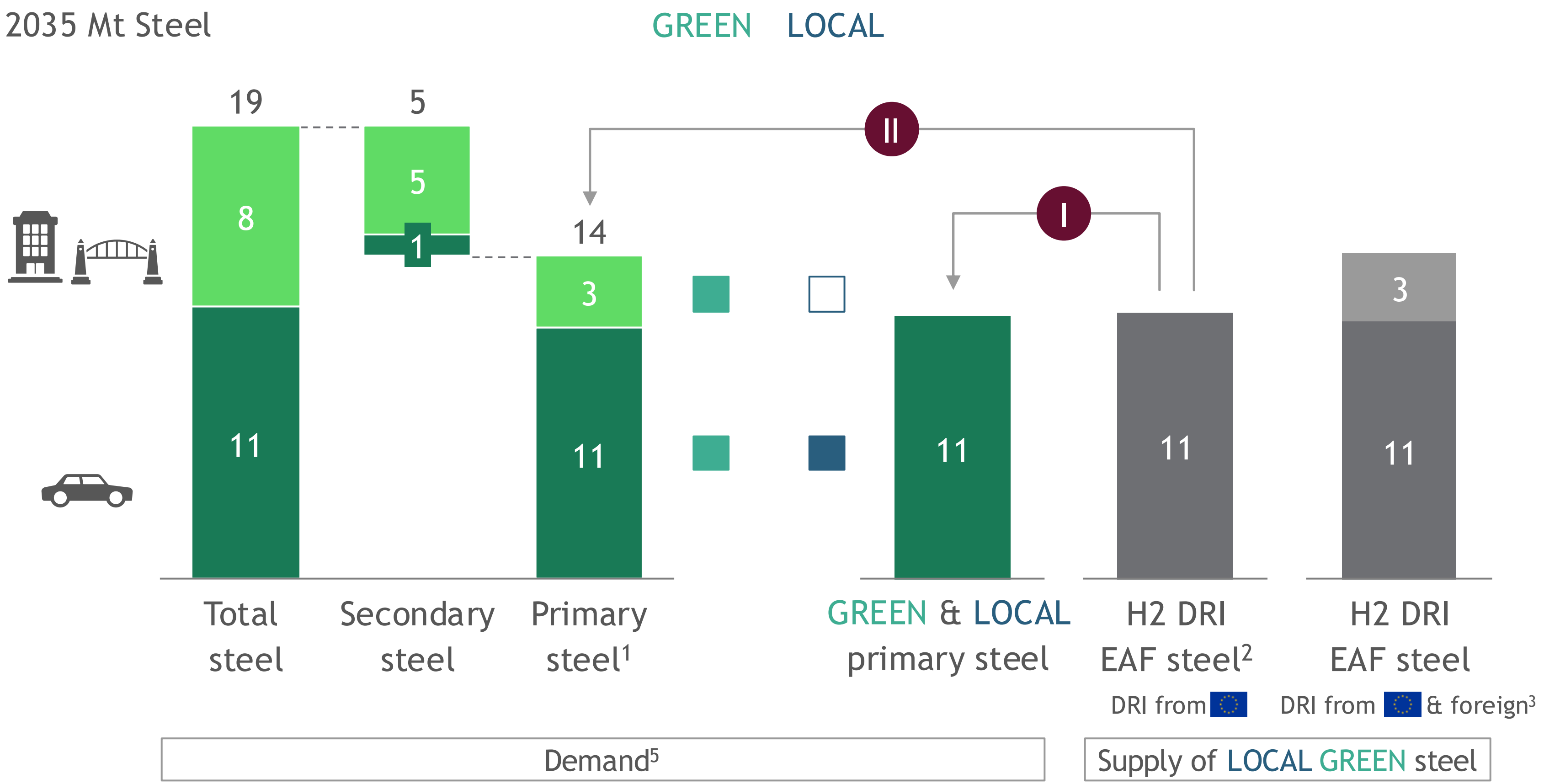
However, sourcing likely to become more challenging since steel must be 'Low-carbon' & requires sourcing from different countries

Mt Steel, example HRC



Note: Country wise TRQ under new regime not yet announced and assumed to be decreased uniformly from current SG Yer 8 TRQ
Sources: European Commission, BCG analysis

2035: Based on announcements, supply could be enough to cover LOCAL & GREEN demand, if not, Green DRI could be imported for LOCAL GREEN steel product.



I No supply gap for auto GREEN and LOCAL demand IF
(a) Producers ramp up as announced
(b) Enough Green H2 is available for Green DRI production

II There is more GREEN (not LOCAL) steel demand from other sectors and if European producers want to fulfill it, they need to buy DRI from outside of Europe

1. Assuming that 'low carbon' steel in IAA for primary steel is defined as H2-DRI-EAF steel. 2. Based on public announcements and assuming that producers are able to produce on 100% Green H2 (and not on a mix of NG and Green H2). 3. Based on current legislation steel that is produced in the EU with DRI from outside the EU still qualifies as local 4. Assuming 80% DRI in EAF charge mix and 1.04 t of liquid steel needed for 1 t of hot rolled steel. From IAA and VFE. Source: BCG Analysis

Implications from the regulations depend on one's position in the value chain

for steel only

	Steel producer	Automotive OEM and other steel buyers
Industrial Accelerator Act (IAA)	higher GREEN[4] **demand**	likely higher **cost** and need to secure GREEN[4] **supply**
Vehicle Fleet Emission Regulation	higher GREEN & LOCAL **demand**	Only for automotive likely higher **cost** and need to secure GREEN & LOCAL **supply**
Safeguards / Perm-anent trade regime	higher LOCAL[2] **demand**	more LOCAL **supply** likely leading to higher **cost**
ETS and CBAM	higher **cost** due to ETS[3]	higher **cost** due to CBAM[1] and potentially ETS[3]

1. CBAM cost occur for the buyer / importer of the product. 2. Assuming that domestic producers step in and fill the supply gap that is created by reducing imports. 3. Depending on if and to what extend steel suppliers can pass through higher ETS cost 4. Low carbon steel (terminology from IAA)
Sources: BCG analysis

New rules, new realities

We aimed to bring clarity to upcoming regulations and their cumulated impact

We look forward to continuing the exchange

Sources: BCG

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