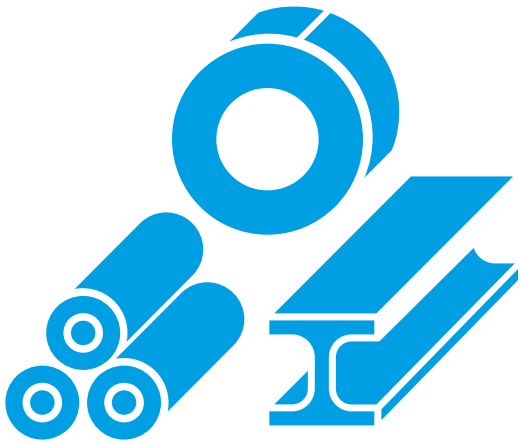
WIRTSCHAFTS VEREINIGUNG Stahl

Position Paper | November 2025

Proposal for the Revision of the Regulation Setting CO_2 Emission Standards for New Cars and Vans



Content

Executive Summary 3

Introduction 4

Label for Low-Administrative-Burden Implementation 4

Concrete Proposals 5

Executive Summary

The Automotive Package announced at EU level offers the opportunity to establish a European lead market in the automotive sector through voluntary market incentives. The goal is to strengthen the competitiveness of the European automotive industry while simultaneously promoting the production of low-emission steel in the EU – a win-win situation.

The proposed system for recognising low-emission steel within the regulation consists of three interlinked elements:

- **Transformation-incentivizing entry criteria for low-emission steel:** The system requires a minimum classification under LESS, which is then stepwise increased over time to support the transformation of steel production towards climate neutrality. The steel used by the automotive manufacturer must meet a defined LESS classification in order to qualify for emission-reduction credits.
- **Determination of emission-reduction credits:** CO_2 credits can be calculated either on the basis of the LESS classification (LESS-based approach) or on average Product Carbon Footprint values (PCF-based approach). The resulting credits can then be applied to tailpipe emissions or directly offset against financial penalties. The latter option would also allow credits to be traded between automotive manufacturers, analogous to CO_2 pooling.
- **Bonus system for steel made in EU (super credits):** Automotive manufacturers receive additional incentives when using low-emission steel produced in the EU, thereby strengthening the competitiveness of the European industry.

The proposed system enables targeted, low-bureaucracy consideration of upstream emissions without introducing complex life-cycle assessment methods, while simultaneously strengthening EU value creation in a strategic lead market. Through this voluntary, market-based mechanism, industrial and climate policy objectives in two strategic sectors can be coordinated more efficiently.

Introduction

The ongoing Revision of the Regulation setting CO_2 emission standards for new cars and vans, as well as the upcoming proposal for a Clean Corporate Vehicles Directive under the Automotive Package, provides a strategic opportunity to anchor a European lead-market instrument in EU policy. Such an instrument would improve the competitiveness of a decarbonising automotive industry while also supporting low-emission steel production in Europe.

The proposal: If emission-reduction credits for the use of low-emission steel in vehicles could be counted toward CO_2 fleet targets, EU vehicle manufacturers would gain flexibility in complying with their targets while stimulating demand for low-emission steel products in the key lead market *Automotive*. In addition, the use of low-emission steel made in the EU should be further incentivised through a bonus system (Super Credits).

The determination of emission-reduction credits must be guided by abiding to the climate-targets, strengthening European competitiveness, voluntariness, market-based incentives, and low administrative burden.

Using low-emission steel increases vehicle production costs by less than 1%[1]. Public revenues would not be reduced. The established political CO_2 fleet targets would remain unchanged. This creates a win-win situation for European climate policy and for the automotive and steel industries.

Reduction credits offer the advantage of allowing upstream steel emissions in passenger cars (~15–25% of total manufacturing-phase emissions[2]) to be accounted for without requiring a comprehensive and complex life-cycle assessment methodology, which would entail extensive data collection and significant administrative costs.

Label for Low-Administrative-Burden Implementation

Credible labelling of low emission steel is a prerequisite for non-bureaucratic integration of low-emission steel into the regulation. A ready-to-use and broadly supported system is the Low Emission Steel Standard (LESS), which provides a transparent and easy-to-understand classification system (Figure 1) and is supported by leading European steel manufacturers. LESS offers policymakers and customers a reliable basis for shaping lead markets and achieving corporate emission targets, including Scope 3 emissions. LESS classifies steel according to the transformation progress of production processes[3] and additionally specifies scrap content and the Product Carbon Footprint (PCF). LESS also reduces the administrative burden by

[1] BCG: Transforming the Steel Industry may be the Ultimate Climate Challenge (2022)
[2] ICCT: Which automakers are shifting to green steel? An analysis of steel supply chains and future commitments to fossil-free steel (2024)
[3] Transformation progress within production processes can, for example, be achieved through the use of more climate-friendly input materials and energy sources, or through the construction of new facilities (e.g., DRI plants).

integrating data from the EU Emissions Trading System (EU ETS) for the classification system. Some steel companies have already completed the certification process and are now authorised to label their certified products with LESS.

Figure 1: LESS classification system (left), LESS label showing classification, scrap ratio, and product carbon footprint (right)[4].

Concrete Proposals

The proposed system consists of three elements:

- Transformation-incentivizing entry criteria based on LESS classification
- Method for determining emission-reduction credits
- Bonus system (super credits) for steel made in the EU

Figure 2 schematically illustrates the system, including two alternative options for calculating emission-reduction credits.

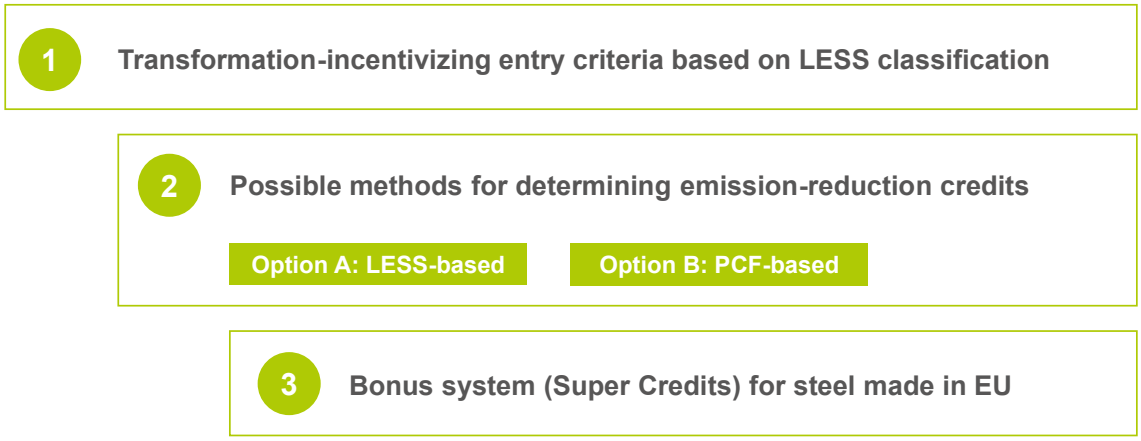


Figure 2: Schematic representation of a system for accounting for low-emission steel in the CO_2 standards. Two different options are proposed for determining emission-reduction credits.

1) Transformation-incentivizing entry criteria

The prerequisite for recognising low-emission steel in the CO_2 standards should be a minimum classification according to the Low Emission Steel Standard (LESS), comparable to the pre-qualification criteria in the Net Zero Industry Act (NZIA). This entry criteria will be progressively raised to reflect technological progress and the transformation of steel production toward climate neutrality (see Table 1).

[4] Source: LESS AISBL, Website: https://lowemissionsteelstandard.org/

This dynamic approach creates cross-sector incentives along the value chain: steel suppliers are encouraged to invest in transforming their production processes, while companies that demand steel are encouraged to source steel from producers who are actively investing in this transition.

	until 2030	from 2030	from 2035	from 2040	from 2045
LESS classification as entry criterion	D	C	B	A	Near-Zero

Table 1: Illustration of the entry criterion that changes over time to incentivize transformation.

2) Determining emission-reduction credits

From the perspective of the German Steel Association, there are two potential approaches to quantifying emission-reduction credits from the use of low-emission steel. Importantly, the previously defined minimum entry criteria must always be met.

Option A) LESS-based approach: Depending on the vehicle type, steel produced by conventional methods adds about 10.6 to 10.8 g CO_2 per kilometer over a vehicle's lifetime. Switching to low-emission steel can significantly cut these emissions, as shown in Table 2. The reduction in percentage was calculated as the difference between the LESS D/E threshold and the midpoint of each LESS classification's threshold range. The resulting CO_2 credit is then multiplied by the share of low-emission steel actually used.

Classification	**Near-zero**	**A**	**B**	**C**	**D**
CO_2 savings compared to threshold E/D [%]	90%	70%	50%	30%	10%
CO_2 credit calculated [g CO_2/km] *(10,7 gCO2/km * savings [%])*	9,63	7,49	5,35	3,21	1,07
CO_2 credit rounded [g CO_2/km]	**10**	**7**	**5**	**3**	**1**

Table 2: Method for calculating the CO_2 credit using the LESS label.

The CO_2 credit can be used in two ways. Firstly, to offset tailpipe emissions and thereby reduce a manufacturer's fleet average, or to offset penalty payments (€95 per g CO_2/km exceeded). The second option would allow credits to be traded between manufacturers, including electric-vehicle manufacturers, thereby broadening the deployment of low-emission steel.

Classification	**CO_2-credits according to LESS-based approach** [g CO2/km]	**Credit** [€] CO_2-credit * 95€*km/g CO_2
D	1	95
C	3	285
B	5	475
A	7	665
Near-zero	10	950

Table 3: Depiction of financial credits calculated on the basis of existing penalty payments.

Option B) PCF-based approach: To evaluate emission reductions based on lifecycle data, a practical non-bureaucratic approach is proposed. It avoids the need for a full life-cycle assessment while remaining aligned with the underlying principles and norms (ISO 14067). The Catena-X Product Carbon Footprint Rulebook may also be referenced. A suitable system boundary is "hot-rolled steel" or an equivalent. Automotive manufacturers would be allowed to credit the difference between the average PCF of conventional steel used in the vehicle, and the average PCF of the low-emission steel actually used. Using a 200,000-kilometer vehicle lifetime, the credit is calculated as:

$$x\ \frac{g\ CO2}{km} = \frac{\left(PCF_{\emptyset,\ \ conventionel} - \ PCF_{\emptyset,\ \ low-emission}\right) * Q_{\emptyset,\ \ low-emission} * 1000}{200.000\ km}$$

where $Q_{\emptyset,\ \ low-emission}$ is the average amount of low-emission steel used. The resulting value x g CO_2/km indicates the reduction that can be credited to the manufacturer's fleet emissions. The average PCF for conventional steel may be a manufacturer-specific value or a uniform reference value. The PCF of low-emission steel may be calculated using either the LESS methodology or ISO 14067. Financial credits analogous to Option A are possible.

3) Bonus system (Super Credits) for Steel made in the EU: To secure European value chains and support the industrial transformation toward climate neutrality, automotive manufacturers using low-emission steel produced in the EU should be rewarded. When using low-emission steel made in the EU, the emission-reduction credit should be increased by a factor yet to be defined. This strengthens competitiveness and also contributes to climate protection by shortening transport distances. Verification could be provided through mill certificates, the LESS label, or – as in other EU instruments – the "melted and poured" approach.

Contact

Gerhard Endemann | Head of Environmental and Sustainability Policy
+49 171 374 9891 | gerhard.endemann@wvstahl.de

Dr.-Ing. Yannik Sparrer | Head of Industry Policy and Circular Economy
+49 170 66 93 450 | yannik.sparrer@wvstahl.de

WIRTSCHAFTS VEREINIGUNG Stahl

Wirtschaftsvereinigung Stahl
Französische Straße 8
10117 Berlin

+49 30 2325546-0

info@wvstahl.de
www.wvstahl.de

Mitglied im

BDI