

Annex to the EUROFORGE Proposal to extend the CBAM scope for forged goods

What does „forging“ mean for Europe?

Forging stands for the technologies of drop forging, open-die forging and cold extrusion. With a production volume of almost 5.0 million tons, European forging is the third largest producer worldwide (after China and India). 62,000 employees work in 500 companies in the sector and produce forged parts for high-tech applications every day. The European companies are technological world market leaders and pioneers in terms of innovation, work safety, environmental protection, energy efficiency and decarbonisation. With more than 99% of our products being recyclable we contribute a great share to the EU Circular-Economy Goals.

The European forging industry is predominantly SME-structured. Over 75% of the companies employ less than 250 employees. The requirements of the transformation (mobility, climate protection, digitalisation) are currently demanding all innovative, personnel and financial strength from European companies.

The industry's annual energy use in the form of natural gas and electrical power amounts to an estimated 6.7 terawatt hours. This corresponds (indirectly and directly) to approximately 13.0 million tons of CO₂ emissions. Through innovative developments, these emissions have already been reduced by almost 20% in the past 25 years - this corresponds to approx. 2.6 million tons of CO₂. We are currently working on a climate path for European forging with the goal of climate neutrality by 2045.

It is estimated that European companies operate approx. 2,760 forging units, of which approx. 20% are hammers and 80% presses. Our products go as key components into the sectors of vehicle construction, railway technology, shipbuilding, mechanical engineering, agriculture, (wind) energy, medical, defense and many others, thus ensuring our autonomy in the face of global competition from China, India, etc.

EUROFORGE represents the interests of the European forging industry. We are involved in the revision of the SF BREF ("Smitheries and Foundries") as a member of the Technical Working Group and are member of the Article 13 Forum.

What does CBAM mean for the forging industry as adopted by the EU Parliament?

The European Parliament's decision on the European Carbon Boundary Adjustment Scheme (CBAM) covers the steel and aluminium production sectors and some of the forged products, that are processed further downstream. Other products, bearing the same characteristics as the ones considered in CBAM are not covered. This leads to a significant loss of competitiveness for these products - both within and outside the European Union:

- Steel is becoming more expensive for processors in the EU, regardless of whether they are produced here (through intra-European CO₂ taxes) or imported (through CO₂ border tariffs).
- Forgings produced in the EU will also become more expensive as a result - even outside the EU, where 18% of the European sales volume is exported today.
- Forgings produced outside the EU will not become more expensive - not even when imported into the EU. Currently, about 15% of the market volume is already imported into the EU from non-EU countries.

In the final Trilogue session the following forging related CN-Codes were included in the CBAM scope:

- 73261100
Grinding balls and similar articles for mills, of iron or steel, forged or stamped, but not further worked
- 73261910
Articles of iron or steel, open-die forged, but not further worked, n.e.s. (excl. grinding balls and similar articles for mills)
- 73261990
Articles of iron or steel, closed-die forged or stamped, but not further worked, n.e.s. (excl. grinding balls and similar articles for mills)
- 73269092
Articles of iron or steel, open-die forged, n.e.s.
- 73269094
Articles of iron or steel, closed-die forged, n.e.s.
- 76169990
Articles of aluminium, uncast, n.e.s.

Other products, that EUROFORGE has proposed were not included:

- 84553031
Hot-rolling work-rolls; hot-rolling and cold-rolling back-up rolls, of open-die forged steel, for metal
- 84553039
Cold-rolling work-rolls, for metal, of open-die forged steel
- 84831025
Crank and crank shafts, of open-die forged steel
- 84879057
Parts of machinery of chapter 84, not intended for a specific purpose, of open-die forged or closed-die forged iron or steel, n.e.s.
- 87084091
Parts for gear boxes of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.40.20)
- 87085055
Parts for drive-axles with differential, whether or not provided with other transmission components, and for non-driving axles, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.50.20)
- 87088091
Suspension systems and parts thereof, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.80.20, shock-absorbers, anti roll bars and torsion bars)
- 87089191
Parts for radiators, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.91.20)

- 87089291
Parts for silencers "mufflers" and exhaust pipes, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.92.20)
- 87089491
Parts for steering wheels, steering columns and steering boxes, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.94.20)
- 87089591
Safety airbags with inflator system and parts thereof, of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s. (excl. those for the industrial assembly of certain motor vehicles of subheading 8708.95.10)
- 87089993
Parts and accessories of closed-die forged steel, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s.

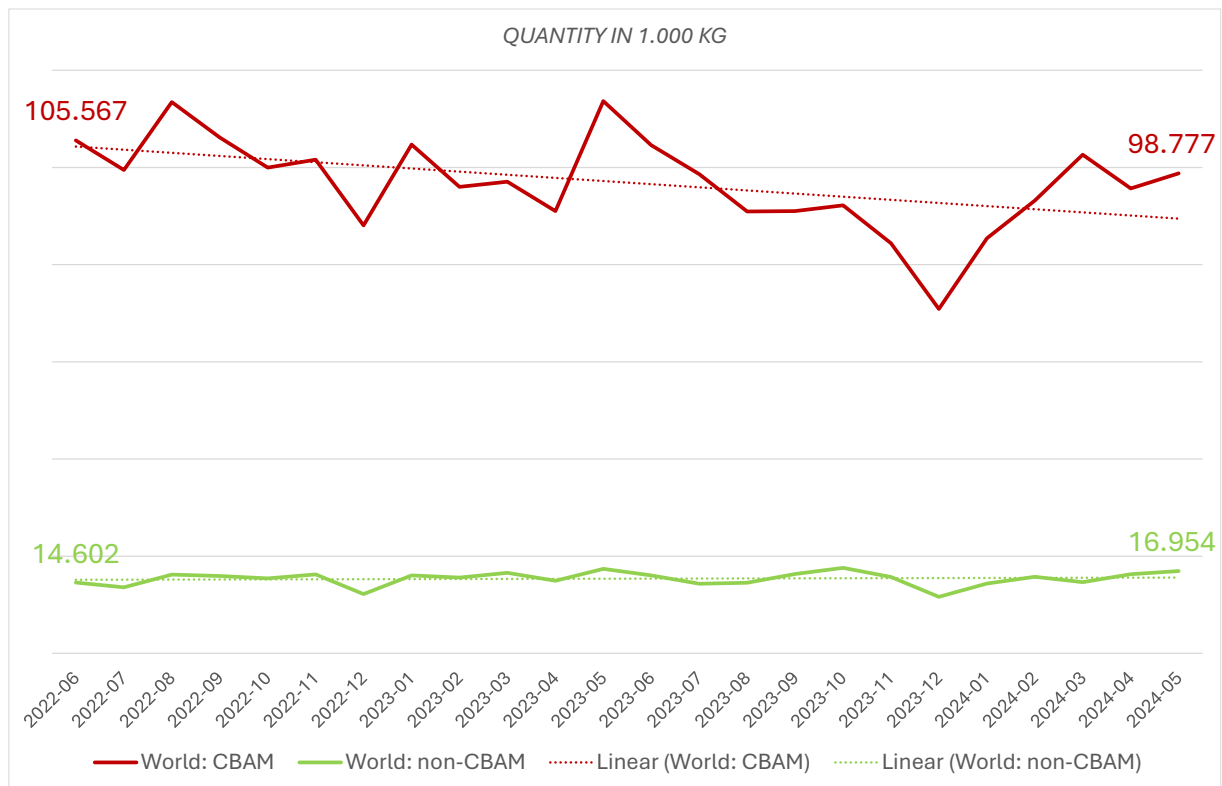
What consequences are to be feared for forges if the agreed CBAM scope is maintained?

With a trade intensity of 28% and a turnover share of 30-40% by steel and aluminium, the products produced by the European forging industry and not covered by CBAM are facing the risk of an almost complete loss of the quantities of processed products currently exported outside the EU and a significant increase in the quantities of processed products imported into the EU, while at the same time displacing existing production in the European Union.

Such a shift would be accompanied by a shift of environmental emissions to other countries analogous to carbon leakage and would not relieve the environment but weaken the economic power of the European economies.

This even occurs for the products already covered by CBAM as it is possible to bypass the CBAM regulation by declaring products with other – non protected – CN-codes when importing in the EU.

A EUROSTAT statistics shows that the imports of forging CN-codes (out of groups 7326 and 7616) that are covered by CBAM have decreased since mid of 2022 by 7% and at the same time the imports of CN-codes not covered (out of groups 8455, 8483, 8487 and 8708) have increased by 16%. A main impact seems to come from China with a decrease of the protected forging relevant imports by 5% an increase of the non-protected imports by 39%.



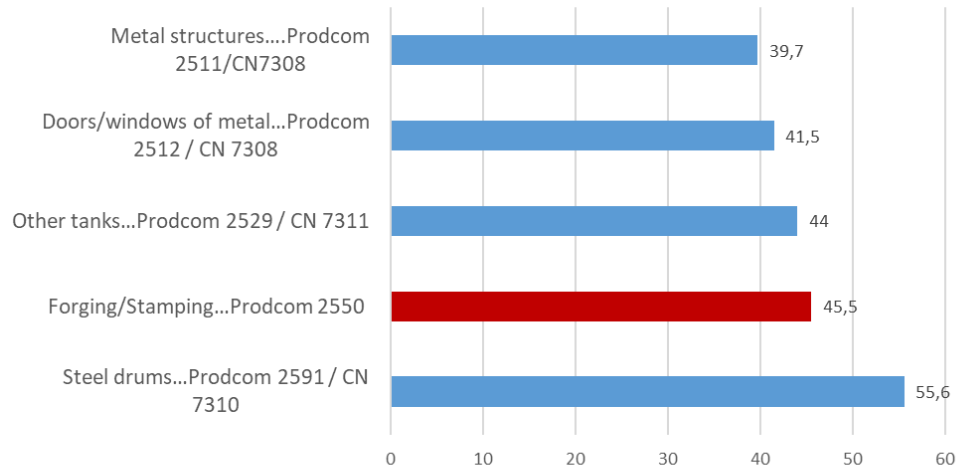
Source EUROSTAT

For the above-mentioned reasons, limiting the scope of CBAM makes neither economic nor ecological sense. The clear restriction of competitiveness - both within and outside Europe - will result in a number of company closures or relocations to non-European locations. This is to be expected especially in case of new investments.

Why should all forged products be treated the same in the CBAM scope?

- Installations producing forged parts do not usually fall under ETS regulations as they do not emit CO₂ in remarkable quantities; therefore they are not automatically included in the CBAM list
- The CBAM list though includes other – non-ETS – CN-codes on the reason of high steel- / aluminium content and high trade intensity. These are e.g.
 - Metal structures (CN 7308)
 - Doors/Windows (CN 7308)
 - Steel drums (CN 7310) or
 - Other tanks (CN 7311)
 - Products of iron or steel (CN 7326)
 - Screws (CN 7318)
- All forging products – also the ones in CN-code groups 8455, 8483, 8487 and 8708 have a material input ration of between 40 and 50% which is in the same scope as the product groups included in the CBAM list

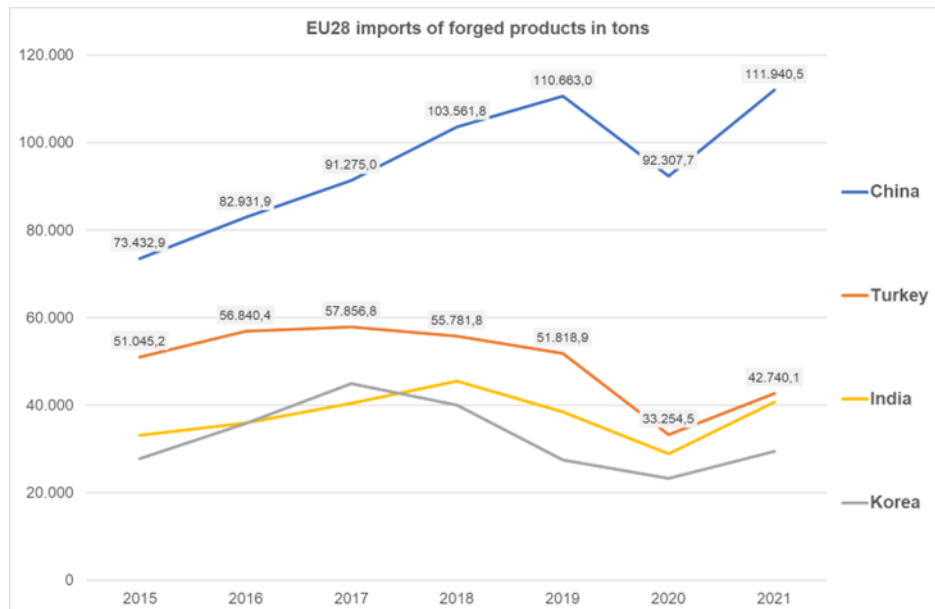
Material input ratio, % of production value



Source: destatis 2019

- There is already considerable competitive pressure in the forging market from non-EU countries, namely China, Turkey, India and Korea as the biggest importers (source EUROSTAT)

Most important importers into EU28



- Despite some value add being contributed to the part in the forging process, the steel and aluminium content of the forged part is still 100%. So they could be rated as a „slightly modified“ products from the imposed steel- / aluminium rod or beam.
- In reality there is a big risk of non-EU importers bypassing the CBAM regulations by processing the raw material one-step further and import them as forged parts.

What adjustment of the CBAM scope should be made?

Due to the high degree to which the European forging industry is affected, we demand an extension of the scope of CBAM to include all customs tariff numbers relevant for forging.

The enlargement should ideally be included in CBAM during the transition period from 2023 to 2026 in order to be able to assess the impact of taking into account the forging specific tariff numbers.