CLIMATE LEADERSHIP COUNCIL

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November 29, 2023

By Electronic Filing
Lisa R. Barton, Secretary
U.S. International Trade Commission
500 E Street, S.W.
Washington, DC 20436

Re: Oral Hearing Statement, Greenhouse Gas Emissions Intensities of the U.S. Steel and Aluminum Industries at the Product Level, Investigation No. 332–598

Dear Secretary Barton:

Pursuant to the International Trade Commission's July 10, 2023 "Notice of Investigation and Scheduling of a Public Hearing," attached please find my oral statement to be presented on behalf of the Climate Leadership Council at the hearing on December 7, 2023.

Sincerely,

/s/ Matthew C. Porterfield

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Statement of Matthew C. Porterfield
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The Climate Leadership Council

At the Hearing on Investigation No. 332–598
Greenhouse Gas Emissions Intensities
of the U.S. Steel and Aluminum Industries at the Product Level
United States International Trade Commission
December 7, 2023

My name is Matt Porterfield, and I am the vice president for policy & research at the Climate Leadership Council.

Background on the Climate Leadership Council, Center for Climate and Trade

The Climate Leadership Council's Center for Climate and Trade explores and advances policies that leverage trade relationships and the global market economy towards greater international cooperation and climate ambition. Central to this effort, we have released several reports on the GHG emissions intensity of specific industries within the U.S. and competing economies, which show that U.S. manufacturers are highly emissions efficient compared to most key trading partners.

Our 2022 report on global iron and steel production studied the emissions intensities of flat and long steel products[i] and our broader 2020 report on America's Carbon Advantage includes economy-wide emissions intensities for basic and fabricated metals, including aluminum.[ii] The data within these studies helped inspire the bipartisan PROVE IT Act, a bill introduced in September that would direct the Department of Energy to estimate the emissions intensities of dozens of industries across the world's major economies.[iii]

The Center for Climate and Trade also monitors the development of trade tools that will require emissions intensity estimates. We continue to study the U.S.-EU Global Arrangement for Sustainable Steel and Aluminum (Global Arrangement) and the EU Carbon Border Adjustment Mechanism (CBAM), both of which will require emissions intensity data on manufacturing around the world.

The Center for Climate and Trade brings expertise in both domestic data collection of emissions intensity averages and analysis of similar foreign efforts that are already underway. We look forward to sharing our insights during this hearing.

Relevant international developments in determining emissions intensity

Interest is growing around a set of policies designed to favor the most emissions efficient manufacturing. Through the negotiations on the Global Arrangement, the U.S. and the EU are developing a system that would use import charges to reduce the emissions intensity of traded products. Another approach taken in the EU's CBAM involves applying domestic carbon pricing to imported products through border adjustments. Both policies will require accurate data on the emissions intensity of domestic and foreign industrial production.

The CBAM, like the Global Arrangement, will require the determination of the average emissions intensities, on a country-by-country basis, of covered steel and aluminum products. According to press reports, the U.S. has proposed that the Global Arrangement include tiers of ad valorem tariffs to be applied to covered imports based on the relative emissions intensity of production in the exporting country relative to production in the United States.

The CBAM regulation specifies that when the actual emissions intensity of a covered product cannot be determined, it will be determined based on default values.[iv] Those defaults will be based on the average emissions intensity of the covered product for each exporting country,[v] or, if reliable data for a particular good from an exporting country is not available, on the worst performing EU facilities that produce the relevant product.[vi]

In September, the European Commission's Joint Research Centre (JRC) published draft product-level estimates for the emissions intensity of manufacturing in the EU and other major economies.[vii] This data will aid in the EU's preparation of official default values, which will be published by the end of 2023 for use during the CBAM's transitional period.[viii]

Observation #1: data collection is already underway

The Climate Leadership Council put out a paper earlier this year that details the data collection methodologies of existing voluntary and mandatory reporting programs.[ix] In addition to the EPA's Greenhouse Gas Reporting Program in the U.S., mandatory emissions reporting programs in Canada, France, Germany, Italy, the U.K., and Japan each cover most of the nation's large industrial facilities and have created a broad base of facility-level emissions data and reporting requirements for energy-intensive industries. All the programs in G7 countries publicly disclose their data and data collection methods. These approaches may be useful to the ITC as it looks to finalize a methodology for the U.S. iron and steel and aluminum industries.

Observation #2: the importance of harmonization with existing approaches

As Ambassador Tai indicated in her letter requesting this investigation, implementation of the Global Arrangement will require the development of a "*common* methodology for assessing the embodied greenhouse gas emissions of traded steel and aluminum."[x] Existing approaches use similar, but not identical, parameters and methods that the ITC should consider as it further hones its approach and begins the data collection process.

The three categories of emissions specified in USTR's investigation request—scopes 1, 2, and parts of scope 3—are largely consistent with data collection initiatives by the World Steel Association,[xi] the American Iron and Steel Institute,[xii] and the Steel Climate Standard.[xiii] But there are still discrepancies. The system boundaries of these programs capture a broader class of scope 3 emissions than the "intermediate inputs" specified by the USTR mandate. For example, the American Iron and Steel Institute and the Steel Climate Standard both include emissions associated with transportation.

The scope 3 emissions covered by the ITC investigation may be more closely aligned with the parameters of the EU CBAM, which will include certain intermediate inputs in determining the carbon intensity of steel and aluminum. There are, however, deficiencies in the CBAM's allocation approach. The EU directs importers to separate the direct and indirect emissions from scope 3 inputs and report

them separately along with the total direct embedded emissions or indirect embedded emissions.[xiv] This obscures the quantity of emissions attributable to scope 3 inputs, which is incompatible with USTR's request for emissions data from these intermediate materials.

Despite these differences, the ITC could benefit from examining these existing approaches in developing its own methodology. This would also allow the ITC to design a data collection methodology that is interoperable with other initiatives.

For example, the JRC has already identified the most comprehensive datasets for emissions intensity, such as the World Steel Association's "Statistical Yearbook"[xv] for iron and steel emissions data or the British Geological Survey's "World Mineral Production" report[xvi] for aluminum emissions data. The ITC can use these sources to supplement or cross-check its own data collection methods, especially since all the HTSUS codes listed in Attachment B of USTR's investigation request are already included in the JRC study, including the imported intermediate materials for which ITC will have to collect foreign emissions data.

The ITC may also consider referencing the methodologies developed by the JRC for developing country- and product-specific emissions intensities.[xvii] We encourage the ITC to exercise caution here, however, given limitations in the JRC approach. For example, the JRC uses only the highest emitting production pathway to determine the "default" emissions intensity of a product, when multiple production pathways are used in the production of a good.[xviii] This approach, which has a substantial effect on the data, further underscores the U.S. government's need for a reliable dataset of its own. Diverging from the EU's methodology may produce more accurate "averages" in the ITC investigation.

Observation #3: investigation scope

Although USTR did not request an investigation of foreign production in its mandate for the ITC, an understanding of foreign emissions intensity will be important for several reasons. First, the calculation of domestic emissions intensity will require the emissions profiles of imported intermediate inputs. Second, some of these intermediate goods will themselves be covered products under the Global Arrangement. And finally, foreign production data will be necessary for the U.S. to design and implement mechanisms like the Global Arrangement that leverage our relative emissions-efficiency.

Efforts by foreign governments and international organizations have already shown that broader calculation of product-level emissions intensity at the country-level is feasible. A similar effort by the U.S. will be critical to the formation of defensible emissions intensity estimations.

Thank you for the opportunity to present the views of the Climate Leadership Council on this important issue. I would be happy to answer any questions.

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[i] "Opportunities for US-EU steel trade agreement: Executive Summary," *CRU*, December 22, 2022, https://clcouncil.org/summaries/Opportunities_for_US-EU_steel_trade_agreement.pdf.

[ii] Climate Leadership Council, *America's Carbon Advantage* (Sept. 12, 2020), https://clcouncil.org/reports/americas-carbon-advantage.pdf.

[iii] Kevin Cramer and Chris Coons, "Pass the PROVE IT Act to show America's excellence outperforms foreign competition," *Washington Times*, September 26, 2023, https://www.washingtontimes.com/news/2023/sep/26/pass-prove-it-act-to-show-americas-excellence-outp/.

[iv] *Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023, Establishing a Carbon Border Adjustment Mechanism*, Official Journal of the European Union ("CBAM"), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R0956, Article 7(2) & Annex IV(4.1).

[v] *Id.*, Annex IV, point 4.1.

[vi] *Id.*

[vii] *Greenhouse gas emissions from manufacturing: what difference across countries?* Joint Research Centre, European Commission (Sept. 29, 2023), https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/greenhouse-gas-emissions-manufacturing-what-difference-across-countries-2023-09-29_en.

[viii] European Commission, *Carbon Border Adjustment Mechanism,* https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en.

[ix] Matt Porterfield, Daniel Hoenig, Joel Martin, Margaret McCallister, Holly Rooper, Michael Sussman, *Counting Carbon: Voluntary and Mandatory Emissions Reporting Programs*, Climate Leadership Council and ERM, (May 17, 2023), https://clcouncil.org/report/counting-carbon/.

[x] *See Letter from Ambassador Katherine Tai, United States Trade Representative, to the Honorable David S. Johanson, Chairman, U.S. International Trade Commission*, at 1 (June 5, 2023) (emphasis added), https://ustr.gov/sites/default/files/Section%20332%20Request%20Letter_Steel%20and%20Aluminum%20GHG%20Emissions.docx.pdf .

[xi] World Steel Association, *CO2 Data Collection User Guide*, (August 23, 2023), https://worldsteel.org/wp-content/uploads/CO2_User_Guide_V11.pdf.

[xii] American Iron and Steel Institute, *Steel Production Greenhouse Gas Emissions Calculation Methodology Guidelines*, (November 3, 2022), https://www.steel.org/wp-content/uploads/2022/11/AISI-GHG-Emissions-Calculation-Methodology-Guidelines-final-11-3-22.pdf.

[xiii] Global Steel Climate Council, *The Steel Climate Standard: Framework for Steel Product Certification and Corporate Science-Based Emissions Targets* (August 2023), https://globalsteelclimatecouncil.org/wp-content/uploads/2023/08/GSCC-Standard-August2023.pdf.

[xiv] European Commission, *Commission Implementing Regulation (EU) 2023/1773* (Aug. 17, 2023), Annex III, Section A.2.1(b) and (d), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOL_2023_228_R_0006#d1e40-94-1.

[xv] World Steel Association, *Steel Statistical Yearbook 2022*, https://worldsteel.org/publications/bookshop/ssy_subscription-2022/.

[xvi] British Geological Survey, *World Mineral Production 2017 to 2021* (April 14, 2023), https://www.bgs.ac.uk/news/world-mineral-production-2017-to-2021-is-now-available/.

[xvii] Danko Vidovic, Alain Marimier, Lovro Zore, and Jose A. Moya, *JRC Technical Report: Greenhouse gas emission intensities of the steel, fertilisers, aluminium and cement industries in the EU and its main trading partners*, *Joint Research Centre*, *European Commission*, https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/greenhouse-gas-emissions-manufacturing-what-difference-across-countries-2023-09-29_en, Section 2.2.

[xviii] *Id.* 16.