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European Commission Approves €515 Million in State Aid from Spain and Germany to Build Hydrogen-Powered Steel Plants

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On February 17, 2023, the European Commission granted approval for the Spanish and German governments to subsidize the construction of two renewable hydrogen-powered steel production facilities for Europe's largest steelmaker. Spain will **provide €460 million** to ArcelorMittal España to assist with replacing its blast furnaces at a facility in Gijón, where it operates two blast furnaces producing liquid hot metal from a mixture of iron ore, coke and limestone. The aid will support the construction of a renewable hydrogen-based direct reduced iron plant. Germany will **contribute €55 million** to ArcelorMittal Hamburg to build a "demonstration plant" for the production of green steel that will use 100% renewable hydrogen. It is expected that the facility in Spain will be operational by 2025 with the German project up and running a year later, in 2026. In both cases, the Commission found that the aid "has an 'incentive effect,' as the beneficiary would not carry out the investments in green steel production without the public support." Additionally, the Commission stated the aid would only have a "limited impact" on competition and trade within the EU and that it was necessary to "promote the production of green steel." If the projects net revenues end up being higher than anticipated, the companies will return a portion to the Spanish and German governments.

The Commission's press releases explain that the **2022 Guidelines on State aid for climate, environmental protection and energy (CEEAG)**, which came into force in January 2022, provide guidance on "how the Commission will assess the compatibility of aid measures for environmental protection, including climate protection, and energy which are subject to the notification requirement under Article 107(3)(c) TFEU [tax-exempt fuel users]." The Commission states that the aim of CEEAG is to "help Member States meet the EU's ambitious

energy and climate targets at the least possible cost for taxpayers and without undue distortions of competition in the Single Market.”

This announcement has been met with some resistance, including from the Institute for Energy Economics and Financial Analysis (IEEFA), which **accuses** the steelmaker of operating on parallel high and low carbon paths in different parts of the world. The IEEFA drew attention to ArcelorMittal’s plan to develop two new blast furnaces in India, stating that the “plans for more coal-based steelmaking in India contrasts markedly with its developments in Europe and Canada.” The report explains that “ArcelorMittal appears to be planning a two-speed decarbonisation with hydrogen-ready DRI [direct reduced iron] technology to be installed overwhelmingly in developed nations, while the developing Global South is on the slower pathway involving more coal-consuming blast furnaces and as yet unproven CCUS [carbon capture, usage and storage] technology under its ‘Smart Carbon’ decarbonisation pathway.” A spokesperson for ArcelorMittal responded to the IEEFA’s report by stating that “the reality today is that neither green hydrogen nor carbon capture and storage are anywhere near ready for deployment at scale – that is why steel is recognised as hard to abate. But, unlike IEEFA, we do not take the view here in 2023 that they may never be. It is easy to dismiss the importance of the right political environment to incentivise the acceleration of decarbonisation – but the recently announced Inflation Reduction Act in the US has focused the world’s attention on how big a difference this can make.”

Margrethe Vestager, Executive Vice-President in charge of competition policy at the Commission, stated that the “€460 million measure enables Spain to support ArcelorMittal’s plan to decarbonise its steel production processes. It will contribute to the greening of a very energy-intensive sector, in line with our commitment to transition to a net zero economy. At the same time, the measure ensures that competition in the Single Market is not unduly distorted.” In respect of the German state aid, she said the “€55 million measure is an important step towards a more sustainable steel industry in Germany and the EU. By using renewable hydrogen, the green steel plant will contribute to reducing emissions in an energy-intensive sector and provide valuable insights for scaling up this technology across the EU. Today’s decision supports the EU’s transition to a net zero economy in line with the European Green Deal objectives.”

Taking The Temperature: It is worth considering this development in conjunction with U.S. Treasury Secretary Yellen’s recent speech (discussed in an accompanying piece today), where she called on the World Bank to be “bolder and more imaginative” in its approach to tackling global challenges such as climate change. Addressing the impacts of climate change and paying for the transition to a net zero economy will require trillions of dollars of funding annually. The EU’s support for Germany and Spain’s initiatives reflects a recognition that governments or government-supported institutions need to participate in that effort while also taking into account the potential for anti-competitive impacts as a result of such support. Also noteworthy is ArcelorMittal’s differing approaches in India and Europe, relying on carbon capture and storage in the former region while building green facilities in the latter. The company’s observation that its divergent approaches are in part attributable to greater government support in Europe underscores the challenges confronting poorer nations and companies that conduct business there in addressing climate-related impacts and timely making a green transition.